

ELECTROMAGNETICA SA

**SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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Board of Directors Report for the financial year 2016

Report date: 21.03.2017

Company name: Electromagnetica SA

Registered office: 266-268 Calea Rahovei Street, District 5, Bucharest, postal code 64021

Tel/ Fax: 021 404 2102/ 021 404 2195

Tax ID 414118

Trade Register no.: J40/19/1991

Regulated market: Bucharest Stock Exchange (BVB), Equity securities, Shares, Premium category

Stock symbol: ELMA

Number of shares: 676.038.704

Nominal value: RON 0.1000

Share capital: RON 67,603,870.40

1. Company overview

Electromagnetica SA is a Romanian legal entity incorporated under the legal form of joint stock company for an unlimited duration and organized and operating under its articles of incorporation, Law no. 31/1991 republished in 2004 and amended by Law no. 441/2006, Government Emergency Ordinance (GEO) no.82/2007 and GEO no. 52/2008, and the Law no. 297/2004 on capital market.

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

Electromagnetica SA, in its capacity of trading company whose shares are admitted to trading on a regulated market, adopted the IFRS (International Financial Reporting Standards) starting with the financial year 2012. The financial statements for 2016 were prepared in compliance with Order no. 2844/2016 of the Minister of Public Finance (OMFP) approving the accounting regulations compliant with the International Financial Reporting Standards.

1.1. Description of the main activity

The Company carries out several manufacturing activities and services, as follows:

Production

- LED lighting units, systems and solutions
- Electricity distribution and metering equipment
- Battery charging stations for electric cars and rectifiers for industrial applications
- Railway traffic safety components
- Plastic injection molded subassemblies, electrical, electronic and metallic products for the domestic and external market
- Tools and molds
- Low voltage switchgear (fuels exported to ABB Italy)
- Electricity obtained from hydro renewable sources
- Various machining and assembling operations

Services

- Electricity supply
- Rental of real estate and supply of utilities for offices, industrial activities, etc.

All the activities carried out by the Company benefit from the strong support of the research and development team, thanks to whom Electromagnetica produces a wide range of own design products. The production activity, including the research and development activity, involves over 80% of the human resources of the Company, the rest working in the field of services (electricity supply and rentals) and administration. The Company has its own metrology, electromagnetic compatibility certification and luminotechnics laboratories.

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

The production of electrical meters has a long tradition and it has been developed into energy measurement and remote management equipment designed to meet the highest standards in the field. The railway traffic safety components are also classical products of the Company portfolio.

Its wide range of technologies enabled the Company both to produce for both the domestic and external markets electrical switchgear, metal and plastic injection molded subassemblies, tools, and molds. A parallel concern was to take full profit of the Company real estate by fitting out and renting surplus premises which underwent significant modernization. The production of electricity takes place in 10 micro-hydro power plants (MHPs), of which two are newly built, located in Suceava County

1.2. Merger and reorganization of the companies controlled by Electromagnetica in 2016

The group of companies for which Electromagnetica SA is the parent-company includes the companies Procetel SA, Electromagnetica Goldstar SRL, Electromagnetica Fire SRL and Electromagnetica Prestserv SRL and they mainly represent externalizations of some services. In 2016, there were no changes

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in the shareholding structure of the related companies. Except for Electromagnetica Goldstar SRL, the other companies carry out their activities in direct relation with their parent company.

1.3. Main purchases and/or disposals of assets

The Company did not purchase or dispose independent assets in 2016.

Being financed from own funds, the investments made in 2016 were lower than in the previous years, amounting to approx. 3.85 million RON. The main purchases were made to upgrade technological processes, respectively two eccentric presses, one CNC turret lathe and other machinery and facilities, as well as the advance payment made for a plastic injection machine of 800 tons. To these are added the manufacture of plastic injection molds, the purchase of vehicles, measuring and checking machines and facilities, largely designed for scientific research. Another priority was the modernization of some buildings, electrical networks and pipes.

The intangible assets purchased consisted of several software licenses.

During the reporting period, no significant alienation of tangible assets took place; the Company discarded a few items and made a few low value sales of old vehicles and equipment which had been put out of service.

1.4. Main events with significant impact

During 2016, the main elements significantly impacting on the Company activity were the following:

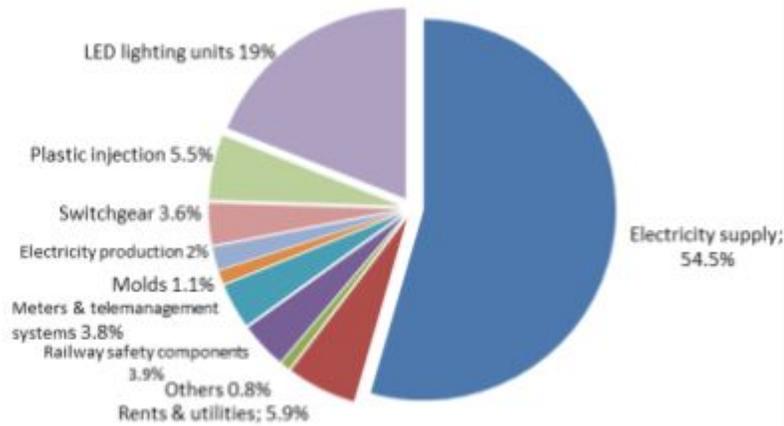
- the greater weight of production in the total amount of turnover as a result of the increased volume of production and the adjustment of the power supply activity;
- The restructuring of the portfolio of customers for whom the Company is a power supplier, in order to ensure an adjustment to the current market conditions and a better risk control;
- The increased number of turn-key LED lighting projects integrating several products and services provided by the Company (lighting units, design, installation, maintenance);
- The revitalization of the production of railway traffic safety components in the context of some projects for the modernization of the national railway infrastructure;
- New highly efficient LED lighting units started to be manufactured, to maintain sales on the most dynamic market segments (street lighting and commercial lighting);
- The rental income was maintained as a result of the stabilized market prices and the influence exercised by the exchange rate;
- The normal hydrological conditions allowed for a renewable energy production to reach the average amount achieved in the last years.

1.5. Overall evaluation

No.	Specification	2016	2015* restated	2016 vs 2015
1	Total revenue (RON)	273,435,067	403,616,184	(32.25%)
2	Total expenses (RON)	268,200,854	424,525,647	(37.09%)
3	Gross profit (RON)	5,234,213	(20,909,463)	-
4	EBITDA margin	6.15%	1.39%	4.76%
5	EBIT margin	1.43%	(5.61%)	7.32%
6	Net profit ratio	1.58%	(5.63%)	7.19%
7	Current liquidity	197.3%	174.49%	22.81%
8	Capital solvency	84.12%	81.44%	2.68%
9	ROE	1.31%	(8.1%)	9.41%
10	Accounts receivable collection period (days)	76	52	24
11	Supplier payment period (days)	62	35	27
12	Average active employee headcount	583	615	(5.2%)

The Company achieved a positive result although the revenues decreased at a slower pace than expenditure. The EBITDA margin improved and the current liquidity and solvency indicators maintained at a fair level, like in the previous years, while the credit lines were less used. The time for claim recovery and the time for paying suppliers changed as a result of the decreases weight of energy supply in the Company business. In 2016, the turnover structure indicated a balance between production and services.

Turnover structure in 2016



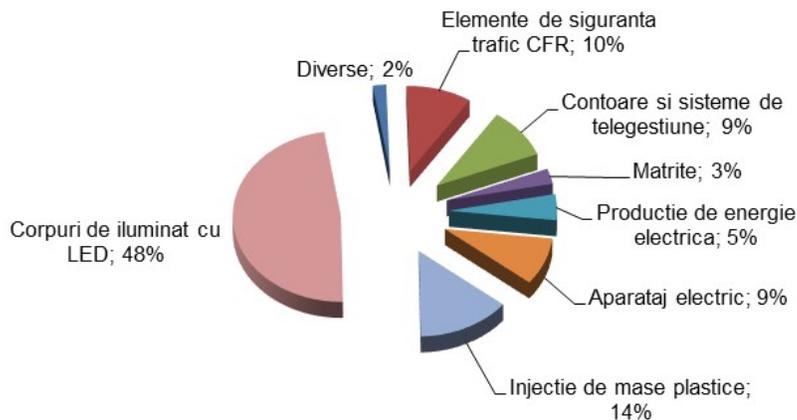
The production-related income increased by nearly 6%, while those resulted from electricity supply services halved as compared to the previous year. The main production value increase was registered for LED lighting units, railway traffic safety components and plastic injection. There was a decrease in the production of meters, telemanagement and molds.

2. Evaluation of the Company technical level

2.1. Main products and production structure

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

Structura productiei in 2016



2.1.1. LED lighting units, systems and solutions

The production of LED lighting units has the largest share on the whole production of the Company (47.8% of the sales). In 2016, the sales increased by 18.7% as compared to the previous year. The growth trend maintains particularly in the street and commercial lighting sector. The export sales have, for the time being, a less significant weight. The product range covers the following:

- Street lighting;

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- Commercial premises (supermarkets, commercial galleries, gas stations, warehouses, stands, parks, showcases, advertising panels);
- Industrial premises (plants, warehouses, etc.);
- Offices;
- Public buildings (institutions, hospitals, schools);
- Residential sector.

The competitive advantage of LED lighting equipment is due to their high efficiency (from 100 up to 130 lm/w), long service life and reduced maintenance costs. In addition, the LED lighting units provide high quality lighting, are environmentally friendly and can be integrated in telemanagement systems.

2.1.2. Electricity distribution and metering equipment

The whole production of meters and metering systems is targeted at the domestic market. The electricity meters are sold as such or integrated in EnergySys systems for electricity metering and telemanagement. In 2016, the sales of meters and telemanagement systems represented 3.8% of the total turnover of the Company, cumulating almost RON 9 billion. Like in the previous years, the specific production fluctuated with the dynamics of the acquisitions carried out by the electricity distribution companies. In comparison with the previous year, 2016 brought 44.9% less sales. EnergySys is already a well-known product on the market, being produced in its third version. The latest version of the system reflects the worldwide trends in the field of smart networks and also the requirements imposed by the energy market regulator (ANRE). The new system allows for improved quality of the services provided, better safety in operation as well as the operation information of consumers thanks to its capacity of monitoring, measuring and sending a range of complex information to the electricity distributor.

2.1.3. Plastic injection molded subassemblies

Following the expansion of the customer base, both domestic and external, the production of plastic injection molded subassemblies increased by 18% as compared to the previous year. This group of products has the largest share (46%) of the exports carried out by the Company. The production of plastic injection molded subassemblies benefits from the investments in machinery made in the last years and also from the internal manufacture of molds.

2.1.4. Low voltage electrical switchgear

The production of low voltage electrical switchgear (for ABB Italy) was an element of continuity in the production intended for export. This group of products represents 9% of the production related turnover, their sales slightly decreasing by 6% as compared to 2015.

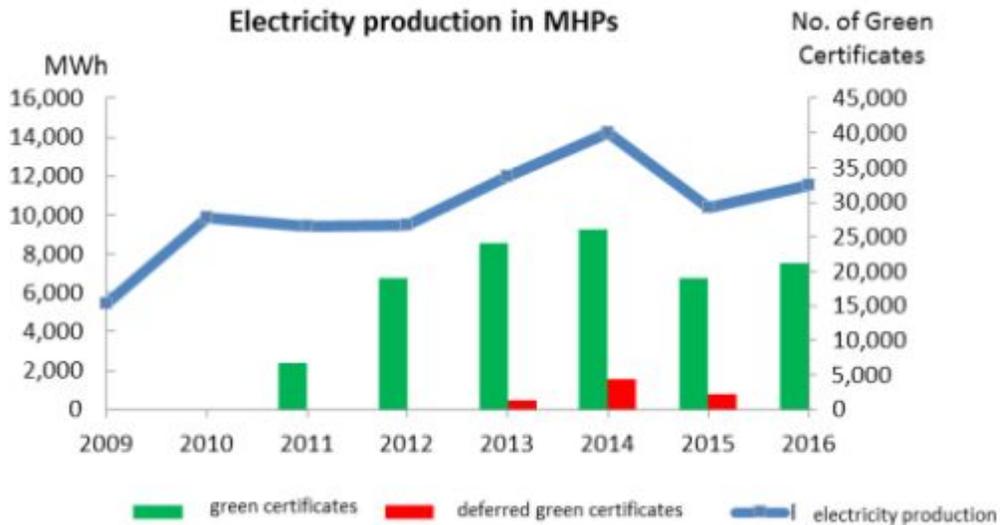
2.1.5. Molds

The manufacture of tools and molds is targeted at fulfilling the orders received from third parties, but mainly at ensuring the internal needs for the production of plastic injection molded subassemblies. The modernization and extension of tool production capacity is essential in supporting the diversification of the production of LED lighting units and the implementation of new manufacturing technologies. The external orders for injection molded plastics are often accompanied by orders for the design and execution of highly complex molds needed for the manufacturing process.

2.1.6. Electricity production from renewable sources

The electricity production is regulated by ANRE; the Company has been a licensed producer since 2007. In 2016 there was no further need for investments in the 10 micro-hydro power plants (MHPs) along the Suceava River, as they had been recently modernized through an investment program completed in 2014. In 2016 the electricity production amounted to 11,512 MWh, which is the average level of the last 5 years.

The revenues of 2016 were 8.7% higher than in the previous year, being related to an increase of the physical energy production.



The green certificates deferred upon the entry into force of Government Emergency Order no. 57/2013 have reached a total amount of almost 1.54 million RON. For 2017 we estimate a production of 12,000 MWh and a number of 21,862 green certificates.

2.1.7. Railway traffic safety components

The sales of railway traffic safety components benefited from the launch of some projects for railway infrastructure modernization. Therefore, their share was exceptionally close to 10% of the production-related turnover. The future evolution of this product category broadly depends on the continuation of the said projects.

2.1.8. Other industrial products

This category includes the production of subassemblies for motor vehicles, electrical and electronic subassemblies, metal works etc.; from the production of 2016, the sale of these products represented a total share of 1.9%.

2.2. Main services provided

2.2.1. Electricity supply services

The supply of electricity is regulated by ANRE. The Company has been an authorized supplier since 2001; the license was renewed in 2013 under the provisions of the new energy law (Law no. 123/2012) for another 10 years. In 2016, the turnover achieved from the electricity supply business decreased by 54% as compared to the previous year, as a result of a gradual restructuring of the customer portfolio, carried out for a more effective risk management. This action was necessary due to the difficult conditions of the energy market, where the fact that the producers and suppliers mainly contracted electricity from the Day Ahead Market (DAM) created a high price risk.

In 2016, about 23% of the necessary green certificates for the entire portfolio of supply customers were covered by the certificates obtained for the electricity produced by the Company's own micro-hydro power plants.

2.2.2. Rental and utility supply services

Electromagnetica administers approximately 28,700 sqm of rentable premises in Bucharest, as well as 3,500 sqm in Varteju commune, Ilfov County. At the end of 2016, the average occupation level for the headquarters located at 266-268 Calea Rahovei Street was 95.64%, for an average rental price of 6.59 euro/square meter. For the premises in Varteju commune (Magurele), the level of occupation was 81.68%, for an average rental price of 1.93 euro/square meter. As as December 31, 2016, the structure of the rentable premises by their destination was as follows:

Item no.	Destination of rentable premises at the headquarters	Share %	Destination of rentable premises in Varteju	Share %
1	Offices	42,78	Offices	0
2	Warehouses	26,9	Warehouses	26,64
3	Production	12,07	Production	42,98
4	Services	18,25	Services	30,38

The rental and utility supply activity was stable, with a slight increase of 2% as compared to the previous year, in the context of a little bit lower average rental tariff in euro and level of occupation, while the Romanian Leu to Euro exchange rate had a favorable evolution. The pressure on rental revenues will also manifest in the following period, as an effect of renegotiation of expired rental agreements and the reduced activities of certain tenants or their migration to premises with a lower average price/sqm, given the increase in the offer of premises for rent on the market. The office market will become increasingly competitive and its high level of delivery will exceed the office demand in Bucharest, possibly leading to a lower level of occupation, mainly in buildings which are old or located in hard-to-reach areas. These building will need investments in retrofitting or a reduction of the costs of occupation in order to remain competitive with the new generation of buildings, most of which are environmental-friendly, equipped with state-of-the-art facilities and excellent connections to public transport, especially to the underground.

2.3. New products for which additional resources are to be allocated. New product stage of development

In 2016, over 40% of the revenues achieved from the sale of LED lighting units (LLU) came from the new products manufactured during the period January 2015 - December 2016. In 2017, we will manufacture other new products and technologies with the following research objectives: 14 aiming at new products and systems, 9 for upgrading, 4 relating to technologies and 3 objectives of applied scientific research. We believe that the current technology largely covers the achievement of these goals and it is only necessary to allocate additional assets for the design of tools and devices. The improvement of the technical solutions for increasing the resilience of electromagnetic pulse sources to extreme weather conditions requires the acquisition of a pulse generator to verify immunity to shock waves, in compliance with SR EN 61000 4-5. Another category of new products is the battery charging stations for electric cars and rectifiers for industrial applications.

3. Evaluation of the sourcing activities

The prices of raw materials and other materials increased slightly, being mainly affected by the increase of the exchange rate and the higher price of the better performing, state-of-the-art components used in the LED lighting units. In the absence of domestic suppliers, the Company had to make most of its purchases from import or local dealers. As the delivery deadlines became increasingly longer, the optimization of the value of lots and inventories became more difficult and negatively impacted on the production costs.

In general, the sources for the production supplies are reliable and the objective is to maintain a minimum number of 2 suppliers / product type.

In terms of ensuring the energy resources necessary for the electricity supply activity, the price predictability was low given that both those producing from renewable sources and those producing from conventional sources sold most of their production under short-term contracts, therefore at volatile prices, to the detriment of long-term contracts. In such circumstances, the Company adopted a balanced acquisition policy, combining acquisition under long-term contracts with the acquisitions made on the Day Ahead Market.

4. Evaluation of the sale activity

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

The licensed production and supply of electricity are only carried out on the domestic market. The production of meters, energy telemanagement systems, railway traffic safety components, as well as the rental services, are exclusively sold on the domestic market. The revenues achieved from the production intended for the domestic market significantly increased, being 14.6% higher than in 2015.

Export is sustained by the low voltage electrical switchgear, a large part of the plastic injection mold production and partially by the LED lighting units. The molds are other products which go to export. The

Company's exports are mainly directed to the euro zone, in countries such as Italy, Germany, France, Bulgaria, but also to Serbia and Moldova.

Viewed by groups of products, the evolution of exports was mixed. The highest increase was registered for plastics, while for molds there was a decrease. In comparison with the previous year, exports decreased by 15.6% in 2016.

The decline of sales within the electricity supply business was closely related to the decrease in the number of consumer-customers in the Company portfolio. Following a restructuring process, only those consumer-customers who adhered to the more prudential and balanced policy of the Company were maintained. Even if, during certain periods, this policy could not ensure the lowest prices in the market, its advantage is a stability which benefits the business continuations and a good risk management

The distribution on the market of the LED lighting units and systems is mainly done directly by the Company through its specialized division from the commercial directorate. The LED lighting systems of large sizes, such as the ones designed for street lighting are promoted by means of supplier credit facilities, mainly intended for municipalities. The development of a larger number of turn-key projects ensured the sale of a more products and services.

With respect to the assurance of medium- and long-term distribution, we mention that the average duration of rental agreements is approximately 2 years, while the average duration of electricity supply contracts is 1 year, while production is generally based on short-term orders, except for the production of meters and remote management equipment that are contracted annually.

4.2. Market shares and competitors

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

Energy meters and metering and distribution equipment are intended for the energy distribution companies. In their plans for network modernization, they also included investments in smart metering. The main local manufacturers and competitors of Electromagnetica are AEM Timisoara and Elster.

Significant changes in market shares are taking place on the market of electricity supply services due, on the one hand, to the appearance of new suppliers and the migration of consumers from one supplier to another. In the first 11 months of 2016, the share held by Electromagnetica on the competitive market was less than 1 as shown in the ANRE report on energy market monitoring for November 2016.

On the local market of railway traffic safety systems, the number of purchase orders depends on the progress of the programs for the modernization of the infrastructure.

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

The products with a large share at the moment, such as LED lighting units and injection molded products are targeted at a wide customer portfolio and do not depend on a certain customer or group of customers. As regards the meters and telemanagement systems, the Company depends on the traditional beneficiaries, i.e. the electricity distribution companies. The same applies to the railway traffic safety components intended for the ultimate beneficiary CFR Infrastructura. The possible difficulties encountered by these customers in financing their modernization programs could affect the specific production of the Company.

5. Evaluation of personnel-related issues

The high qualification level of employees enabled the Company to carry out sustained research and development activities. In 2016, the average headcount was 583, i.e. 5.2% less than in the previous year, of which 35% employees with higher education and 35% with secondary education. The Company employees follow a continuing vocational training program, each of them benefiting, on average, from 50 hours/year internal and external professional training in quality, occupational health and safety, environment protection etc. In 2016 there was no case of occupational disease and no event with a major impact on human health and safety. The 3 accidents did not result in permanent invalidity or death. The management and employees

interact in normal conditions. The unionization rate is approximately 72% and there were no labor conflicts between the management and the union. More information about the social and staff policy, the policies on occupational health and safety, respect for human rights and the related risks and key performance indicators is available in the non-financial declaration of the Board of Directors for 2016, published together with this report on the Company website www.electromagnetica.ro.

6. Company business impact on the environment

The Company holds all the environmental permits required under the law for its business. The environmental management system is integrated with the quality management system. Following the audits conducted in the Company, the certifications for Integrated Management System maintained their validity for the period 2016-2018. The issuer does not carry out activities with significant impact on the environment and there are no litigations related to breaches of the legislation on environmental protection.

The production of energy from renewable sources in low power plants is considered to be clean.

The Company carries out an effective environmental risk control, implementing and complying with the waste management procedures, emergency procedures, production retrofitting, designing and testing new environmental-friendly products, standardizing and optimizing products. One of the research and development objectives is to implement new energy-efficient and less polluting manufacturing technologies and launch new products with reduced environmental impact during their service life. The Company took steps to raise the awareness of its employees and tenants of the significant impact on the environment and its prevention. Further information about the Company environmental policy, the risk factors and key performance indicators is available in the non-financial declaration of the Board of Directors for 2016, published together with this report on the Company website www.electromagnetica.ro.

7. Evaluation of the research and development activity

The research-design-development activity is carried out within three departments: the Research and Design Department, which includes the Photometry and Electromagnetic Compatibility Laboratory, the Electrical Equipment Design and Communication Department, and also the Self-Equipping Design Workshop. Considering that the products of Electromagnetica are completely designed internally, approximately 12% of the employees work in the research-design-development sector.

7.1. Research and Design Department

Most of the activity of this department is dedicated to the LED lighting sector.

The main objective was the research in thermally conductive plastics from the family of polymers with added graphite, in view of replacing the current aluminum radiators required to move heat away from LED lighting units. This technology will allow the construction of such radiators using our existing plastic injection molding machines. Implementing this technology, we pursue a higher added value and improved design. At this stage, we built research molds for the injection of test specimens and tested the injection of several radiators for CETUS 2M lighting units and LED bulbs.

In 2016, we continued to implement smart lighting management systems. Several lighting variation systems driven by light sensors were integrated in the generic automation solutions of four Dedeman do-it-yourself stores, using the DALI communication protocol. Moreover, an emergency lighting system, with centralized emergency supply, was integrated. A pilot project was installed in the Republic of Moldova, where the lighting management by means of Bluetooth radio technology was successfully experimented.

In the Antiex field, we obtained certification in compliance with the new SR EN 60079 standards for the products CETEX and GEMMA with 2 and 4 lighting modules in zone 2 gas and zone 22 dust in explosive atmosphere.

As far as internal lighting is concerned, we started the production of CIL ARGO with symmetric and asymmetric lenses which are entirely designed and manufactured at Electromagnetica. This is the 2nd generation of CIL ARGO produced in 44 design versions and having over 100lm/w luminous efficiency. To improve luminotechnical performances, we upgraded 10 CIL families (100 versions), all having a luminous efficiency higher than 100lm/w at warm, neutral and cold color temperatures.

The design and technology management was improved through three software applications for document management and uniform codification of CIL. These applications allow a controlled access of the staff involved in CIL research, design, production, quality-related and sales activities.

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In the coming period, the main objective in applied scientific research will be to determine composition and obtain a casting mass with bituminous content for the encapsulation of power sources, which will result in reduced costs and higher reliability of the supply sources. We will continue research in designing radiators and passive cooling systems made of thermally conductive plastics, which are to replace the current radiators made of aluminum alloys. Furthermore, we are going to diversify a number of niche products with specific requirements, such as those for walkway, architectural lighting, stadiums, airports and festive lighting, at competitive costs and technical performances. Special attention will be paid to the design and homologation of the 22kW battery charging station for electric cars, in accordance with the European standard in force SR EN 61851, as well as to the construction of a few pilot charging stations in Romania.

7.2. Research and Development Department for Electrical Equipment Design and Communication

In 2016, the Company continued the program for the development of the ENERGSys remote reading and telemanagement system, registered trademark of Electromagnetica SA, mainly aiming to obtain define new functions that lead to active involvement and awareness of the household consumers included in the system on measures to increase energy efficiency and respond to the new ANRE requirements regarding electricity supply interruption (ANRE Order no.11/2016 - Distribution service performance standard).

The development of EnergySys 3 system (the version launched in 2015) we took into account the latest ANRE regulations on the functional requirements and the method of evaluation of smart measurement system pilot projects, the performance of a cost-benefit analysis for each of the pilot projects approved to be installed, as well as of the provisions on the installation of such pilot projects in areas which require the execution of works for the rehabilitation of the low voltage distribution network (ANRE Order no. 145/2014 as further amended). At the same time, we took into account the need to extend the bidirectional communication interface of the system. In this context, the continuation of the program for the development of ENERGSys system is both appropriate and essential for the fulfillment of its potential on the market.

7.3. Self-Equipping Design Workshop

The Self-Equipping and Maintenance Workshop manufactures, on a one-off basis, means of production for the mechanization and automation of the serial production, for supporting the technical program for new technologies and products and for ensuring the environmental and organizational conditions at work. The Company manufactured ultrasonic welding machines, blister packs for LED bulbs, re-circulated water mechanized device for product water-tightness testing, X-Y manipulator, with the related intermediary warehouses, to serve the steel laser inscription post, the recess for plate lacquering, which allowed the implementation of the lacquering technological method in the process for supply sources manufacturing, thus improving product resistance to the external environment.

8. Risk management objectives and policies

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

Price risk

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

The risk of changes in the interest rates is maintained under control by adopting an investment policy exclusively based on own funding sources, which allows for the use of credit lines only for the working capital.

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

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Company cooperated with the suppliers for ensuring price control and the related technological processes were improved.

Penalty risk

At the beginning of 2016, the Competition Council notified Electromagnetica about its Decision no. 82/24.12.2015 to impose a fine of RON 9,021,308 on the Company, for alleged anti-competitive acts on the energy market. The payment of the fine was suspended by ANAF (National Agency for Fiscal Administration) until the procedures at first instance are completed for case no. 3778/2/2016 pending before the 8th Division for Contentious Administrative and Tax Matters of the Bucharest Court of Appeal, whereby Electromagnetica applied for the annulment of the decision. Note that the Company submitted a bank guarantee letter to ANAF to fully cover the amount of the fine. This fine did not affect the financial result in 2016 because its influence was taken into consideration in the financial result reported for 2015.

Dispute-related risk

The Company is involved in disputes related to small values which could not affect its financial stability. The only exception, given the claims of plaintiff Hidroelectrica, is case no. 13259/3/2015 pending before the Bucharest Tribunal.

Credit risk

Credit risk is the possibility that contracting parties breach their contractual obligations resulting in financial loss for the Company. When possible and allowed by market practices, the Company requests guarantees. Trade receivables derive from a wide range of customers operating in various fields of activity and different geographical areas. To counteract this risk factor, the Company applied restrictive policies to the delivery of products to doubtful customers. Insurance policies were contracted for foreign market receivables. Due to the increase of insolvency cases in the economy, there is a concrete risk related to the recovery of the equivalent value of products and/or services supplied prior to the declaration of insolvency. The Company is paying more attention to the creditworthiness and financial discipline of its contractual partners. It should be mentioned that from the end of the financial year 2016 until the date of this report several electricity suppliers became or declared to be insolvent. Therefore, we can speak about a deterioration of the business environment and a direct manifestation of the credit risk.

Equity risk

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

Liquidity and cash flow risk

The Company cash flow department 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 decision of the general meeting of shareholders of April 21, 2016 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 the total fixed assets, less receivables, to ensure the Company's capacity to perform its obligations in case of short-term cash deficit. At the same time, investments were limited to own sources of funding and to those with direct impact on the turnover. The liquidity and cash-flow risk management policy should be adapted to the resized activity of electricity supply. The risk analyzed above is closely related to the sanction-related risk and the dispute-related risk, which are described below and the new and more exigent commercial practices. This risk is closely related to the risks described above.

Disaster risk

The production of electricity in low power plants without dams is subject to the risk of destruction caused by floods. Under these circumstances, the Company concluded insurance policies to protect not only the MHPs, but also its headquarters against disasters. In 2016, based on the insurance agreement, the Company could cover the damages caused by a landslide at Brodina 2 micro-hydro power plant.

Political and legislative risk

This is a free translation from the original Romanian version.

The Company's activity on regulated markets, such as the electricity supply and production market, exposes the Company to a legislative risk. For instance, the energy market was influenced by the exemption of large consumers from the obligation to pay an important part of the green certificates and also by the price changes which stimulated the export of energy.

The national implementation of European directives on energy efficiency can stimulate the sale of LED lighting solutions; at the same time, their delayed or inappropriate regulation can disturb the specific market.

9. Company business prospects

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

Market trends

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

The energy market is subject to the influence of several factors. First, the producers and suppliers maintained an abnormal practice of excessively trading energy under short-term contracts, to the detriment of the long-term contracts. Secondly, under the pressure of a competition intensified by the entry of new players into the market, some of the suppliers accepted increasingly high risks in energy acquisition. This behavior showed its limits at the beginning of 2017 when, in the context of an enhanced volatility of prices on the DAM, several suppliers became insolvent. A larger number of insolvency cases could affect the liquidities of the Company due to an increased claim recovery period. The connection of the energy market with the regional market favored the alignment of energy prices without moderating their volatile nature. There are signs of market reorientation towards a more predictable business model, a trend materialized in the appearance of some offers of energy supply at a fixed price and for a 2-year period, intended for household customers.

Commercial policy trends

The Company's commercial policy aims to control the number of days agreed under contract for the payment of receivables by its customers. The Company will continue to sell its LED lighting systems under supplier credit facilities for medium and large scale projects. The application of this commercial policy requires a sufficient level of available cash; therefore, the Company intends to identify additional funding sources.

Uncertainty factors

The worldwide accelerated dynamics of innovation in the field of LED lighting technology is an uncertainty factor as regards the pricing of new materials and components.

For the revenues from the production of energy, the main factor of uncertainty is the level of rainfall which influences the physical production of electricity in micro-hydro power plants.

The volume of purchase orders for exports is, by nature, less predictable on medium and long term.

The supply of energy is confronted with the volatility of energy prices. The increase of production capabilities in wind and solar power plants adds a factor of uncertainty with regard to the quantitative offer on the day-ahead market and increases the volatility of energy prices.

The period for receivables collection becomes uncertain in the context of an increased frequency of insolvency cases among electricity consumers or suppliers.

9.2. Presentation and analysis of the effects of current or expected capital expenditure on the Company financial standing

Aiming to maintain a high technical level, to raise production capacity and labor productivity, in 2016 the Company acquired technological equipment and measuring and checking devices and instrumentation

cumulating RON 2.1 million. In 2017, the investments will continue to be directed to the refitting and upgrading of the production capacities, as well as to the modernization of several substations and electrical installations and the achievement of an increased power of 5.2 MW. With such investments, we estimate a higher capacity for plastic injection mold production as a result of the construction of a new production hall, an extension of the capacities of the metrology and electromagnetic compatibility certification laboratories and the modernization of several wings of our buildings. The investment program is estimated at about 5 million euro, but it will be conditional, as before, on the existence of own funding sources

10. Tangible assets of the Company

10.1. The production facilities of the Company are mainly located at its headquarters at 266-268 Calea Rahovei Street, district 5, Bucharest, except for the facilities producing energy from renewable sources, which are located in Suceava river basin, Radauti area, over approximately 70 km. The production facilities of the Company include technologies such as: machining, sheet metal processing (stamping, bending, cutting, milling), plastic injection, technological assembling operations, etc. They are characterized by complexity, accuracy, flexibility, automation etc.

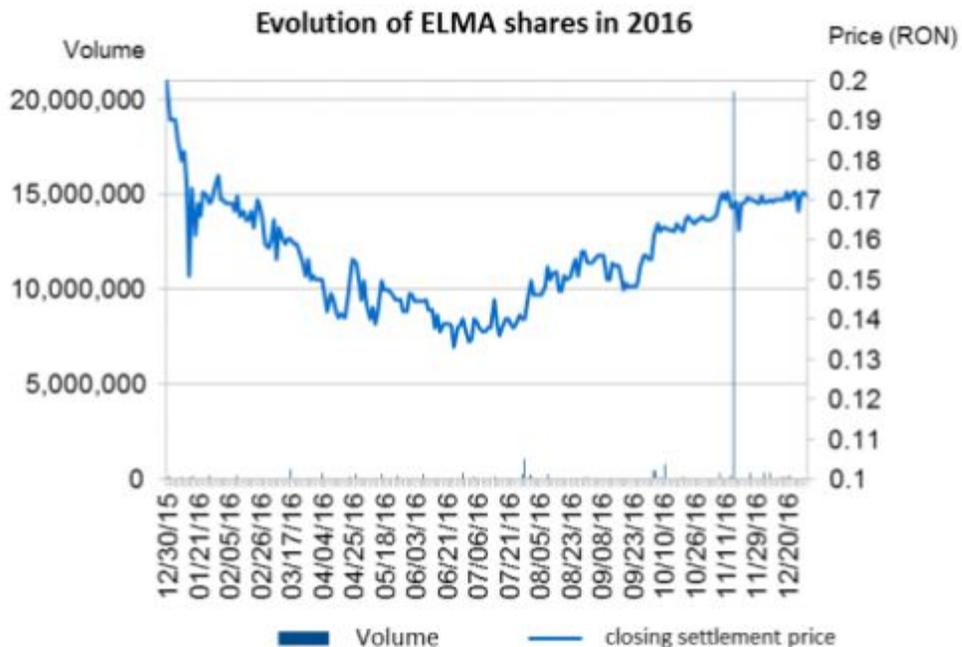
10.2. The Company is not involved in any litigation related to the ownership of the land pertaining to its headquarters in Bucharest, 266 - 268 Calea Rahovei Street or to its micro-hydro power plants in Radauti area. Following the settlement of case no. 1029/2/2014* (222/2016), the court admitted the claim under guarantee against AAAS and obliged the defendant to pay Electromagnetica the amount of RON 50,084 representing legal court costs, and the amount of RON 1,252,394 as compensation for the loss of the land of 1,248 sq m located at 23-24 Petre Ispirescu Street, District 5, Bucharest, land which initially was part of the state contribution to the share capital of the Company and later on it was restituted to its former owner.

11. Securities market

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

- Stock symbol: ELMA
- Ordinary, nominative, dematerialized shares
- Number of issued shares: 676,038,704
- Nominal value: RON 0.1000
- Share capital: RON 67,603,870.40
- ISIN code ROELMAACNOR2
- Bloomberg ID: BBG000CMQBR5
- Reuters symbol: ROELMA.BX

The ELMA shares are part of the BET Plus index, weighing 0.32%. Due to reduced liquidity, the ELMA shares were excluded from BET-BK and BET-XT indices upon the quarterly adjustment operated by the Index



The shares traded in 2016 totaled 4.68% of the Company share capital, at an average price of RON 0.1474/share (calculated for all market segments). The reference price varied between a minimum of RON 0.1330 and a maximum of RON 0.19/share. The closing settlement price at the end of 2016 was RON 0.1710/share, 14.5% less than at the end of the previous year, corresponding to a market capitalization of RON 115.6 million.

12. Separate financial and accounting statement as at December 31, 2016
(all amounts are expressed in RON, unless otherwise specified)

12.1. Financial position

	December 31, 2016	December 31, 2015
ASSETS		
Non-current assets		
Property, plant and equipment	292,544,407	223,148,468
Investment property	4,631,885	947,183
Intangible assets	1,635,414	1,378,057
Investments in related entities	3,967,606	3,967,606
Other long-term non-current assets	16,994,518	5,687,074
Total non-current assets	319,773,830	235,128,388
Current assets		
Inventories	17,407,304	13,497,381
Trade receivables	33,977,526	51,013,493
Cash and cash equivalents	17,822,290	13,890,488
Financial assets at fair value through profit or loss	-	467,080
Other current assets	3,173,001	2,086,192
Current tax assets	-	780,927
Total current assets	72,380,121	81,735,561
Total assets	392,153,952	316,863,949
EQUITY AND LIABILITIES		
Equity		
Share capital	67,603,870	67,603,870
Reserves and other equity	180,407,837	135,410,376
Retained earnings	82,540,235	55,046,581
Total equity attributable to company's shareholders	330,551,942	258,060,827
Non-current liabilities		
Trade payables and other liabilities	2,783,769	2,956,025
Investment subsidies	4,899,962	5,063,180
Deferred tax liabilities	17,242,351	3,941,339
Total non-current liabilities	24,926,082	11,960,544
Current liabilities		
Trade payables and other liabilities	34,424,384	34,508,314
Investment subsidies	163,219	163,219
Provisions	1,833,135	12,171,045
Total current liabilities	36,675,928	46,842,578
Total liabilities	61,602,009	58,803,122
Total equity and liabilities	392,153,952	316,863,949

The comparative analysis of the balance sheet items revealed the following:

The equity registered a significant increase of 29.6%, reflecting the positive net result of the land and building revaluation and, to a smaller extent, the profit achieved during the respective period.

The positive net result of the Company lands and buildings re-evaluation contributed to the significant increase of the tangible assets, respectively of the investment property. The acquisition of the technological equipments necessary for the manufacturing process, the modernization of the existing ones and the execution of tools, devices and verifiers (SDV) also had a positive influence on the tangible assets which increased by 31%.

The 23.8% increase of the total assets was exclusively due to the increase of non-current assets, while the current assets maintained at the same level.

The average period for debt collection increased to a smaller extent than the average period for payment of suppliers, positively influencing the liquidities.

The payables decrease in correlation with the reduced electricity supply activity.

In 2015, the share of the liabilities in the total assets slightly decreased by 17.9%, up to 14% in 2016.

12.2. The separate profit or loss are as follows:

	December 31, 2016	December 31, 2015
Revenues	234,188,009	383,043,940
Investment income	4,019,247	578,619
Other net income	4,906,997	3,689,649
Changes in inventories of finished goods and work in progress	15,924,804	10,608,484
Own work capitalised	1,246,195	1,742,457
Raw materials and consumables used	(169,435,104)	(313,927,054)
Employee-related expenses	(34,094,959)	(32,562,136)
Expenses related to depreciation and impairment	(16,631,162)	(16,332,565)
Other expenses	(34,250,873)	(57,949,011)
Financial expenses	(638,941)	(916,105)
Profit/(Loss) before tax	5,234,213	(22,023,724)
Income tax	(906,366)	1,114,261
Profit/(Loss) of the period	4,327,847	(20,909,463)

The total revenue was 32.25% less than in 2015, but the total expenditure decreased by 37.09%, which meant earned profit.

Revenue increases were registered in the production of lighting units and systems, plastic injection, railway traffic safety components, rents and electricity, while for meters and telemanagement systems, molds, switchgear and particularly electricity supply registered lowered revenues.

All the production activities (except electricity production in micro-hydro power-plants) as well as the rental activity were profitable.

The electricity production registered a loss as a result of the assets re-evaluation in micro-hydro power plants, with a negative impact of the financial result, while for the electricity supply there was no more loss, as it registered in the previous year, being at the limit of profitability.

The level of amortization maintained at a level comparable with the one recorded in the previous year.

12.3. Cash flows

	<u>2016</u>	<u>2015</u>
Net cash used in operating activities	5,775,858	(9,658,475)
Net cash used in investments	(1,804,959)	(1,719,197)
Net cash used in financing activities	(39,098)	(2,958,128)
Net increase / (decrease) of cash and cash equivalents	3,931,802	(14,335,800)
Cash and cash equivalents at the beginning of the period	13,890,488	28,226,288
Cash and cash equivalents at the end of the period	17,822,290	13,890,488

At the end of the period, the cash registered a 28.3% increase as compared to the beginning of the reporting period. The higher cash level can be explained by the tying-up, in the first half of the year, of some cash resources intended for the payment of the RON 9,021,308 fine to the Competition Council, which limited the fulfillment of the investment program.

The level of the investments was comparable with 2015. The highest weight was registered for the investment in technological equipments.

Credit lines were used to a smaller extent than in the previous year, but they had no influence on the net cash because they were used on a short term and fully reimbursed

13. Important events occurred after the closing of the financial year

In the first two and a half months of the year, several electricity suppliers submitted petition for starting insolvency. The exposure of the Company to these suppliers represents less than 1% of its turnover in 2016.

At the time this report was prepared, the management of the company was not aware of any events, economic changes or other factors of uncertainty that could significantly affect the Company revenues or liquidities, other than those mentioned herein.

14. Statement of corporate governance

14.1 The relevant corporate governance code

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

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

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

14.2. General meetings of shareholders and rights of shareholders

The rights of the shareholders and the procedure for participation in the general meetings of shareholders are described in the notice convening the general meeting and were summarized in a regulation available in the Corporate Governance section of the Company's website www.electromagnetica.ro/companie/info.

14.3. Management system

The company is currently managed under the one-tier system consisting of a Board of Directors composed of 9 members. This system meets the current management needs and it is not necessary to implement a two-tier system.

14.4. Corporate governance structures

The main administration, management and supervisory structures of the Company are the Board of Directors, the Managers, the External Auditor and the Internal Auditor. The professional qualification and management experience of the members of the Board enables them to assess on a regular basis the aspects related to the review of the managers' activity, nomination and remuneration or internal audit. There are no separate permanent advisory committees, such as audit, remuneration or nomination committees, established because no director declared to be independent and the legal requirements for most of the members or leaders of such committees to be independent directors are not met. The members of the administration, management and supervision bodies have the joint obligation to ensure that the annual financial statements and the report of the directors are prepared and published in accordance with the national legislation.

14.4.1. Board of Directors and managers

The members of the Board of Directors were elected by majority vote in the ordinary meeting of shareholders on 25 September 2015, the candidates being proposed by the shareholders. No director stood as a candidate as an independent person. There are no family relationship between the directors or members of the executive management and third parties based on which they were elected or appointed. The Board of Directors is composed of 9 members elected for a 4-year term of office. Their mandate expires on October 18, 2019, while the mandates of the managers end upon revocation. Following the resignation of Mr. Preda Cristinel Laurentiu, starting from 15 March 2016 Mrs. Hodea Cristina Ioana Rodica was appointed interim director. Subsequently, Mrs. Hodea was confirmed as director by the ordinary general meeting of shareholders on 21.04.2016. The composition of the Board of Directors faithfully reflects the participation in the Company's share capital (over 70% of the capital is represented in the BoD).

	Name	Position	Term of office	Age, profession, experience	ELMA shares ownership	Positions held in other listed companies
1	Scheusan Eugen	BoD Chairman	18 Oct 2015 – 18 Oct 2019	63, engineer, Electromagnetica SA	0.2428%	-
2	Vlad Florea	BoD Member	18 Oct 2015 – 18 Oct 2019	69, economist, Electromagnetica SA	1.1640%	-

This is a free translation from the original Romanian version.

Name	Position	Term of office	Age, profession, experience	ELMA shares ownership	Positions held in other listed companies	
3	Stancu Traian	BoD Member	18 Oct 2015 – 18 Oct 2019	64, engineer, Electromagnetica SA	0.0462%	-
4	Stancu Ioan	BoD Member	18 Oct 2015 – 18 Oct 2019	67, technician, Electromagnetica SA	0.0027%	-
5	Macovei Octavian	BoD Member	18 Oct 2015 – 18 Oct 2019	67, engineer, Electromagnetica SA	0%	-
6	Calitoiu Elena	BoD Member	18 Oct 2015 – 18 Oct 2019	54, engineer, SIF Oltenia	0%	SIF Oltenia – Head of Investments and Risk Management; Antibiotice Iasi - director
7	Bucur Vasilica	BoD Member	18 Oct 2015 – 18 Oct 2019	59, legal professional, SIF Oltenia	0%	SIF Oltenia – head of legal department
8	Sichigea Elena	BoD Member	18 Oct 2015 – 18 Oct 2019	62, economist, SIF Oltenia	0%	SIF Oltenia – head of economic department
9	Hodea Cristina Ioana Rodica	BoD Member	15 Mar 2016 - 18 Oct 2019	53, CFA, MBA, engineer, auditor	0%	-
10	Preda Cristinel Laurentiu	BoD Member	15 Oct 2015 - 15 Mar 2016 (resignation)	37, lawyer	0.000015%	Flaros SA Bucharest - director

The diversity of the members of the Board enables the efficient use of supplementary skills and professional experience and knowledge in various fields. Most of the members of the Board are non-executive managers, which ensure the proper balance of authority. In 2016, the Board of Directors met every month in the presence of all the Board members, whether in person or by representative. The level of the compensation for the Board members is established by decision of the general meeting of shareholders.

14.4.2. Managers

According to the provisions of the Company's Articles of Incorporation, the Chairman of the Board of Directors also exercises the function of Managing Director and duly represents the Company. The Board of Directors can delegate certain powers to one or more managers, based on mandate agreements, and establish the tasks of each manager who is subject to such delegation. The executive management is currently ensured by 5 managers, as follows:

No.	Surname/ Name	Capacity	Shares owned as of 31 Dec 2016	Other positions held in listed companies
1	Scheusan Eugen	Managing Director	0.2428%	-
2	Frasineanu Ilie	Economic Manager	0.0486%	-
3	Stancu Traian	Production Manager	0.0462%	-
4	Macovei Octavian	Technical Manager	0%	-
5	Balmus Dumitru	Commercial Manager	0.0001%	-

The remunerations of the managers are established by decision of the Board of Directors. The gross annual remuneration and other benefits, including the remuneration approved for the management by the general shareholders' meeting, which is part of the revenue and expenditure budget, cannot exceed 5% of the value of the equity determined in the annual balance sheet. There are no arrangements whereby managers are granted compensation in case of resignation or revocation without reasonable cause.

14.4.3. Independent external auditor

Based on the power of attorney granted by the general meeting of Electromagnetica shareholders under article 9 of its decision dated 21.04.2016, the Board of Directors met on 31.05.2016 decided to sign with Deloitte Audit SRL an agreement for auditing the separate and consolidated financial statements for the financial years ended December 31, 2016 and December 31, 2017.

The audit company is represented by Mr. Farrukh Khan – partner and director, while the audit mission is run by Mr. Zeno Caprariu, audit director.

The identification data of Deloitte Audit SRL are the following:

- Tax ID: 7756924
- Trade Register no.: 40/6775/1995
- License issued by the Chamber of Financial Auditors of Romania: no. 25/25.06.2001
- Company head office: 4-8 Nicolae Titulescu Street, 2nd Floor, Deloitte area and 3rd Floor, District 1, Bucharest
- Tel 021/222.16.61
- Fax 021/319.51.00

14.4.4. Internal control

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

The company has in place an internal control/management review system designed and implemented to enable the executive management and the Board of Directors to provide reasonable assurance that the company funds allocated to the achievement of general and specific objectives were used lawfully, regularly, efficiently, effectively and economically.

The internal control / management review system comprises both self-control and subsequent control mechanisms applied by the Budgetary Surveillance and Execution Office and the Internal Control and Audit Department; the implementation of the measures aimed at increasing its efficiency is also based on the assessment of risks.

The accounting and financial internal review is a basic component of internal control. The company applied the internal accounting and financial review to ensure the accounting management and the surveillance of the Company activity from the financial perspective.

The internal audit activity was focused on:

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

The control activity was carried out according to a schedule approved by the company management. Only insignificant irregularities were found, for which concrete measures were taken.

14.5. Capital structure and major shareholders

The company did not issue shares that grant special controlling rights or other types of rights. During 2016 there were no suspensions of voting rights or restrictions related to the ownership of shares. The members of the executive management are also members of the Electromagnetica Association of Shareholding Employees (PAS); this association is not controlled by a single person. At the date of 31.12.2016, the Company had 6,143 shareholders.

According to the Central Securities Depository, the capital structure as of 31.12.2016 was the following:

Shareholder	Ownership	Number of shares
PAS Electromagnetica	29.6288%	200,302,763
SIF Oltenia SA	25.3939%	171,672,301
Natural persons	28.6638%	193,778,348
Legal entities	16.3135%	110,285,292
TOTAL	100.00%	676,038,704

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

This is a free translation from the original Romanian version.

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

14.7. Own shares redemption

There is no approved program for the redemption of shares or price stabilization and there is no scheme for granting of shares to employees or management members. Note that the extraordinary general meeting of shareholders of April 30, 2015 approved, in principle, the repurchase by the Company of its own shares in order to implement a system for employee remuneration and retention, and later on a new extraordinary general meeting is to be convened to establish the number of shares, the minimum price and the term of redemptions.

14.8. Reporting share transactions by directors and other stakeholders

The company does not apply additional rules, other than those provided for by legislation, to the transactions conducted with the shares of the Company by its directors or other stakeholders. The directors are aware of the legislation on transactions with Company shares. In 2016, pursuant to Article 150 of Regulation no. 1/2006 of the National Securities Commission (CNVM), the following shareholders included in the list of persons having access to inside information reported transactions with the Company shares: SIF Oltenia (major shareholder), Vlad Florea (director), Stanila Antoaneta Monica (Vlad Florea's daughter and member of the management of PAS Electromagnetica, major shareholder).

14.9. Amendments to the Articles of Incorporation

The Articles of Incorporation were updated on April 21, 2016 in terms of directors (Article 16.1), based on the decision of the ordinary general meeting of the shareholders of 21 April 2016 regarding the election of Mrs Hodea Cristina Ioana Rodica as a director and the deregistration of Mr. Preda Cristinel Laurentiu, following his resignation.

14.10. Disclosure of corporate information

Every year, the Company establishes and publishes a financial reporting calendar. The Company regularly and permanently prepares and discloses information that is relevant for investment decisions. The staff dedicated to this activity is trained on a continuous basis, educated and instructed in issues related to the company's relation with its shareholders and the corporate governance principles. In 2016, the information was disclosed in Romanian and in English for those categories of documents envisaged by the applicable legislation. The Company encourages communication with shareholders the Investors section on its web page available at http://www.electromagnetica.ro/companie/info.php?ik_comp=4; for further information, investors can either call to 021.404.2132, use the fax no. 021.404.2195 or the e-mail address: juridic@electromagnetica.ro.

Board of Directors Chairman/Managing Director
Eugen Scheusan

Economic Manager
Ilie Frasineanu

Annex to the Statement of Corporate Governance

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
A.1. All companies must have an internal regulation of the Board to include the key terms/responsibilities of the Board and the Company's key management positions and to enact, among others, the General Principles under Section A.		Partially compliant	The Company has not adopted an operating regulation for the BoD, given that the articles of incorporation clearly differentiate the powers and attributions of BoD from those of GMS and those of the managers. The BoD's responsibilities, key positions and means of operation are sufficiently detailed in the articles of incorporation and comply with the general principles of CGC of BVB under section A regarding responsibilities. The results so far indicate that this means of operation is functional.
A.2. Provisions for the management of conflicts of interest must be included in the Board's regulation. In any case, the members of the Board must notify the Board with regard to any conflicts of interest which have occurred or may occur and abstain from attending talks (even by absence, except when the absence prevents the formation of the quorum) and from voting to adopt a resolution on the matter giving rise to the respective conflict of interest.		Partially compliant	The Company has not adopted an operation regulation for BoD that contains provisions for the management of conflicts of interest. However, the Board of Directors takes measures to comply with the applicable legal provisions, and the Company's and subsidiaries' directors and managers regularly give sworn statements regarding non-competition and conflicts of interest. The adopted measures have proven to be effective for managing conflicts of interest.
A.3. The Board of Directors or the Supervisory Board must comprise at least five members.	Compliant		
A.4. The majority of the members of the Board of Directors must not have an executive position. At least one member of the Board of Directors or the Board of Surveillance must be independent, in the case of companies in the Standard Category. In the case of companies in the Premium Category, at least two non-executive members of the Board of Directors or the Supervisory Board must be independent. Each independent member of the Board of Directors or Supervisory Board, as the case may be, must file a statement at the time of their nomination for election or re-election, as well as when any change of status occurs, thereby indicating the elements based on which they consider themselves independent in terms of character and judgment and according to the following criteria:		Partially compliant	Of the 9 BoD members, 4 are executive directors and 5 are non-executive, but none of them declared themselves at the beginning of their mandate as being independent directors according to the criteria stated by CGC of BVB under items A.4.1- A.4.9
A.4.1. he/she is not a Managing Director/executive manager of the Company or of a company under the control thereof and has not held such office in the past five (5) years;			
A.4.2. he/she is not an employee of the Company or of a company under the control thereof and has not held such office in the past five (5) years;			

Annex to the Statement of Corporate Governance

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
A.4.3. he/she does not and has not received additional remuneration or other advantages from the Company or a company under the control thereof, other than those pertaining to his/her capacity as non-executive director;			
A.4.4. he/she is not or was not an employee, or does not or did not have over the previous year a contractual relationship with a significant shareholder of the Company, such shareholder controlling more than 10% of the voting rights, or with a company controlled by the latter;			
A.4.5. does not and did not have over the previous year any business or professional relationship with the Company or with a company controlled by it, either directly or as client, partner, shareholder, member of the Board/Director, Managing Director /executive manager or employee of a company if, due to its substantial nature, such relationship may affect his/her objectivity;			
A.4.6. he/she is not and was not over the past three years an external or internal auditor or partner or remunerated associate to the current external financial auditor or to the internal auditor of the Company or of a company controlled by it;			
A.4.7. he/she is not a Managing Director/executive manager of another company where another Managing Director/executive manager of the Company is a non-executive director;			
A.4.8. he/she was not a non-executive director of the Company for a period longer than twelve years;			
A.4.9. he/she does not have family connections to a person who is in the situations mentioned under items A.4.1. and A.4.4.			
A.5. Other relatively permanent professional commitments and obligations of a Board member, including executive and non-executive positions on the Board of not-for-profit companies and institutions must be disclosed to shareholders and potential investors prior to nomination and during their mandate.	Compliant		
A.6. Any member of the Board must present to the Board information on a relationship to a shareholder holding directly or indirectly shares representing more than 5% of all voting rights. This obligation refers to any kind of relationship that may affect the position of the member with regard to matters decided by the Board.	Compliant		
A.7. The Company must appoint a secretary of the Board, in charge of supporting the Board's activity.	Compliant		
A.8. The Statement on Corporate Governance will inform as to whether there has been an evaluation of the Board under the leadership of the Chairman or of the		Partially compliant	The Board of Directors has not adopted a policy/guide on Board evaluation. On an annual basis, within the general balance meeting, the ordinary general meeting of the

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Annex to the Statement of Corporate Governance

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
nomination committee and, if appropriate, it will summarize the key measures and changes derived from such evaluation. The Company must have a policy/guide on Board evaluation, containing the purpose, criteria and frequency of the evaluation process.			shareholders is required to decide on granting incentives depending on the achievement of the performance indices and in accordance to the provisions of the articles of incorporation.
A.9. The Statement on Corporate Governance must contain information regarding the number of meetings of the Board and committees throughout the past year, the attendance of directors (personally and in absentia) and a report of the Board and the committees concerning their activities.	Compliant		
A.10. The Statement on Corporate Governance must contain information regarding the exact number of independent members on the Board of Directors or o the Surveillance Board.	Compliant		
A.11. The Board of companies in the Premium Category must establish a nomination committee comprised of non-executive members, which will lead the procedure for nomination of new members on the Board and will make recommendations to the Board. The majority of the members of the nomination committee must be independent.		Partially compliant	Due to the absence of independent directors, there has been established no nomination committee comprised of non-executive directors who are, as a majority, independent directors. The Board of Directors is, as a whole, the one who nominated interim members and makes recommendations to the ordinary general meeting of the shareholders on the election of new BoD members.
B.1. The Board must establish an audit committee in which at least one member must be an independent non-executive director. The majority of the members, including the chairman, must have proven they hold relevant adequate qualification for the attributes and responsibilities of the committee. At least one member of the audit committee must have proven and adequate audit or accounting experience. In the case of companies in the Premium Category, the audit committee must be comprised of at least three members, and the majority of the audit committee members must be independent.		Partially compliant	Due to the absence of an independent non-executive director, that is, due to it being impossible to ensure a majority of independent directors on the audit committee, the Board of Directors has not established such committee. Within the Board of Directors there are directors with adequate audit or accounting experience. They are able to ensure the integrity of financial reporting and of the internal control system.
B.2. The chairman of the audit committee must be an independent non-executive member.		Partially compliant	The requirement cannot be complied with due to the lack of independent directors on the BoD, that is, due to not establishing an audit committee.
B.3. Within its responsibilities, the audit committee must conduct an annual evaluation of the internal control system.		Partially compliant	In the absence of an audit committee, the Board of Directors receives the internal auditor's control reports and is in charge of the periodical evaluation of the internal control system.
B.4. The evaluation must take into account the effectiveness and span of the internal audit function, the adequacy of the risk management and internal control reports presented to the Board's audit committee,		Partially compliant	Given that no audit committee was established, the Board of Directors is in charge of the evaluation of the internal audit activity in terms of effectiveness, adequacy of the risk management and internal control reports

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Annex to the Statement of Corporate Governance

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
the timeliness and effectiveness employed by the executive management in solving deficiencies or weaknesses identified pursuant to the internal control and presenting relevant reports to the attention of the Board.			drawn up by the internal audit, timeliness and effectiveness of the measures to remedy weaknesses identified by it.
B.5. The audit committee must evaluate conflicts of interest regarding the transactions of the Company and its subsidiaries with affiliated parties.		Partially compliant	As long as no audit committee has been established, the Board of Directors is in charge of evaluating conflicts of interest regarding the transactions of the Company and its subsidiaries with affiliated parties. The evaluation of transactions with affiliated parties is carried out as the same time as the BoD validation of contracts, such as rental agreements.
B.6. The audit committee must evaluate the effectiveness of the internal control system and the risk management system.		Partially compliant	The analysis of the effectiveness of the internal control system and the risk management system is also carried out within the Board of Directors, as long as no audit committee is being established. The objectives assigned to the internal auditor also include matters related to the effectiveness of internal control and risk management measures.
B.7. The audit committee must monitor the enactment of generally accepted legal standards and internal audit standards. The audit committee must receive and evaluate the reports of the internal audit team.		Partially compliant	The Board of Directors receives and evaluates internal audit reports and monitors the enactment of and compliance with generally accepted standards.
B.8. Anytime the Code mentions reports or analyses initiated by the Audit Committee, these must be followed by periodical (at least annually) or immediate reports which must be subsequently forwarded to the Board.		Partially compliant	In the absence of an audit committee, there is no stage for periodical reporting of the audit committee to the Board of Directors. Debates are held directly within meetings of the Board of Directors.
B.9. No shareholder may receive preferential treatment compared to other shareholders with regard to transactions and agreements concluded by the Company with the shareholders and their affiliates.	Compliant		
B.10. The Board must adopt a policy by which to ensure that any company transaction with any of the companies with which it has close ties, the value of which is equal to or greater than 5% of the Company's net assets (according to the latest financial report) is approved by the Board following a mandatory opinion of the Board's audit committee, accurately disclosed to shareholders and potential investors, to the extent that such transactions fall into the category of events subject to reporting requirements.		Partially compliant	The Company has not adopted such policy or a 5% threshold, but it does enact both the legal requirements to report transactions greater than EUR 50,000 concluded with persons closely tied to the Company, and the statutory requirements for rental agreements to be analyzed and approved by the BoD. In the absence of an audit committee, the Board of Directors are free to form their own opinion and decide accordingly. It is not necessary to have a distinct policy for disclosure of the above-mentioned transactions because the legal EUR 50,000 threshold is stricter than the CGC criterion of 5% of the Company's net assets.
B.11. Internal audits must be conducted by a structurally separate division (the internal audit department) within the Company by hiring an independent third party.	Compliant		
B.12. In order to ensure the fulfillment of			

Annex to the Statement of Corporate Governance

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
<p>the main functions of the internal audit department, it must functionally report to the Board by means of the audit committee. For administrative purposes and within the management's obligations to monitor and decrease risks, it must report directly to the Managing Director.</p>	Compliant		
<p>C.1. The Company must publish on its website the remuneration policy and include in the annual report a statement on the implementation of the remuneration policy during the annual period subject to analysis. The remuneration policy must be expressed so that it allows the shareholders to understand the principles and arguments underlying the remuneration of the members of the Board and of the Managing Director, as well as the Management members in the dual system. It must describe the method of leading the process and of making decisions regarding remuneration, detail the elements of the remuneration of the executive management (such as salaries, annual bonuses, long-term incentives related to the value of shares, benefits in kind, pensions and others) and describe the purpose, principles and presumptions underlying each element (including the general performance criteria related to any form of variable remuneration). Moreover, the remuneration policy must indicate the duration of the executive manager's contract and the notice period mentioned in the contract, as well as the potential compensation for wrongful dismissal. The report regarding remuneration must present the implementation of the remuneration policy for persons identified in the remuneration policy during the annual period subject to analysis. Any essential change having occurred in the remuneration policy must be promptly published on the Company's website.</p>		Partially compliant	<p>The Company has not adopted or published on its website a remuneration policy but the notes to the annual financial statements contain information on the remuneration of directors and managers for the analyzed period. The Company's articles of incorporation provides for general limits for profit participation on the part of employees and directors, or directors and managers, taking into consideration the achieved profit criterion, that is, depending on exceeding the budgeted profit.</p>
<p>D.1. The Company must organize an Investor Relations service – thereby indicating to the public the person/persons in charge or the organizational unit. Aside from the information required by legal provisions, the Company must include on its website a section dedicated to Investor Relations, in Romanian and English, containing all relevant information that may be of interest to investors, including: D.1.1. Main corporate regulations: articles of incorporation, procedures concerning general meetings of shareholders;</p> <p>D.1.2. Professional resumes of the members of the Company's management bodies, other professional commitments of the Board members, including executive and non-executive positions in boards of directors in companies or not-for-profit institutions;</p> <p>D.1.3. Current reports and periodical (quarterly,</p>	Compliant		

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Annex to the Statement of Corporate Governance

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
<p>semester and annual) reports – at least those set forth under item D.8 – including current reports containing detailed information regarding non-compliance with this Code;</p> <p>D.1.4. Information regarding general meetings of shareholders: agenda and information materials; procedure for election of Board members; arguments backing candidate proposals for Board election, along with their professional resumes; shareholders’ questions with regard to items on the agenda and company’s answers, including resolutions adopted;</p> <p>D.1.5. Information on corporate events, such as payment of dividends and other distributions to shareholders, or other events leading up to the acquirement or limitation of a shareholder’s rights, including deadlines and principles applied to such operations. The respective information will be published soon enough so as to allow investors to make investment decisions;</p> <p>D.1.6. The name and contact details of a person who is able to provide relevant information upon request;</p> <p>D.1.7. Company’s presentations (for instance, presentations for investors, presentations on quarterly results, etc.), financial statements (quarterly, semester, annual), audit reports and annual reports.</p>			
<p>D.2. The Company will have a policy on the annual distribution of dividends or other benefits to the shareholders, proposed by the Managing Director or by the Management and adopted by the Board, in the form of a set of guidelines which the Company intends to follow with regard to net profit distribution. The principles of the annual policy of distribution to shareholders will be published on the Company’s website.</p>		Partially compliant	The Company has not adopted and has not published on its own website a policy on the annual distribution of dividends. However, through the resolutions adopted in recent years, the Company has proven consistency and predictability in the allotment of dividends when the Company’s profit allowed for it.
<p>D.3. The Company will adopt a policy on forecasts, regardless of whether they are made public or not. The forecasts refer to quantified conclusions of surveys aiming at establishing the global impact of a number of factors concerning a future period (the so-called hypotheses): by its nature, this projection is highly uncertain, and the actual results may differ significantly from the initially presented forecasts. The policy on forecasts will establish the frequency, the envisioned period and the content of the forecasts. If published, the forecasts may be included only in the annual, semester or quarterly reports. The policy on forecasts will be published on the Company’s website.</p>		Partially compliant	The Company has not adopted a policy on forecasts to establish the frequency, period and content thereof, whether to be made public or not. Forecasts with a certain level of uncertainty are included each time in the annual reports of directors.
<p>D.4. The rules of the general meetings of shareholders must not limit the shareholders’ participation in the general meetings and the exercise of their rights. Amendments to the rules will come into force, at the earliest, starting from the following meeting of shareholders.</p>	Compliant		

Annex to the Statement of Corporate Governance

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
D.5. The external auditors will be present in the general meeting of shareholders when their reports are presented within such meetings.	Compliant		
D.6. The Board will present to the annual general meeting of shareholder a short assessment of the internal control systems and significant risk management systems, as well as opinions on certain matters subject to the decision of the general meeting.	Compliant		
D.7. Any financial specialist, consultant, expert or analyst may attend the meeting of the shareholders based on a prior invitation by the Board. Accredited journalists may also attend the general meeting of shareholders, unless the Chairman of the Board decides otherwise.		Non-compliant	The Company's bylaws do not provide for the participation in the GMS, as invited parties, of analysts, accredited journalists, experts, consultants, specialists. On a regular basis, aside from shareholders, the GMS is attended by directors, managers, auditors and other guests only when their presence is justified by the agendas containing reports or analyses drawn up by them.
D.8. The quarterly and semester financial reports will include information both in Romanian and in English with regard to the key factors influencing changes in the level of sales, operational profit, net profit and other relevant financial indices, both from one quarter to another, and from one year to another.		Partially compliant	The requirements are met, noting that the information are presented only compared to the similar period of the previous year, not from one quarter to another.
D.9. A company will organize at least two meetings/teleconferences with the analysis and investors every year. The information presented on such occasions will be published under the section "investor relations" on the Company's website on the date of the meetings/teleconferences.	Compliant		
D.10. If a company supports various forms of artistic and cultural expression, sporting activities, educational or scientific activities and considers that the impact thereof on the Company's innovative nature and competitiveness are part of its development mission and strategy, it will publish the policy on its activity in such area.		Partially compliant	The Company has not adopted and has not published a policy on supporting forms of artistic and cultural expression, sporting activities, educational or scientific activities. However, the numerous actions for support of the above-mentioned areas have been accompanied by press releases and have been promoted on the Company's website.

ELECTROMAGNETICA SA
SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE 12-MONTH PERIOD ENDED DECEMBER 31, 2016
(all amounts are expressed in RON, unless otherwise specified)

	Note	12-month period ended December 31, 2016	12-month period ended December 31, 2015
			Restated
Revenues	20	234,188,009	383,043,940
Investment income	20	4,019,247	578,619
Other net income	20	4,906,997	3,689,649
Changes in inventories of finished goods and work in progress	20	15,924,804	10,608,484
Own work capitalized	20	1,246,195	1,742,457
Raw materials and consumables used	21	(169,435,104)	(313,927,054)
Employee-related expenses	21	(34,094,959)	(32,562,136)
Expenses related to depreciation and impairment	21	(16,631,162)	(16,332,565)
Other expenses	21	(34,250,873)	(57,949,011)
Financial expenses	22	(638,941)	(916,105)
Profit/(Loss) before tax		5,234,213	(22,023,724)
Income tax	23	(906,366)	1,114,261
Profit/(Loss) of the period		4,327,847	(20,909,463)
Other comprehensive income			
of which:			
other comprehensive income that cannot be reclassified to profit or loss, of which:			
- revaluation surplus for tangible assets		81,594,328	21,095,837
- deferred tax recognized in equity	23	(13,501,713)	(3,375,334)
-use of inflation adjustment to cover losses		22,716,628	-
- use of inflation adjustment to cover losses		(22,716,628)	-
Restatement of deferred tax for revaluation of assets written off		70,951	84,709
Comprehensive income for the period		72,491,413	(3,104,251)
Basic diluted earnings per share		0,0064	(0,0309)

These separate financial statements were approved for issuance by the management as at March 21, 2017.

Eugen Scheuşan
Managing Director

Ilie Frăsineanu
Economic Manager

ELECTROMAGNETICA SA
SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE 12-MONTH PERIOD ENDED DECEMBER 31, 2016
(all amounts are expressed in RON, unless otherwise specified)

	<u>Note</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
			Restated
ASSETS			
Non-current assets			
Property, plant and equipment	4	292,544,407	223,148,468
Investment property	5	4,631,885	947,183
Intangible assets	6	1,635,414	1,378,057
Investments in related entities	7	3,967,606	3,967,606
Other long-term non-current assets	8	16,994,518	5,687,074
Total non-current assets		319,773,830	235,128,388
Current assets			
Inventories	9	17,407,304	13,497,381
Trade receivables	10	33,977,526	51,013,493
Cash and cash equivalents	13	17,822,290	13,890,488
Financial assets at fair value through profit or loss	12	-	467,080
Other current assets	11	3,173,001	2,086,192
Current tax assets	23	-	780,927
Total current assets		72,380,121	81,735,561
Total assets		392,153,952	316,863,949
EQUITY AND LIABILITIES			
Equity			
Share capital	14	67,603,870	67,603,870
Reserves and other equity	15	180,407,837	135,410,376
Retained earnings	16	82,540,235	55,046,581
Total equity attributable to company's shareholders		330,551,942	258,060,827
Non-current liabilities			
Trade payables and other liabilities	19	2,783,769	2,956,025
Investment subsidies	17	4,899,962	5,063,180
Deferred tax liabilities	23	17,242,351	3,941,339
Total non-current liabilities		24,926,082	11,960,544
Current liabilities			
Trade payables and other liabilities	19	34,424,384	34,508,314
Investment subsidies	17	163,219	163,219
Provisions	18	1,833,135	12,171,045
Current income tax liabilities		255,189	-
Total current liabilities		36,675,928	46,842,578
Total liabilities		61,602,009	58,803,122
Total equity and liabilities		392,153,952	316,863,949

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Managing Director

Ilie Frăşineanu
Economic Manager

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

ELECTROMAGNETICA SA
SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE 12-MONTH PERIOD ENDED DECEMBER 31, 2016
(all amounts are expressed in RON, unless otherwise specified)

	Note	12-month period ended December 31, 2016	12-month period ended December 31, 2015
Cash flows from operating activities			
Cash receipts from customers		264,847,021	442,520,423
Payments to suppliers		(201,377,106)	(365,328,037)
Payments to employees		(32,364,619)	(31,032,168)
Other operating activities		(25,256,681)	(55,720,114)
Cash generated by/ (used in) operating activities		5,848,615	(9,559,896)
Interest paid		(72,757)	(98,579)
Net cash used in operating activities		5,775,858	(9,658,475)
Cash flows from investing activities			
Acquisition of property, plant and equipment		(2,232,295)	(2,322,774)
Proceeds from sale of non-current-assets		33,155	83,807
Interest received		18,206	54,277
Dividends received		375,975	465,493
Net cash used in investing activities		(1,804,959)	(1,719,197)
Cash flows from financing activities			
Proceeds from loans		68,918,650	123,804,974
Cash repayments of amounts borrowed		(68,918,650)	(123,804,974)
Dividends paid		(39,098)	(2,958,128)
Net cash used in financing activities		(39,098)	(2,958,128)
Net increase/decrease of cash and cash equivalents		3,931,802	(14,335,800)
Cash and cash equivalents at beginning of period	13	13,890,488	28,226,288
Cash and cash equivalents at end of period	13	17,822,290	13,890,488

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Eugen Scheuşan
Managing Director

Ilie Frăsineanu
Economic Manager

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ELECTROMAGNETICA SA
SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE 12-MONTH PERIOD ENDED DECEMBER 31, 2016
(all amounts are expressed in RON, unless otherwise specified)

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Tangible assets revaluation reserve</u>	<u>Other reserves</u>	<u>Legal reserve</u>	<u>Other equity items</u>	<u>Total equity</u>
Balance as at January 1, 2015	67,603,870	10,457,093	77,333,251	52,809,458	56,849,081	(1,126,674)	263,926,079
Transfer of revaluation reserve to retained earnings further to transition to IFRS in 2012	-	72,040,578	(72,040,578)	-	-	-	-
Balance as at January 1, 2015 - restated	67,603,870	82,497,671	5,292,673	52,809,458	56,849,081	(1,126,674)	263,926,079
Comprehensive income for the period	-	(20,909,463)	-	-	-	-	(20,909,463)
Profit or loss of the period	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-
Transfer of revaluation reserve to retained earnings following the depreciation of revalued tangible assets	-	1,093,881	(1,093,881)	-	-	-	-
Revaluation of tangible assets	-	-	21,095,837	-	-	84,709	21,180,546
Deferred tax recognized to reserves	-	-	-	-	-	(3,375,334)	(3,375,334)
Total comprehensive income for the period	-	(19,815,582)	20,001,956	-	-	(3,290,625)	(3,104,251)
Transactions with shareholders recognized directly in equity	-	-	-	-	-	-	-
Transfer of the retained earnings to reserves	-	(4,874,506)	-	4,503,383	-	371,123	-
Dividends allocated to shareholders	-	(2,704,155)	-	-	-	-	(2,704,155)
Other items	-	(56,847)	-	-	-	-	(56,847)
Balance as at December 31, 2015 (restated)	67,603,870	55,046,581	25,294,629	57,312,841	56,849,081	(4,046,176)	258,060,827

These separate financial statements were approved for issuance by the management as at March 21, 2017.

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Managing Director

Ilie Frăşineanu
Economic Manager

				Legal reserve			Total equity

The accompanying notes form an integral part of these separate financial statements
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ELECTROMAGNETICA SA
SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE 12-MONTH PERIOD ENDED DECEMBER 31, 2016
(all amounts are expressed in RON, unless otherwise specified)

	Share capital	Retained earnings	Tangible assets revaluation reserve	Other reserves		Other equity items	
Balance as at January 1, 2016 restated	67,603,870	55,046,581	25,294,629	57,312,841	56,849,081	(4,046,176)	258,060,827
Comprehensive income for the period			-		-	-	-
Profit or loss of the period	-	4,327,847	-	-	-	-	4,327,847
Other comprehensive income							
Net surplus from revaluation of fixed assets	-	-	81,594,328	-	-	-	81,594,328
Legal reserve	-	-	-	(268,198)	268,198	-	-
Deferred tax from revaluation	-	-	-	-	-	(13,501,713)	(13,501,713)
Transfer of revaluation reserve to retained earnings following the depreciation of revalued tangible assets	-	449,478	(449,478)	-	-	-	-
Restatement of deferred tax for revaluation of assets written off	-	-	-	-	-	70,951	70,951
Transfer of inflation adjustment to retained earnings	-	22,716,628	-	-	(22,716,628)	-	-
Total comprehensive income for the period	-	27,493,953	81,144,850	(268,198)	(22,448,430)	(13,430,762)	72,491,413
Transactions with shareholders, directly registered to equity							
Other items	-	(299)	-	-	-	-	(299)
Balance as at December 31, 2016	67,603,870	82,540,235	106,439,479	57,044,643	34,400,651	(17,476,938)	330,551,942

The legal reserve decreased in 2016 as a result of covering the accounting loss recorded in 2015 by the adjustment of the legal reserve calculated according to IAS 29 following the transition to IFRS (Note 15).

These separate financial statements were approved for issuance by the management as at March 21, 2017.

Eugen Scheuşan
Managing Director

Ilie Frăsineanu
Economic Manager

The accompanying notes form an integral part of these separate financial statements
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ELECTROMAGNETICA SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2016
(all amounts are expressed in RON, unless otherwise specified)

1. GENERAL INFORMATION

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

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

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

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

The Company is headquartered in Calea Rahovei nr. 266-268 sector 5 Bucharest.

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

	Jan – Dec 2016	Jan – Dec 2015
- minimum price	0,1330	0,1850
- maximum price	0,1900	0,2599
- average price	0,1474	0,2118

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

	Jan – Dec 2016	Jan – Dec 2015
Average number of employees	583	615

These financial statements are compliant with IAS 27 – Separate financial statements prepared as at December 31, 2016 and for the periods presented. The Company also prepares consolidated financial statements as it has investments in subsidiaries.

The details of the Company's investments in subsidiaries December 31, 2016 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 on the object of activity and the general presentation of subsidiaries is found in Note 25.

ELECTROMAGNETICA SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2016
(all amounts are expressed in RON, unless otherwise specified)

2 APPLICATION OF THE NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** - Investment Entities: Applying the Consolidation Exception - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 11 "Joint Arrangements"** - Accounting for Acquisitions of Interests in Joint Operations - adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Disclosure Initiative - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** - Clarification of Acceptable Methods of Depreciation and Amortization - adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** - Bearer Plants - adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 19 "Employee Benefits"** - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- **Amendments to IAS 27 "Separate Financial Statements"** - Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- **Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)"** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards has not led to any material changes in the Company's financial statements.

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

At the date of authorization of these financial statements, the following new standards and amendments to standards issued by IASB and adopted by the EU are not yet effective:

- **IFRS 9 "Financial Instruments"** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018)
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

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

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

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

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IAS 7 "Statement of Cash Flows"** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 "Income Taxes"** - Recognition of Deferred Tax Assets for Unrealized Losses (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).

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

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

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

According to the Company's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements, if applied as at the balance sheet date.

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

- **IFRS 9 "Financial Instruments"** issued on 24 July 2014 is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

Classification and Measurement - IFRS 9 introduces new approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements under IAS 39. The new model also results in a single impairment model being applied to all financial instruments.

Impairment - IFRS 9 has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected losses on a more timely basis.

Hedge accounting - IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities.

Own credit - IFRS 9 removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss.

- **IFRS 15 "Revenue from Contracts with Customers"** issued by IASB on 28 May 2014 (on 11 September 2015 IASB deferred effective date of IFRS 15 to 1 January 2018 and on 12 April 2016 IASB made clarifications to this standard). IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.
- **IFRS 16 "Leases"** issued by IASB on 13 January 2016. Under IFRS 16 a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. As with IFRS 16's predecessor, IAS 17, lessors classify leases as operating or finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. For finance leases a lessor recognizes finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognizes operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.

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

- **Amendments to IFRS 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions** issued by IASB on 20 June 2016. The amendments provide requirements on the accounting for: (a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (b) share-based payment transactions with a net settlement feature for withholding tax obligations; and (c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.
- **Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts** issued by IASB on 12 September 2016. The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the replacement standard that the Board is developing for IFRS 4.
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** issued by IASB on 11 September 2014 (on 17 December 2015 IASB deferred indefinitely effective date). The amendments address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business.
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" - Investment Entities: Applying the Consolidation Exception** issued by IASB on 18 December 2014. The narrow-scope amendments to IFRS 10, IFRS 12 and IAS 28 introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances.
- **Amendments to IFRS 11 "Joint Arrangements" - Accounting for Acquisitions of Interests in Joint Operations** issued by IASB on 6 May 2014. The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.
- **Amendments to IAS 1 "Presentation of Financial Statements" - Disclosure Initiative** issued by IASB on 18 December 2014. The amendments to IAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.
- **Amendments to IAS 7 "Statement of Cash Flows" - Disclosure Initiative** issued by IASB on 29 January 2016. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.
- **Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealized Losses** issued by IASB on 19 January 2016. The amendments to IAS 12 clarify how to account for deferred tax assets related to debt instruments measured at fair value.
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" - Clarification of Acceptable Methods of Depreciation and Amortization** issued by IASB on 12 May 2014. Amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. Amendments also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

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- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" - Agriculture: Bearer Plants** issued by IASB on 30 June 2014. The amendments bring bearer plants, which are used solely to grow produce, into the scope of IAS 16 so that they are accounted for in the same way as property, plant and equipment.
- **Amendments to IAS 19 "Employee Benefits" - Defined Benefit Plans: Employee Contributions** issued by IASB on 21 November 2013. The narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.
- **Amendments to IAS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements** issued by IASB on 12 August 2014. The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.
- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property issued by IASB on 8 December 2016. The amendments state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. Amendments also state that the list of evidence in paragraph 57 was designated as non-exhaustive list of examples instead of the previous exhaustive list.
- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** issued by IASB on 12 December 2013. Amendments to various standards resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording. The most important changes include new or revised requirements regarding: (i) definition of 'vesting condition'; (ii) accounting for contingent consideration in a business combination; (iii) aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets; (iv) measuring short-term receivables and payables; (v) proportionate restatement of accumulated depreciation application in revaluation method and (vi) clarification on key management personnel.
- **Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)"** issued by IASB on 25 September 2014. Amendments to various standards resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording. Changes include new or revised requirements regarding: (i) changes in methods of disposal; (ii) servicing contracts; (iii) applicability of the amendments to IFRS 7 to condensed interim financial statements; (iv) discount rate: regional market issue; (v) disclosure of information 'elsewhere in the interim financial report'.
- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** issued by IASB on 8 December 2016. Amendments to various standards resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording. Changes include: (i) deletion of the short-term exemptions in paragraphs E3-E7 of IFRS 1, because they have now served their intended purpose, (ii) clarification of the scope of the IFRS 12 by specifying that the disclosure requirements in IFRS 12, except for those in paragraphs B10-B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", (iii) clarification of the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** issued by IASB on 8 December 2016. Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

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3 SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Functional and presentation currency

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

Basis of preparation

The separate financial statements were prepared at historical cost, except for certain financial instruments that are measured at fair value, as explained in the accounting policies. The historical cost is generally based on the fair value of the consideration in exchange of the assets. Property, plant and equipment are presented at revaluation amount (IAS 16) and investment property are presented at fair value (IAS 40).

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

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

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

Comparatives

Certain amounts in the statement of financial position, the statement of profit or loss and other elements of comprehensive income, the statement of cash flows and the statement of changes in equity were reclassified to comply with the presentation of the current year.

Foreign currency

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency (continued)

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

	Exchange rate as at December 31, 2016	Exchange rate as at December 31, 2015
EUR	4.5411	4.5245
USD	4.3033	4.1477

Use of estimates and professional judgement

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

Estimates and judgements are periodically reviewed. The reviews of accounting estimates are recognized in the period in which the estimate is reviewed, if the review affects only that period, or in the current and future periods, if the review affects both the current period and future periods. The effect of the modifications pertaining to the current period is recognized as revenue or expense in the current period. The effect on the future periods, if any, is recognized as revenue or expense in the corresponding future periods.

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

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

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

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

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2016 and presented in section 2.

Fair value

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

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

Intangible assets

Initial measurement

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

Measurement subsequent to initial recognition

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

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

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Initial measurement

Tangible assets are initially recognized at acquisition cost or production cost.

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

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

Measurement subsequent to initial recognition

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

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

The fair value of land and buildings is generally market-based, through a valuation made by professional and qualified valuers.

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

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

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

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

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

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

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

The depreciation of an asset ends at the earliest of the date when the asset is classified as held for sale (or included in a group intended for disposal and classified as held for sale), according to IFRS 5, and the date when the asset is derecognized. Therefore, depreciation does not end when the asset is idle, except when the asset is completely depreciated.

Land and buildings are separable assets and are carried separately even when they are acquired together.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Land is not depreciated.

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

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

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

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

Tangible assets	Duration (years)
Buildings	20 - 60
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 should be directly transferred each month to retained earnings as it is depreciated, if the asset is used, and upon derecognition, when the asset is disposed of or scrapped.

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

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

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

If items of tangible assets that were held for rental to others are sold repeatedly, these assets are transferred to inventories at the carrying amount of the date when they cease to be rented and become held for sale. The proceeds from the sale of these assets are recognized as revenue in accordance with IAS 18 – Revenue.

Maintenance and capital repairs

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

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment property

Initial measurement

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

Measurement after recognition

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

Financial assets

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

According to **IAS 27 - Separate Financial Statements**, when the parent company prepares separate financial statements, the investments in subsidiaries, the joint ventures and the associated entities are accounted for either:

a) at cost

b) according to IAS 39 - Financial Instruments: Recognition and Measurement (as IFRS 9 - Financial Instruments, although published, is not yet applied)

The Company should apply the same accounting method for each category of investments.

The Company measures its investments in subsidiaries at cost. The Company does not have any investment in joint ventures or associated entities.

According to IAS 39, financial assets are classified in four categories

- financial assets at fair value through profit or loss – the financial assets held for trading;
- loans and receivables - non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:
 - those intended by the entity to be sold immediately or within a short period (which should be classified as held for trading) and those designated by the entity on initial recognition as assets at fair value through profit or loss;
 - those designated by the entity on initial recognition as available-for-sale; or
 - those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration (which should be classified as available for sale).
- held-to-maturity investments – non-derivative financial assets with fixed or determinable payments and fixed maturity that the entity firmly intends and is able to hold to maturity.
- available-for-sale financial assets – any financial assets not classified in one of the above categories.

According to **IAS 39 - Financial Instruments**, the Company classifies the financial assets held as financial assets at fair value through profit or loss and classifies in this category the shares acquired for the purpose of trading, BVB portfolio. Short-term securities (shares and other financial investments) admitted to trading on a regulated market are measured at the quoted value on the last trading day.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in related parties

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

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

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

Interest on loans

The interest on the loans directly attributable to the purchase, construction or manufacture of an asset with long production cycle are capitalized until the asset is prepared for its predetermined use or sale. All the other costs related to loans are recognized as expenses in the profit and loss account for the period of their occurrence. Interest expenses are recorded using the effective interest rate method. In the years ended December 31, 2016 and December 31, 2015 the Company did not capitalize interest expenses in the assets' value.

Government grants

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

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

Inventories

According to IAS 2 - Inventories, these assets are:

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

Inventories are stated at the lower of cost and net realizable value. The net realizable value is estimated based on the selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale. For inventories without moving or slow moving ones and finished goods adjustments are made based on the management's estimates. The set-up and reversal of allowances for inventories impairment is made in the profit and loss account.

The Company uses the First-in-First-out (FIFO) method to determine the inventory outflow cost of supplied materials.

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.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Receivables and other similar assets

Receivables and other similar assets are stated at amortized cost less impairments.

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

Cash and cash equivalents

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

Liabilities

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

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

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

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

- a) it is expected to be settled in the ordinary course of the Company's operating cycle; or
- b) it is primarily held for trading;
- c) it is due to be settled within 12 months after the balance sheet date;
- 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**.

Financial liabilities are presented at amortized cost. Deferred income classified as non-current liabilities are discounted using the effective interest rate method. The discount rate used to this effect is the rate determined according to the company's own procedures.

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 for the reporting period are recorded in the following year as retained earnings, to be carried as dividends payable following the approval of this destination by the general meeting of shareholders.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Current income tax

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

Deferred tax

The deferred tax is created by 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 tax authority.

Revenue recognition

Revenues are measured according to IAS 18 – Revenue, at the fair value of the consideration received or receivable. Revenue is written down accordingly by the estimated value of the goods returned by customers, discounts and other similar items.

Sale of goods

Revenue arising from the sale of is recognized when all of the following criteria have been satisfied:

- the Company has transferred to the buyers the significant risks and rewards of ownership;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from the current activities is recognized when it is probable that any future economic benefits will flow to the Company and the amount of these benefits can be reliably measured.

The amount of the revenue deriving from a transaction is usually determined by the agreement of the entity and the buyer or user of the asset. Revenue is measured at the fair value of the consideration received or receivable, considering the value of any commercial discounts and quantity rebates granted.

The consideration consists of cash or cash equivalents and the amount of the revenue is the amount of the cash or cash equivalent received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration can be inferior to the nominal amount of the cash received or receivable.

This is also the case of supply contracts with supplier credit facility if the Company can offer to the buyer an interest-free credit or can accept from the latter trade instruments with a below-market rate of interest as consideration for the sale of goods.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Sales of goods (continued)

For the commercial contracts concluded as deferred payment supplier, the difference between the fair value and the nominal amount of the consideration is recognized as **interest income**. The fair value of the consideration is determined by discounting all the amounts receivable in the future using an implicit interest rate.

The Company chose to use the interest rate determined under an internal procedure (based on interest rates used in the Romanian banking system) to discount the amounts receivable in the future.

Provision of services

When the result of a transaction that involves the rendering of service can be estimated reliably, the revenue associated to the transaction must be recognized depending on the transaction stage of completion at the closing date of the reporting period. The result of a transaction can be reliably estimated when all the conditions below are met:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the transaction stage of completion at the balance sheet date can be measured reliably;
- the costs incurred, or to be incurred, in respect of the transaction can be measured reliably.

The Company uses the "percentage of completion method" to recognize the revenue depending on the transaction stage of completion. According to this method, revenue is recognized in the accounting periods of the rendering of services. The recognition of revenue on this base provides useful information on the shares of the rendering of services and its results during a period.

The revenue is recognized only when it is probable that the economic benefits associated with the transaction will flow to the entity. When the collectability of an amount already accounted for as revenue is uncertain, the amount that can no longer be collected or the amount the collection of which ceased to be probable is recognized as an expense (provision for receivables) rather than an adjustment of the initially recognized revenue amount.

When the result of a transaction that involves the rendering of services cannot be reliably estimated, the revenue must be recognized only to the extent of the expenses recognized that are recoverable.

Rental income is recognized on a straight-line basis in the profit and loss account over the duration of the rental agreement.

Dividends and interest

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

Provisions are recognized for present obligations to third parties when it is probable that the obligation will be settled and the settlement amount can be estimated reliably. Provisions for individual obligations are settled at an amount equal to the best estimate of the amount necessary to settle the obligation.

Provisions are grouped by categories and are recognized for:

- a) lawsuits;
- b) guarantees to customers;
- c) dismantling of tangible assets and other similar actions related 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.

Restructuring provisions

The implicit restructuring obligation occurs where an entity:

- has in place an official detailed restructuring plan that presents: the activity or part of activity it refers to, the main locations affected, the location, position and approximate number of employees to receive compensation for the termination of their activity, the expenses involved, the date of implementation of the restructuring plan.
- has generated the reasonable expectation of the affected parties that the restructuring will be performed by starting the implementation of the restructuring plan or the communication of its main features to those affected by the restructuring process

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

Provisions for employee benefits are recorded during the financial year for annual leaves not taken or other long-term employee benefits (if provided for in the labor contract). Upon their recognition as due to employees, the amount of provisions will be carried in the corresponding revenue accounts.

Other provisions

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

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

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

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

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

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

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

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

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

Profit or loss of the year

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

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

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

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

Earnings per share

IAS 33 - Earnings per Share stipulates that the entities which present both the consolidated financial statements and the separate financial statements are required to present the earnings per share only on the basis of consolidated information. If the entity chooses to present the earnings per share based on its separate financial statements, it is required to present the information about the earnings per share only in the statement of comprehensive income.

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Earnings per share (continued)

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

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

Segment reporting

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

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

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

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

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

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

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4. PROPERTY, PLANT AND EQUIPMENT

Cost	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
As at December 31, 2015	118,365,248	77,728,446	35,380,852	4,809,678	1,694,592	237,978,816
Inflows of which: from revaluation	25,866,238 25,866,238	57,215,602 56,828,512	4,658,322 1,307,002	1,059,528 40,061 (3,398,939)	1,580,504 -	90,380,194 84,041,813
Outflows of which: from the determination of the net amount for revaluation revaluation decrease	(591,758) (591,758) -	(14,058,969) (6,415,490) (7,643,616)	(12,329,553) (10,779,298) (1,042,862)) (2,847,002) -	(1,833,935) - -	(32,312,153) (20,633,548) (8,686,478)
As at December 31, 2016	143,639,728	120,885,080	27,709,621	2,470,267	1,441,161	296,145,856
Accumulated depreciation	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
As at December 31, 2015	251,379	3,198,018	8,987,374	2,295,210	-	14,731,981
Depreciation for the year	25,834	3,217,472	4,980,372	687,581	-	8,911,258
Accumulated depreciation for outflows of which: from the determination of the net amount for revaluation	- - -	(6,415,490) (6,415,490)	(10,779,298) -	(2,847,002)) -	- - -	(20,041,790) (6,415,490)
As at December 31, 2016	277,213	-	3,188,448	135,789	-	3,601,449

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4. PROPERTY, PLANT AND EQUIPMENT (continued)

	<u>Land and land improvement</u>	<u>Buildings</u>	<u>Plant and machinery</u>	<u>Other tangible assets</u>	<u>Tangible assets in progress</u>	<u>Total</u>
Impairment allowances						
As at December 31, 2015	-	-	-	-	98,367	98,367
Allowances for impairment recognized in profit or loss	-	-	-	-	-	-
Reversal of allowances for impairment recognized in profit or loss	-	-	-	-	(98,367)	(98,367)
As at December 31, 2016	-	-	-	-	-	-
Net book value						
As at December 31, 2015	118,113,869	74,530,428	26,258,419	2,649,527	1,596,225	223,148,468
As at December 31, 2016	143,362,515	120,885,080	24,521,173	2,334,478	1,441,161	292,544,407

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4 PROPERTY, PLANT AND EQUIPMENT (continued)

Cost	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
As at December 31, 2014	102,739,779	77,152,467	31,586,690	4,073,154	1,848,439	217,400,529
Inflows of which:	21,709,106	587,084	4,084,935	920,009	2,293,976	29,595,110
from revaluation	21,709,106	-	-	-	-	21,709,106
Outflows of which:	(6,083,637)	(11,105)	(425,832)	(48,426)	(2,447,823)	(9,016,823)
from the determination of the net amount for revaluation	-	-	-	-	-	-
revaluation decrease	(5,490,996)	-	-	-	-	(5,490,996)
As at December 31, 2015	118,365,248	77,728,446	35,245,793	4,944,737	1,694,592	237,978,816
Accumulated depreciation	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
As at December 31, 2014	225,545	-	4,521,326	1,277,621	-	6,024,492
Depreciation for the year	25,834	3,200,597	4,516,302	1,023,964	-	8,766,697
Accumulated depreciation for outflows of which:	-	(2,579)	(50,254)	(6,375)	-	(59,208)
from the determination of the net amount for revaluation	-	-	-	-	-	-
As at December 31, 2015	251,379	3,198,018	8,987,374	2,295,210	-	14,731,981

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4 PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
Impairment allowances						
As at December 31, 2014	1,077,197	-	-	-	-	1,077,197
Allowances for impairment recognized in profit or loss	-	-	-	-	98,367	98,367
Reversal of allowances for impairment recognized in profit or loss	(1,077,197)	-	-	-	-	(1,077,197)
La December 31, 2015	-	-	-	-	98,367	98,367
Net book value						
As at December 31, 2014	101,437,037	77,152,467	27,065,364	2,795,533	1,848,439	210,298,840
As at December 31, 2015	118,113,868	74,530,428	26,258,419	2,649,528	1,596,225	223,148,468

At December 31, 2016, property, plant and equipment increased by 31% compared to December 31, 2015, which is mainly due to the reevaluation of assets in Group 1 Buildings and Groups 2-3 Machinery, equipment less SDVs. The revaluation of property, plant and equipment as at December 31, 2016 generated a value increase recognized in reserves, in amount of RON 81,571,124 and a decrease recognized in the separate statement of comprehensive income in amount of RON 6,676,511. The revaluations were performed by ANEVAR authorized companies.

The inflows of tangible assets consist of modernization of the company's premises and purchases of plant and machinery. The outflows of tangible assets consist in decreases of value after reevaluation and disposals.

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4 PROPERTY, PLANT AND EQUIPMENT (continued)

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

Name of asset	Net book value as at December 31, 2016	Net book value as at December 31, 2015
Land com. Domnesti, Ilfov County = 67.713,56 m2	12,299,569	13,491,154
Land com. Moara Vlasiei, Ilfov County = 70.469 m2	7,680,362	8,608,599
Land str. Mitropolit Filaret 35-37 sect. 4 Bucharest = 1.595 m2	3,621,527	2,388,687
Land str. Veseliei nr. 19 sect. 5 Bucharest =16.095 m2	11,694,241	11,797,136
Real estate (cadastral parcels no.13,15,16) Calea Rahovei 266-268 Sector 5 Bucharest	40,004,085	14,919,711

The tangible assets also include assets acquired by Government grant and used in licensed activity in one of the small hydropower plants located in Brodina, Suceava County. The net carrying amount of the investment at December 31, 2016 is RON 14,050,717, of which RON 5,063,181 represents grant. For 2015, the net carrying amount of the investment at December 31, 2015 was RON 16,427,078 of which RON 5,226,399 represents grant.

5 INVESTMENT PROPERTY

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

According to IAS 40, this category of property is recognized as investment property. The Company selected the fair value model for the presentation of investment property in its financial statements. The fair value revaluation as at December 31, 2016 was performed by an ANEVAR authorized company who used the income approach (discounted cash flow method)

As at December 31, 2016 the investment property is structured as follows:

	2016	2015
Opening balance	947,183	907,248
Inflows, of which:		
fair value valuation	3,739,958	39,935
Outflows, of which:		
fair value valuation	(55,256)	-
	(55,256)	-
Closing balance	4,631,885	947,183

The revenues arising from the investment property in 2016 amounts to RON 1,359,581 and covers the expenses incurred by the owner (2015: RON 1,381,075).

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

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

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6 INTANGIBLE ASSETS

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

In the statement of financial position, they are presented at historical cost, less amortization and impairment.

The increase of intangible assets is mainly due to the renewal of some licenses.

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

Intangible assets as at December 31, 2016 are as follows:

Cost	Concessions patents licenses	Other intangible assets	Intangible assets in progress	Total
As at December 31, 2015	312,132	2,207,292	12,701	2,532,125
Inflows	316,754	121,618	584,633	1,023,005
Outflows	(29,816)	(9,672)	(131,346)	(170,834)
Transfers	-	-	-	-
As at December 31, 2016	599,070	2,319,238	465,988	3,384,296
Accumulated amortization	Concessions patents licenses	Other intangible assets	Intangible assets in progress	Total
As at December 31, 2015	188,241	965,827	-	1,154,068
Amortization for the year	82,973	511,840	-	594,813
Accumulated amortization for outflows	-	-	-	-
As at December 31, 2016	271,214	1,477,667	-	1,748,881
Net book value				
As at December 31, 2015	123,891	1,241,465	12,701	1,378,057
As at December 31, 2016	327,856	841,571	465,988	1,635,414

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6 INTANGIBLE ASSETS (continued)

Cost	Concession s patents licenses	Other intangible assets	Intangible assets in progress	Total
As at December 31, 2014	324,025	2,035,832	128,228	2,488,085
Inflows	73,654	171,460	431,625	676,739
Outflows	(85,547)	-	(547,152)	(632,699)
Transfers	-	-	-	-
As at December 31, 2015	312,132	2,207,292	12,701	2,532,125
Accumulated amortization	Concession s patents licenses	Other intangible assets	Intangible assets in progress	Total
As at December 31, 2014	224,928	444,360	-	669,288
Amortization for the year	48,860	521,467	-	570,327
Accumulated amortization for outflows	(85,547)	-	-	(85,547)
As at December 31, 2015	188,241	965,827	-	1,154,068
Impairment allowances	Concession s patents licenses	Other intangible assets	Intangible assets in progress	Total
As at December 31, 2014	-	90,000	-	90,000
Impairment allowances recognized in profit or loss	-	-	-	-
Reversals of impairment allowances recognized in profit or loss	-	(90,000)	-	(90,000)
As at December 31, 2015	-	-	-	-
Net book value				
As at December 31, 2014	99,097	1,501,472	128,228	1,728,797
As at December 31, 2015	123,891	1,241,465	12,701	1,378,057

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7 INVESTMENTS IN RELATED ENTITIES

As at December 31, 2016, the Company classified its investments in related entities amounting to RON 3,967,606 are stated 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 judgements and considers, among other factors, the duration and the extent to which the investment amount at the reporting date is inferior to its cost; the financial health and the short-term prospects of the related company, the technological changes and operational and financing cash flows.

The details of the Company's investments in subsidiaries as at December 31, 2016 are:

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

These companies will be included in the consolidated financial statements.

8 OTHER NON-CURRENT ASSETS

This category mainly includes the performance guarantees granted to customers, which were classified as non-current according to the respective contracts and the green certificates deferred under GEO no. 57/2013.

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

	December 31, 2016	December 31, 2015
Performance guarantees granted to customers	1,146,339	1,111,417
Deferred green certificates	1,547,641	1,133,486
Trade receivables scheduled on the long-term	14,300,538	3,442,171
Total	16,994,518	5,687,074

The amount of RON 1,547,641 represents the counter value of 11,047 deferred green certificates, of which 3,132 relate to 2016. Such certificates may be traded starting from 2018, and the Company estimates that it may fully use them.

Trade receivables scheduled on the long-term in net value of RON 14,300,538 as at December 31, 2016 have been discounted at present value, and the effect of the discount amounted to RON 855,275. The short-term portion is recognized in trade receivables (Note 10).

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9 INVENTORIES

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Raw materials	8,173,484	6,003,020
Consumables	2,193,526	1,200,689
Finished goods	4,069,542	3,303,782
Work in progress	2,095,608	2,537,295
Other inventories	2,091,371	1,622,675
Allowances for impairment of inventories	<u>(1,216,227)</u>	<u>(1,170,080)</u>
Total	<u>17,407,304</u>	<u>13,497,381</u>

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

The changes in inventory impairments is as follows:

	<u>2016</u>	<u>2015</u>
Balance at the beginning of period	<u>1,170,080</u>	<u>796,636</u>
Increase	<u>234,823</u>	<u>1,436,080</u>
Decrease	<u>(188,676)</u>	<u>(1,062,636)</u>
Balance at the end of period	<u>1,216,227</u>	<u>1,170,080</u>

Allowances recorded in the reporting period are for obsolete or slow moving raw materials and consumables. The Company did not pledge inventories to secure its liabilities.

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.

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Internal trade receivables*	26,388,329	43,017,039
External trade receivables	8,038,254	4,542,562
Estimated trade receivables	1,635,687	4,951,790
Adjustment of internal trade receivables at present value	<u>(479,967)</u>	<u>-</u>
Impairment of trade receivables	<u>(1,604,777)</u>	<u>(1,497,898)</u>
Net trade receivables	<u>33,977,526</u>	<u>51,013,493</u>

* Internal trade receivables include performance guarantees granted to customers with maturity under one year. As at December 31, 2016 they amounted to RON 1,168,053 (December 31, 2015: RON 1,013,604).

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10 TRADE RECEIVABLES (continued)

The sale contracts or services provision contracts concluded with customers under credit facilities have been discounted at present value. The total effect of the discount was RON 1,335,242, of which RON 479,967 due in one year and RON 855,275 due in more than one year (Note 8).

In 2016, sales under a supplier credit facility increased substantially, and receivables due in more than one year grew 4 times compared to the beginning of the year.

The balance of trade receivables from customers as at December 31, 2016 is RON 3,126,627 (December 31, 2015: RON 6,642,971) and represents promissory notes issued by customers in favor of the company under the contracts concluded.

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

	<u>2016</u>	<u>2015</u>
Balance at the beginning of period	<u>1,497,898</u>	<u>1,451,287</u>
Impairment allowance	158,651	59,096
Decreases of impairment allowances	<u>(51,773)</u>	<u>(12,485)</u>
Balance at the end of period	<u>1,604,777</u>	<u>1,497,898</u>

Doubtful accounts or litigating customers are in amount of RON 1,646,498 as at December 31, 2016 (December 31, 2015: RON 1,501,900).

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

The accounts receivable collection period has raised in 2016 to 76 days, compared to 52 days in 2015 because of the increase of sales under a supplier credit facility.

11 OTHER CURRENT ASSETS

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Debtors	173,045	348,635
Prepaid expenses	2,599,624	1,385,572
Debtor suppliers	21,175	41,923
Other assets	<u>379,157</u>	<u>310,062</u>
Total	<u>3,173,001</u>	<u>2,086,192</u>

The accrued expenses of RON 2,599,624 mainly consist of rent paid in advance, insurance premiums for the civil liability of directors and various subscriptions.

Other assets also include the value of the VAT non-chargeable in amount of RON 340,480 (December 31, 2015: RON 135,936).

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12 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In the group of financial assets at fair value through profit or loss the Company includes shares traded at the stock exchange (Level 1 inputs - determining fair value).

	<u>2016</u>	<u>2015</u>
Opening balance	467,080	44,800
Inflows of quoted shares	57,186	1,931,628
Outflows of quoted shares	524,266	1,509,348
Closing balance	-	467,080

13 CASH AND CASH EQUIVALENTS

	<u>December 31, 2016</u>	<u>December 31, 2016</u>
Petty cash	6,901	14,963
Current accounts with banks	17,813,048	13,868,974
Cash equivalents	2,341	6,551
Total	17,822,290	13,890,488

14 SHARE CAPITAL

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

The structure of the shareholders that own over 10% of the share capital as at December 31, 2016 is the following, according to the Central Depository Register:

SHAREHOLDER	December 31, 2016		December 31, 2015	
	No. of shares	%	No. of shares	%
Asociația PAS	200,302,763	29.6288	200,302,763	29.6289
SIF Oltenia SA	171,672,301	25.3939	170,646,321	25.2421
Natural persons	193,778,348	28.6638	195,457,639	28.9122
Legal persons	110,285,292	16.3135	109,631,981	16.2168
Total	676,038,704	100	676,038,704	100

This is no controlling party or joint control over the Company.

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

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15 RESERVES

Legal reserve

	<u>2016</u>	<u>2015</u>
Balance as the beginning of the period	56,849,081	56,849,081
Increases	268,198	-
Reductions	(22,716,628)	-
Balance as the end of the period*	34,400,651	56,849,081

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

The legal reserves decreased by RON 22,716,628 during 2016 as a result of the covering of the accounting loss recorded in 2015 with the allowance for inflation following the application of IAS 29. During the same period this reserve increased following the set-up of the legal reserve (5% of the accounting profit determined under the law).

*The allowance for inflation following the application of IAS 29 to this reserves amounts to RON 24,020,209 at December 31, 2016 (December 31, 2015: 46,736,837).

Revaluation reserves amount to RON 179,093,328 as at December 31, 2016. They increased compared to the balance at the beginning of the year because of the revaluation.

	<u>2016</u>	<u>2015</u>
Balance as the beginning of the period	25,294,629	5,292,673
Increases	81,594,328	21,095,837
Reductions	(449,478)	(1,093,881)
Balance as the end of the period	106,439,479	25,294,629

At December 31, 2016 the Company has **other reserves** amounting to RON 57,312,841 of which reserves for own sources of founding represent 98%.

	<u>2016</u>	<u>2015</u>
Balance as the beginning of the period	57,312,841	52,809,458
Increases	-	4,503,383
Reductions	268,198	-
Balance as the end of the period	57,044,643	57,312,841

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16 RETAINED EARNINGS

As at December 31, 2016 the retained earnings arising from the transfer of reserves from revaluation related to depreciated or decommissioned assets was in amount of RON 449,478.

The loss of the year 2015 in amount of RON 20,909,463 was covered in the year 2016 according to the decision of the general meeting of shareholders of April, 21 2016 from the allowance for inflation according to IAS 29 upon the adoption of IFRS.

17 INVESTMENT SUBSIDIES

	<u>Total</u>	<u>Within one year</u>	<u>In more than one year</u>
Investment subsidies as at December 31, 2016	5,063,181	163,219	4,899,962
	<u>Total</u>	<u>Within one year</u>	<u>In more than one year</u>
Investment subsidies as at December 31, 2015	5,226,399	163,219	5,063,181

In 2012, the Company benefited from an investment subsidy of 5.997.788 RON granted for the modernization of the micro-hydro power plant in Brodina (Suceava), which will be transferred to revenue concomitantly with the registration of the amortization of the non-current assets purchased under this project. The net book value of the fixed assets purchased from such grant are presented in Note 4.

18 PROVISIONS

Name	Balance 01.01.2016	Inflows (set-up)	Outflows (write-off)	Balance 31.12.2016
Litigation provisions	955,808	-	(955,808)	-
Provisions for performance guarantees to customers	1,628,030	-	(165,280)	1,462,750
Provisions for risks and charges	9,025,808	-	(9,021,308)	4,500
Provision for employees' benefits	561,399	365,885	(561,399)	365,885
TOTAL	12,171,045	365,885	(10,703,795)	1,833,135

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

During the reporting period, the provision recorded at the end of 2015 for the fine announced by the Competition Council has been written off and as a result of receiving the formal decision this value has been recorded as current cost.

The provision for employee benefits relates to the value of the rest leaves not taken in the previous year; its decrease was recorded while performing such leaves during the reporting period.

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19 TRADE AND OTHER PAYABLES

Trade payables	December 31, 2016	December 31, 2015
Internal trade payables	13,226,467	10,881,570
External trade payables	2,690,979	4,471,777
Estimated trade payables	1,856,736	5,688,284
Total trade payables	17,774,182	21,041,631
Other current payables	December 31, 2016	December 31, 2015
Advances received from customers	645,602	1,589,679
Salaries and social security contributions	3,525,884	2,903,503
Deferred income	1,548,133	2,787,366
Other payables	10,930,581	6,186,135
Total trade and other payables	34,424,384	34,508,314

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

The liability settlement period increased to 62 days in 2016 compared to 35 days in 2015.

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 December 2016, which are paid on the due date, in January 2017.

The Company did not have long-term loans at December 31, 2016.

The Company has several loan agreements approved as at December 31, 2016. Their status is presented in Note 29 to these financial statements. There were no outstanding liabilities related to loans as at December 31, 2016 and as at December 31, 2015.

Other payables include guarantees received from tenants, VAT to be paid, other taxes and the fine in amount of RON 9,021,308 for the supply of electricity as a result of the Competition Council's decision. For this, amount the Company requested ANAF the suspension according to Art. 235 of the Fiscal Procedure Code.

The guarantees received as at December 31, 2016 amount to RON 2,610,606 and will be settled according to the contractual terms.

	Total	Within one year	In more than one year
Guarantees received	2,610,606	1,374,478	1,236,128

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20 INCOME

	2016	2015
Income	234,188,009	383,043,940
- Income from sold production	91,102,036	86,123,022
- Rental income	13,916,065	13,749,488
- Income from sale of goods	129,169,908	283,171,430
Investment income	4,019,247	578,619
- Interest income	15,909	53,674
- Income from dividends	375,975	465,493
- Net income from fair value measurement of investment property	3,668,940	-
- Other net investment income	(41,577)	59,452
Variation in inventories of finished goods and work in progress	15,924,803	10,608,483
Own work capitalized	1,246,195	1,742,457
Other income / expenses	4,906,997	3,689,649
- Income from subsidies	2,805,486	2,496,527
- Net provisions	1,066,172	212,080
- Net foreign exchange difference	(6,200)	247,050
- Other income	1,041,539	733,992
Net income	260,285,252	399,663,148

The revenue from sale of goods decreased in 2016 by 54.3% due to reduced customer portfolio in the licensed activity.

Rental income as at December 31, 2016 includes RON 1,359,581 representing rental for investment property (2015: RON 1,381,075).

The net provisions represent income from impairment of inventories and receivables, as well as income/expenses with provisions for performance guarantees granted to customers.

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21 EXPENSES

	2016	2015
		313,92
Expenses related to materials	169,435,104	7,054
- Raw materials and consumables	51,564,316	47,949,330
- Goods purchased for resale	115,447,129	263,514,578
- Electricity, heating and water	2,423,659	2,463,146
Employee-related expenses	34,094,959	32,562,136
- Salaries	27,919,696	26,633,903
- Other employee-related expenses	6,175,263	5,928,233
Other expenses	34,250,873	58,562,281
Post	282,074	377,097
Maintenance expenses	450,299	504,277
Rentals	1,485,730	1,463,614
Advertisement and entertainment	348,830	955,887
Insurance	521,002	539,663
Transport and travel	1,626,482	1,950,197
Subcontracted work	8,320,030	8,249,132
Other taxes	1,243,720	1,104,616
Consultants and collaborators	1,142,752	852,118
Costs of green certificates	10,641,189	24,994,610
Other operating expenses	8,188,765	17,571,070
Expenses related to depreciation and impairment	16,631,162	16,332,565
- Depreciation	9,505,129	9,338,026
- Net impairment	7,126,033	6,994,539
Total expenses	254,412,098	421,384,036

The raw materials and consumables expenses increased due to increasing CIL sales. Expenses related to merchandise decreased because the volume of electricity transactions decreased as well.

22 FINANCIAL EXPENSES

	2016	2015
Interest expenses	72,757	97,678
Bank charges	566,184	818,427
Total financial expenses	638,941	916,105

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23 INCOME TAX

Income tax recognized through profit or loss:

	<u>December 31, 2016</u>	<u>December 31, 2015</u> restated
Current income tax		
Current income tax expenses	1,036,116	-
Deferred income tax		
Deferred income tax expenses/income	(129,750)	1,114,261
	<u>906,366</u>	<u>1,114,261</u>

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

Caption	Year ended December 31, 2016	Year ended December 31, 2015 Restated
Net accounting (loss)/profit	<u>4,327,847</u>	<u>(20,909,463)</u>
Deductions	(8,519,337)	(8,795,149)
Non-taxable income	(13,661,695)	(1,680,032)
Non-deductible expenses	29,975,025	1,099,229
Taxable (loss)/profit	12,121,841	(32,483,872)
Tax loss from previous years	(5,634,850)	(5,634,850)
Current income tax	1,037,919	-
Income tax reduction	(1,803)	-
Income tax due at end of period	<u>1,036,116</u>	<u>-</u>

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

As at December 31, 2016, the current income tax due is RON 255,189 (December 31, 2015: RON 780,927).

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

	Opening balance Restated	Through profit or loss	Through other comprehensive income	Closing balance Restated
Property, plant and equipment	(5,359,615)	564,984	(13,501,713)	(17,965,892)
Receivables	-	213,639	-	213,639
Impairment of receivables	239,664	17,101	-	256,764
Impairment of inventories	187,213	7,384	-	194,596
Employee-related benefits	89,824	(31,282)	-	58,542
Tax loss	901,576	(901,576)	-	-
TOTAL	<u>(3,941,339)</u>	<u>(129,750)</u>	<u>(13,501,713)</u>	<u>(17,242,351)</u>

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

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24 AVERAGE NUMBER OF EMPLOYEES

Evolution of the average number of employees:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Management	53	56
Administrative	236	264
Production	294	295
Total	<u>583</u>	<u>615</u>

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Higher education	35%	37%
Secondary education	35%	36%
Technical education	4%	3%
Vocational and qualification training	26%	24%
Average number of employees	583	615

The expenses incurred for salaries and related taxed in the years of 2016 and 2015 are:

	<u>2016</u>	<u>2015</u>
Expenses related to salaries	27,919,696	26,633,903
Expenses related to social security contributions	6,175,263	5,928,233
Total	<u>34,094,959</u>	<u>32,562,136</u>

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

25 RELATED PARTY TRANSACTIONS

	<u>2016</u>	<u>2015</u>
Sales of goods and services to subsidiaries		
Electromagnetica		
Goldstar	79,435	71,354
Electromagnetica Fire	15,466	12,874
Electromagnetica		
Prestserv	22,122	18,546
Procetel	34,994	26,103
Total	<u>152,017</u>	<u>128,877</u>
	<u>2016</u>	<u>2015</u>
Purchases of goods and services from subsidiaries		

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Electromagnetica		
Goldstar	225,777	202,345
Electromagnetica Fire	700,270	659,170
Electromagnetica		
Prestserv	674,245	620,225
Procetel	<u>1,033,815</u>	<u>972,286</u>
Total	<u>2,634,107</u>	<u>2,454,026</u>

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25 RELATED PARTY TRANSACTIONS (continued)

	December 31, 2016	December 31, 2015
Trade and other payables to subsidiaries		
Electromagnetica Goldstar	15,282	14,545
Electromagnetica Fire	65,020	82,342
Electromagnetica Prestserv	71,752	61,130
Procetel	-	1,182
Total	152,054	142,710

The remuneration of the members of the Board of Directors in 2016 was RON 270,000 (December 31, 2015: RON 423,261).

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

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

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

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

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

Electromagnetica Goldstar SRL is a limited liability company with its registered office in Bucharest, Calea Rahovei no. 266-268, sector 5, registered with the Trade Registry Office attached to Bucharest Tribunal under no. J40/12829/1991, Tax ID 400570. Its main object of activity is Manufacture of communication equipment (NACE code 2630). In relation to Electromagnetica it carries out renting activities

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

Electromagnetica Fire SRL is a limited liability company with its registered office in Bucharest, Calea Rahovei no. 266-268, sect. 5, corp 2, parter, axele C-D, stalpii 6 ½ - 7, registered with the Trade Registry Office attached to Bucharest Tribunal under no. J40/15634/2006, Tax ID 19070708. In relation to Electromagnetica it carries out activities pertaining to fire protection, technical assistance for fire prevention and extinction and private emergency services for civil protection, interior works, electrical works and cleaning service.

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

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26 EARNINGS PER SHARE

Basic earnings per share

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

	<u>2016</u>	<u>2015</u>
		Restated
Net profit/(loss) attributable to the shareholders	4,327,847	(20,909,463)
Average weighted number of ordinary shares	676,038,704	676,038,704
Earnings per share	0.0064	(0.0309)

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 2016 and 2015, the Company registers the basic earnings per share as equal to the diluted earnings per share as there are no certain securities that could be converted into ordinary shares in the future.

27 INFORMATION ON SEGMENTS OF ACTIVITY

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

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

2016	<u>Unlicensed activity</u>	<u>% Total Company</u>	<u>Licensed activity</u>	<u>% Total Company</u>	<u>Total Company</u>
Net profit	10,800,730	100.0	(6,472,883)	n/a	4,327,847
Total assets	315,543,609	80.46	76,610,343	19.54	392,153,952
Total liabilities	30,552,460	49.60	31,049,549	50.40	61,602,009
Customer revenue	101,934,763	43.78	130,893,665	56.22	232,828,428
Interest income	16,691	100	-	n/a	16,691
Impairment and depreciation	7,326,866	44.06	9.304.296	55.94	16,631,162

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27 INFORMATION ON SEGMENTS OF ACTIVITY (continued)

2015	<u>Unlicensed activity</u>	<u>% Total Company</u>	<u>Licensed activity</u>	<u>% Total Company</u>	<u>Total Company</u>
Net profit	6,379,349	100.0	(27,288,812)	-	(20,909,463)
Total assets	224,792,644	70.9	92,071,305	29.0	316,863,949
Total liabilities	20,294,196	35.8	36,327,488	64.2	56,621,684
Customer revenue	98,188,623	25.6	284,855,316	74.4	383,043,939
Interest income	54,277	100	-	n/a	54,277
Impairment and depreciation	7,770,293	47.6	8,562,272	52.4	16,332,565

Main products and production structure

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

LED lighting units, systems and solutions

The production of LED lighting units has the largest share on the whole production of the Company (47.8% of the sales). In 2016, the sales increased by 18.7% as compared to the previous year. The growth trend maintains particularly in the street and commercial lighting sector. The export sales have, for the time being, a less significant weight. The product range covers the following areas:

- Street lighting;
- Commercial premises (supermarkets, commercial galleries, gas stations, warehouses, stands, parks, showcases, advertising panels);
- Industrial premises (plants, warehouses, etc.);
- Offices;
- Public buildings (institutions, hospitals, schools);
- Residential sector

Electricity distribution and metering equipment

The electricity meters are sold as such or integrated in EnergSys systems for electricity metering and telemanagement. The whole production of meters and metering systems is targeted at the domestic market. In 2016, the sales of meters and telemanagement systems represented 3.8% of the total turnover of the Company, cumulating almost RON 9 million. Like in the previous years, the specific production fluctuated depending on the dynamics of the acquisitions carried out by the electricity distribution companies. In comparison with the previous year, 2016 brought 44.9% less sales.

Plastic injection molded subassemblies

Following the expansion of the customer base, both domestic and foreign, the production of plastic injection molded subassemblies increased by 18% as compared to the previous year. This group of products has the largest share (46%) of the exports carried out by the Company. The production of plastic injection molded subassemblies benefits from the investments in machinery made in the last years and also from the internal manufacture of molds.

Low voltage electrical switchgear

The production of low voltage electrical switchgear (for ABB Italy) was an element of continuity in the production intended for export. This group of products represents 9% of the production related turnover, their sales slightly decreasing by 6% as compared to 2015.

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27 INFORMATION ON SEGMENTS OF ACTIVITY (continued)

Molds

The manufacture of tools and molds is targeted at fulfilling the orders received from third parties, but mainly at ensuring the internal needs for the production of plastic injection molded subassemblies. The modernization and extension of tool production capacity is essential in supporting the diversification of the production of LED lighting units and the implementation of new manufacturing technologies.

Electricity production from renewable sources

The electricity production is regulated by ANRE. The Company has been a licensed producer since 2007.

In 2016 there was no further need for investments in the 10 micro-hydro power plants (MHPs) along the Suceava River, as they had been recently modernized through an investment program completed in 2014.

The revenues in 2016 were 8.7% higher than in the previous year, being related to an increase of the physical energy production.

In 2016, Government Emergency Order no. 57/2013 entered into force, which stipulates the deferred trading of a green certificate for every MWh produced in new micro-hydro power plants.

Railway traffic safety components

The sales of railway traffic safety components benefited from the launch of some projects for railway infrastructure modernization. Therefore, their share was exceptionally close to 10% of the production-related turnover. The future evolution of this product category broadly depends on the continuation of the said projects.

Other industrial products

This category includes the production of subassemblies for motor vehicles, electrical and electronic subassemblies, metal works etc. Out of the 2016 production, the sale of these products represented a total share of 1.9%.

Main services provided

Electricity supply services

The supply of electricity is regulated by ANRE. The Company has been an authorized supplier since 2001; the license was renewed in 2013 under the provisions of the new energy law (Law no. 123/2012) for another 10 years. In 2016, the turnover achieved from the electricity supply business decreased by 54% as compared to the previous year, as a result of a gradual restructuring of the customer portfolio, carried out for a more effective risk management. This action was necessary due to the difficult conditions of the energy market, where the fact that the producers and suppliers mainly contracted electricity from the Day Ahead Market (DAM) created a high price risk.

In 2016, about 23% of the necessary green certificates for the entire portfolio of supply customers were covered by the certificates obtained for the electricity produced by the Company's own micro-hydro power plants

Rental and utility supply services

Electromagnetica administers approximately 31,000 sq m of rentable premises in Bucharest, as well as 3,500 sq m in Varteju commune, Ilfov County. At the end of 2016, the average occupation level for the headquarters located at 266-268 Calea Rahovei Street was 95.64%, for an average rental price of 6.59 euro/sq m. For the premises in Varteju commune (Magurele), the level of occupation was 81.68%, for an average rental price of 1.93 euro/square meter.

The rental and utility supply activity was stable, with a slight increase of 2% as compared to the previous year, in the context of a little bit lower average rental tariff in euro and level of occupation, while the Romanian Leu to Euro exchange rate had a favorable evolution.

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28 RISK MANAGEMENT

The Company is exposed to the following risks:

Equity risk

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

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

The debt ratio as at December 31, 2016 was as follows:

	December 31, 2016	December 31, 2015
Total loans	-	-
Suppliers and other liabilities	34,424,384	34,508,314
Less: Cash and cash equivalents	(17,822,290)	(13,890,488)
Net Liabilities/(Assets)	16,602,094	20,617,826
Equity	330,551,942	258,060,827
TOTAL BORROWED CAPITAL	347,154,036	278,678,653
Gearing ratio	4,78%	7,39%

Credit risk

Credit risk is the possibility that contracting parties breach their contractual obligations resulting in financial loss for the Company. When possible and allowed by market practices, the Company requests guarantees. Trade receivables derive from a wide range of customers operating in various fields of activity and different geographical areas. To counteract this risk factor, the Company applied restrictive policies to the delivery of products to doubtful customers. Insurance policies were contracted for foreign market receivables. Due to the increase of insolvency cases in the economy, there is a concrete risk related to the recovery of the equivalent value of products and/or services supplied prior to the declaration of insolvency. The Company is paying more attention to the creditworthiness and financial discipline of its contractual partners. It should be mentioned that from the end of the financial year 2016 until the date of this report several electricity suppliers became or declared to be insolvent. Therefore, we can speak about a deterioration of the business environment and a direct manifestation of the credit risk.

	2016	2015
Trade receivables	48,278,064	54,455,664
Other receivables	3,173,001	3,334,199
Financial assets at fair value through profit or loss	-	467,080
Cash and cash equivalents	17,822,290	13,890,488
	69,273,355	71,680,351

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28 RISK MANAGEMENT (continued)

Market risk

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

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

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

The foreign currencies most frequently used in transactions are EUR and USD. The assets denominated in foreign currencies are represented by customers and available cash in foreign currency. The liabilities denominated in foreign currency are represented by suppliers. At 31 December 2016, their situation is as follows:

	<u>Assets</u>	<u>Liabilities</u>	<u>Net exposure</u>
EUR	2,491,850	411,010	2,080,840
USD	570,895	124,219	446,676

The analysis of the foreign exchange risk sensitivity for a +/- 10% variation in the exchange rate shows an impact on the gross result of the period of +/- RON 1,137,148.

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

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

The risk of changes in the interest rates is kept under control by adopting an investment policy exclusively based on own funding sources, which allows for the use of credit lines only for the working capital

The Company is exposed to exchange rate risk because the sourcing of materials is largely based on imports. In order to limit the effect of the exchange rates, the payment schedule was correlated with that of receipts in foreign exchange, usually ensuring a cash-flow surplus. The change in prices of raw materials and materials entailed a continuous review of cost prices. To maintain some of the products profitable, the Company cooperated with the suppliers for ensuring price control and the related technological processes were improved.

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28 RISK MANAGEMENT (continued)

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 decision of the general meeting of shareholders of April 21, 2016 extended the mortgage agreements in favor of the banks with which the Company has opened credit lines and letters of bank guarantee within the limit of 40% of the total fixed assets, less receivables, to ensure the Company's capacity to perform its obligations in case of short-term cash deficit. At the same time, investments were limited to own sources of funding and to those with direct impact on the turnover. The liquidity and cash-flow risk management policy should be adapted to the resized activity of electricity supply. The risk analyzed above is closely related to the sanction-related risk and the dispute-related risk, which are described below and the new and more exigent commercial practices. This risk is closely related to the risks described.

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

	<u>December 31, 2016</u>	<u>exceeded</u>	<u>0 - 1 year</u>	<u>1 - 2 years</u>	<u>2 - 5 years</u>	<u>In more than 5 years</u>
Trade receivables	48,278,064	5,373,409	27,748,842	4,686,755	10,469,05 8	-
Trade liabilities	17,774,182	902,034	16,787,544	65,290	19,315	-

Political and legislative risk

The Company's activity on regulated markets, such as the electricity supply and production market, exposes the Company to a legislative risk. For instance, the energy market was influenced by the exemption of large consumers from the obligation to pay an important part of the green certificates and also by the price changes which stimulated the export of energy.

The national implementation of European directives on energy efficiency can stimulate the sale of LED lighting solutions; at the same time, their delayed or inappropriate regulation can disturb the specific market.

Disaster 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 on 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.

General framework for risk management

The Board of Directors of the Company has the general responsibility for the establishment and supervision of the risk management framework at Company level. The activity is governed by the following principles:

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

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28 RISK MANAGEMENT (continued)

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

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

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

29 COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

As at December 31, 2016, the Company had the following commitments for bank loans and guarantee agreements/loan contracts concluded with the financing banks (BCR, BRD):

- revocable credit line from BCR in amount of RON 9,000,000, not committed as at December 31, 2016.

Guarantees: 1st, 2nd, 3rd rank mortgage on land outside the built-up area, and 1st rank mortgage on the accounts opened with BCR

- non-cash guarantee agreement with BCR in amount of RON 30,000,000 of which the amount of RON 17,324,227 was committed.

Guarantees: 3rd rank mortgage on the accounts opened with BCR, 1st and 2nd rank mortgages on some real estate

- multiproduct credit facility with BRD (cash and non-cash) in amount of RON 20,000,000 of which non-cash committed as at December 31, 2016 in amount of RON 4,907,640.

Guarantees: 1st rank mortgage on property (land, building and access roads)

- guarantee agreement authorized overdraft of RON 15,000.

Guarantees: collateral cash deposit in amount of RON 15,000

- guarantee agreement authorized overdraft in amount of RON 75,000.

Guarantees: collateral cash deposit in amount of RON 75,000

The commitments from customers and tenants as letters of guarantee December 31, 2016 are in amount of RON 1,130,508 according to the contractual clauses.

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29 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Contingent liabilities

Litigation

The Company is subject to a number of legal proceedings arising in the normal course of business. Its management believes that apart from the amounts already registered in these financial statements as adjustments or provisions for impairment of assets and described in the notes to this financial statements, other legal proceedings will not have significant adverse effects on the results and on the financial position of the company

During the reporting period, Electromagnetica filed an application for annulment of decision no 82/24.12.2015 of the Competition Council and order no 297/23.2012 of the Competition Council President, which are the subject of files no 3778/2/2016 and no 3809/2/2016 at the Bucharest Court of Appeal, file no 3809/2/2016 being joined to file 3778/2/2016, and an application for suspension of execution of decision no 82/24.12.2015 of the Competition Council which is the subject of file no 3779/2/2016 at the Bucharest Court of Appeal. Electromagnetica filed appeal against the decision of the Court of Appeal which rejected the application for suspension of the decision to sanction.

Also, the Company has opened a court action relating to the contract for the supply of electricity from Hidroelectrica (file no. 13259/3/2015) for January 2011-June 2012, with the object of claims, in which Hidroelectrica is plaintiff and Electroamagnetica is defendant. At the plaintiff's request, the evidence by accounting expertise was submitted, and the report is favorable to the Company.

The management believes that it is not possible to reliably estimate the outcome of this lawsuit, therefore, in the financial statements no provision has been recorded.

30. COMPARATIVES

In the year ended December 31, 2016, the Company has restated the financial statements for the year ended December 31, 2015.

The changes in the separate statement of financial position and separate statement of comprehensive income refer to:

- 1) Register additional deferred tax amounted to RON 2,181,438, by reserves (RON 3,375,334) and profit or loss (RON 1,193,896)
- 2) Transfer of revaluation reserve to retained earnings as a result of the transition to IFRS in 2012 in amount of RON 72,653,847
- 3) Reclassification of gain on revaluations from reserve to the income statement in amount of RON 613,269

The changes in the separate statement of financial position and separate statement of comprehensive income are presented below.

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30. COMPARATIVES (continued)

The separate statement of financial position as at December 31, 2015 is restated as follows:

	December 31, 2015	December 31, 2015	December 31, 2015
	<i>Initially reported</i>	<i>Corrections and reclassifications</i>	<i>Restated</i>
Share capital	67,603,870		67,603,870
Reserves and other elements of equity	211,439,457	(76,029,181)	135,410,376
Retained earnings	(18,801,162)	73,847,743	55,046,581
Total equity attributable to company shareholders	260,242,265	(2,181,438)	258,060,827
Non-current liabilities			
Trade and other payables	2,956,025		2,956,025
Investment subsidies	5,063,180		5,063,180
Deferred tax liabilities	1,759,901	2,181,438	3,941,339
Total non-current liabilities	9,779,106	2,181,438	11,960,544
Total equity and liabilities	316,863,949	-	316,863,949

The separate statement of comprehensive income as at December 31, 2015 is restated as follows:

	Year ended December 31, 2015	Year ended December 31, 2015	Year ended December 31, 2015
	<i>Initially reported</i>	<i>Corrections and reclassification s</i>	<i>Restated</i>
Other expenses	(58,562,280)	613,269	(57,949,011)
Loss before tax	(22,636,993)	613,269	(22,023,724)
Income tax	(79,635)	1,193,896	1,114,261
Loss of the period	(22,716,628)	1,807,165	(20,909,463)

31 SUBSEQUENT EVENTS

In the first two and a half months of the year, several energy suppliers have filed court applications for entry into insolvency. The company's exposure to these suppliers represents less than 1% of the turnover of the Company in 2016.

On the date of preparation of the financial statements, the company management has no knowledge of events, economic changes or other factors of uncertainty that could significantly affect the company's liquidity or earnings, other than those specified.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Electromagnetica S.A.

Qualified Opinion

- We have audited the separate financial statements of Electromagnetica S.A. (the "Company"), which comprise the separate statement of financial position as at December 31, 2016, and the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.
- In our opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion" section of our report, paragraph 3, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Company as at December 31, 2016, and its separate financial performance and its separate cash flows for the year then ended in accordance with the provisions of the Order of Ministry of Public Finances no. 2844/2016 for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by the European Union.

Basis for Qualified Opinion

- As at December 31, 2015 and December 31, 2014 respectively, the land and respectively buildings of the Company were revalued by an independent evaluator and the related revaluation reports do not include the necessary details, as required by the International Valuation Standards, to support the fair value of the land and buildings as presented in these reports. As presented in Note 4, the revaluation of the land and buildings performed as at December 31, 2016 by an independent valuator resulted in significant revaluation differences recorded in revaluation reserves and, respectively, in the separate statement of comprehensive income. We were not able to determine in the course of our audit the corrections that could have been necessary on the results of the revaluation of the land and buildings as at December 31, 2016 and, consequently, on the separate financial position as at December 31, 2016, and on the financial performance of the Company for the year then ended, had the revaluation reports for the land and, respectively, buildings as at December 31, 2015 and, December 31, 2014, respectively, been include the necessary details, as required by the International Valuation Standards, to support their values as presented in the revaluation reports.

- We conducted our audit in accordance with the Auditing Standards adopted by the Chamber of Auditors of Romania, which are International Standards on Auditing (ISAs). Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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Key Audit Matters

- Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Except for the possible effects of the matter described in the "Basis for Qualified Opinion" section of our report, paragraph 3, we have determined that there are no other key audit matters to communicate in our report.

Other Matters

- The separate financial statements as at December 31, 2015 were audited by another independent auditor that issued an unqualified opinion on April 1, 2016.

Reporting Requirements concerning the Administrators' Report

- The administrators are responsible for the preparation and presentation of the separate administrators' report in accordance with the requirements of the Ministry of Public Finance Order 2844/2016 for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU, article no. 20, which does not contain material misstatements and for such internal control as management determines is necessary to enable the preparation of administrator's report that is free from material misstatement, whether due to fraud or error.

The administrators' report is not part of the separate financial statements. Our opinion on the separate financial statements does not cover the administrators' report.

In connection with our audit of the separate financial statements, we have read the administrators' report accompanying the separate financial statements we report as follows:

- in the administrators' report, we have not identified information which is not consistent, in all material respects, with the information presented in the separate financial statements attached;
- the administrators' report identified above contains, in all material respects, the required information according to the provisions of Ministry of Public Finance Order no. 2844/2016 for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU, article no. 20;
- based on our knowledge and understanding concerning the Company and its environment

gained during the audit on the separate financial statements prepared as at December 31, 2016, and except for the possible effects on the administrator's report of the matter described in the "Basis for Qualified Opinion" section of our report, we have not identified information included in the administrators' report that contains a material misstatement of fact.

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

- Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with the Order 2844/2016 for the approval of accounting regulations

conforming with International Financial Reporting Standards as adopted by EU and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

- In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.
- Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the separate Financial Statements

- Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and

to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

- As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

This is a free translation from the original Romanian version.

- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- We also provide those charged with governance with a statement that we have complied with

relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Zeno Caprariu, Audit Director

Registered with the Chamber of Financial Auditors of Romania

under certificate no. 2693/ 18.11.2008

On behalf of:

DELOITTE AUDIT S.R.L.

Registered with the Chamber of Financial Auditors of Romania

under certificate no. 25/25.06.2001

Bucharest, Romania

March 22, 2017

Statement of responsibility

According to Article 30 of the Accounting Law no. 82/1991, republished, I, the undersigned Eugen Scheusan, in my capacity of Managing Director and legal representative of Electromagnetica SA having its head office at 266-268 Calea Rahovei Street, district 5, Bucharest, registered with the Trade Register under no. J40/19/1991, tax ID 414118, hereby declare that I assume liability for the preparation of the individual and consolidated financial statements for 2016 and certify that, to the best of my knowledge,

- a) the accounting policies used to prepare the individual and consolidated quarterly financial statements comply with the applicable accounting regulations;
- b) the financial statement as of 31.12.2016, prepared in compliance with Order no. 2844/2016 of the Ministry of Public Finance approving the accounting regulations compliant with the international financial reporting standards, reflects a true and fair image of the assets, liabilities, financial position, profit and loss account of Electromagnetica SA and the companies included in the consolidation process;
- c) The annual report of the directors for 2016 was prepared in compliance with the provisions of CNVM Regulation no. 1/2006 and present true and complete information about the Company;
- d) Electromagnetica SA carries out its business on a continuous basis.

Managing Director

Eugen Scheusan

ELECTROMAGNETICA S.A.

**CONSOLIDATED REPORT
FOR THE YEAR ENDED DECEMBER 31, 2016**

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CONSOLIDATED ADMINISTRATORS' REPORT
FOR THE FINANCIAL YEAR 2016

Report date: 21.03.2017

Company name: Electromagnetica SA

Registered office: 266-268 Calea Rahovei Street, District 5, Bucharest, postal code 64021

Tel/ Fax: 021 404 2102/ 021 404 2195

Tax ID 414118

Trade Register no.: J40/19/1991

Regulated market: Bucharest Stock Exchange (BVB), Equity securities, Shares, Premium category

Stock symbol: ELMA

Number of shares: 676.038.704

Nominal value: RON 0.1000

Share capital: RON 67,603,870.40

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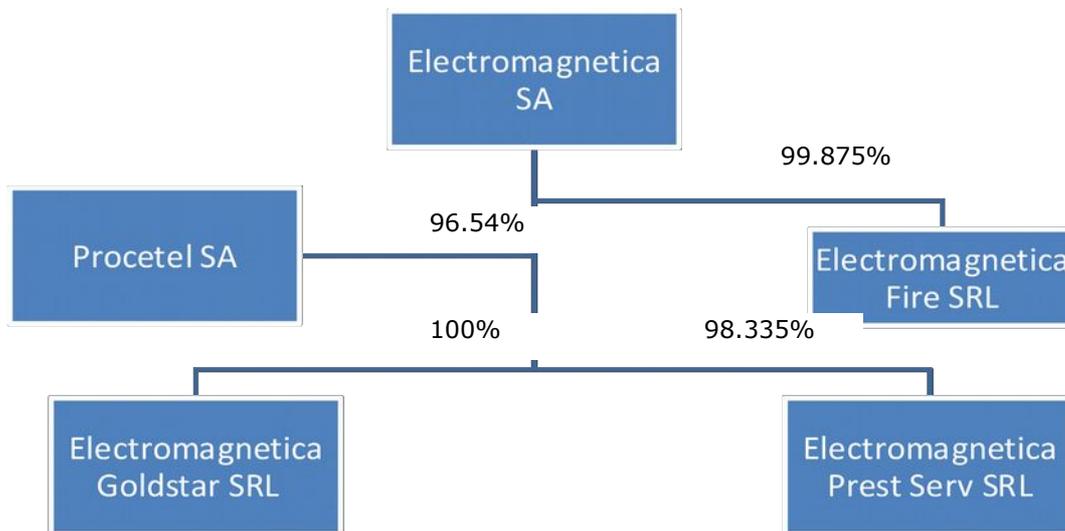
1. Group overview

Group history

The parent-company was established in 1930 as "Standard Electrica Romana". Regarding other entities within the Group, they were established as follows:

- *ELMA Goldstar* - was founded in 1991 and operated as a joint venture with Romanian-Korean capital until 2011, when Electromagnetica bought all the shares and became sole owner.
- *Procetel SA* – was founded in 1991, having as main activity research and development in natural sciences and engineering. Currently, this activity was reduced drastically, the main financial results of the company came from rental activities.
- *ELMA Prestserv* - was founded in 2003 in Bucharest by outsourcing cleaning services of the parent company.
- *ELMA Fire* – was founded in 2006 in Bucharest by outsourcing technical support services for prevention and firefighting and emergency services private civil protection.

2. Group structure



3. Overview of the Group's business

3.1. Overview of the parent company

Electromagnetica SA is a Romanian legal entity incorporated under the legal form of joint-stock company for an unlimited duration and organized and operating under its articles of incorporation, Law no. 31/1991 republished in 2004 and amended by Law no. 441/2006, Government Emergency Ordinance (GEO) no.82/2007 and GEO no. 52/2008, and the Law no. 297/2004 on capital market.

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

Electromagnetica SA, in its capacity of trading company whose shares are admitted to trading on a regulated market, adopted the IFRS (International Financial Reporting Standards) starting with the financial year 2012. The financial statements for 2016 were prepared in compliance with Order no. 2844/2016 of the Minister of Public Finance (OMFP) approving the accounting regulations compliant with the International Financial Reporting Standards.

Electromagnetica prepares consolidated financial statements as parent-company. Taking in consideration the very low influence of subsidiaries on the consolidated operating result, the details are related to the parent-company.

3.2. Overview of the subsidiaries

Procetel SA is a joint-stock company with its registered office at 266-268 Calea Rahovei Street, 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). Currently, its revenue comes from its rental activity. Electromagnetica SA owns 96.54% of the share capital of Procetel SA. The company is managed by a sole director, Mr. Vlad Florea, with a 4-year mandate beginning on 29.04.2014.

Electromagnetica Goldstar SRL is a limited liability company with its registered office in Bucharest, 266-268 Calea Rahovei Street, 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). The company carries out servicing and free of charge servicing (warranty) activities for communication equipment and real estate rental activities. Electromagnetica owns 100% of the share capital of Electromagnetica Goldstar SRL. The company is managed by a sole director, Mr. Vlad Florea, with a 4-year mandate beginning on 01.08.2015.

Electromagnetica Prestserv SRL is a limited liability company providing cleaning services, having its registered office at 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. Electromagnetica owns 98.335% of the company capital. The company is managed by a sole director, Mr. Ciobanu Gheorghe, whose mandate expires on 03.11.2018.

Electromagnetica Fire SRL is a limited liability company with its registered office at 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. Electromagnetica owns 99.875% of its share capital. The company is managed by a sole director, Mrs. Rogoz Maria, with a 4-year mandate beginning on 26.03.2014.

4. Merger and reorganization of the companies controlled by Electromagnetica in 2016

In 2016, there were no changes in the shareholding structure of the related companies. Except for Electromagnetica Goldstar SRL, the other companies carry out their activities in direct relation with their parent company.

On the agenda of Electromagnetica EGMS convened for 26/27 April 2017 there is the dissolution of the Electromagnetica Goldstar SRL and Procetel SA. Also, on the agenda of the EGMS there is the division of some land lots owned by the parent company and the one owned by Electromagnetica Goldstar SRL and then joining them in order to expand a plastic injection production hall. Because the dissolution is expected to be a lengthy process, the board proposed that Electromagnetica SA purchases a land of 182 sq m from Electromagnetica Goldstar SRL.

5. Parent's related party transactions

Sales of goods and services to subsidiaries, totaling RON 152 thousand, include deliveries of different materials, rent and utilities. Purchases from subsidiaries, totaling RON 2.634 thousand, include rent, utilities, cleaning and transport, and fire prevention. Procetel SA and Electromagnetica Goldstar Ltd provide renting services to the parent company. Electromagnetica Prestserv SRL provides to the parent company cleaning services and Electromagnetica Fire Ltd provide fire defence activities, technical assistance and fire prevention, emergency private services and civil protection, electrical work and cleaning services. The rental services received by parent company from Electromagnetica Goldstar Ltd and Procetel SA offer the right to rent to independent entities as the subsidiaries do not have sufficient and specialized staff to manage these leases. The spaces are subleased without applying a profit margin or charging a fee for the services rendered to affiliates.

Electromagnetica SA provides rental and utility services to subsidiaries.

6. Parent company's contribution to the Group's result

The analysis of individual and consolidated financial statements shows that subsidiaries have very little influence on the EBITDA, as follows:

- lei-

	December 31, 2016			December 31, 2015 Restated		
	Group	Parent company	%	Group	Parent company	%
Non-current assets	324,419,304	319,773,830	98.57%	238,133,232	235,128,388	98.74%
Current assets	77,233,226	72,380,121	93.72%	86,301,404	81,735,561	94.71%
Total equity attributable to company's shareholders	338,883,343	330,551,942	97.54%	264,406,703	258,060,827	97.60%
Non-current liabilities	25.470.228	24.926.082	97,86%	10.432.123	11.960.544	114,65%
Current liabilities	37.083.898	36.675.928	98,90%	47.267.622	46.842.578	99,10%
Profit/(Loss) before tax	7.390.550	5.234.213	70,82%	(21.792.941)	(22.023.724)	101,06%
Profit/(Loss) of the period	6.379.995	4.327.847	67,83%	(20.775.641)	(20.909.463)	100,64%
EBITDA	19.081.973	16.813.327	88,11%	3.441.262	3.287.313	95,53%

The four subsidiaries have a small contribution to the consolidated operating result. This is explained by the fact that three of them operate closely with the parent company.

The parent's profit share in the Group's profit fell in 2016 at 67.83% because the subsidiaries' contribution to group profit is largely coming from the fair value valuation of buildings and land. An important part of the subsidiaries' buildings was reclassified as investment property and the value growth was positively reflected in the consolidated financial result. Therefore, most of the subsidiaries' profit is not operating profit.

7. Description of the Group's activity

Except Electromagnetica Goldstar Ltd, the subsidiaries operate mainly in relation to Electromagnetica SA, completing the activities of the parent company by services that have been outsourced (cleaning, fire protection, technical assistance for prevention and firefighting and emergency private services on civil protection) and rental services.

Electromagnetica Goldstar Ltd operates outside the Group, offering communications equipment, services and warranty.

The parent is the only producing company. As the activity of the Group is determined mostly by the activity of the parent company, the issues covered in this chapter refer exclusively to Electromagnetica SA.

7.1. Description of the parent company's main activity

The Company carries out several manufacturing activities and services, as follows:

Production

- LED lighting units, systems and solutions
- Electricity distribution and metering equipment
- Battery charging stations for electric cars and rectifiers for industrial applications
- Railway traffic safety components
- Plastic injection molded subassemblies, electrical, electronic and metallic products for the domestic and external market
- Tools and molds
- Low voltage switchgear (fuels exported to ABB Italy)
- Electricity obtained from hydro renewable sources
- Various machining and assembling operations

Services

- Electricity supply
- Rental of real estate and supply of utilities for offices, industrial activities, etc.

All the activities carried out by the Company benefit from the strong support of the research and development team, thanks to whom Electromagnetica produces a wide range of own design products. The production activity, including the research and development activity, involves over 80% of the human resources of the Company, the rest working in the field of services (electricity supply and rentals) and administration. The Company has its own metrology, electromagnetic compatibility certification and luminotechnics laboratories.

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

The production of electrical meters has a long tradition and it has been developed into energy measurement and remote management equipment designed to meet the highest standards in the field. The railway traffic safety components are also classical products of the Company portfolio.

Its wide range of technologies enabled the Company both to produce for both the domestic and external markets electrical switchgear, metal and plastic injection molded subassemblies, tools, and molds. A parallel concern was to take full profit of the Company real estate by fitting out and renting surplus premises which underwent significant modernization. The production of electricity takes place in 10 micro-hydro power plants (MHPs), of which two are newly built, located in Suceava County.

7.2. Main purchases and/or disposals of assets

The Company did not purchase or dispose independent assets in 2016.

Being financed from own funds, the investments made in 2016 were lower than in the previous years, amounting to approx. 3.85 million RON. The main purchases were made to upgrade technological processes, respectively two eccentric presses, one CNC turret lathe and other machinery and facilities, as well as the advance payment made for a plastic injection machine of 800 tons. To these are added the manufacture of plastic injection molds, the purchase of vehicles, measuring and checking machines and facilities, largely designed for scientific research. Another priority was the modernization of some buildings, electrical networks and pipes.

The intangible assets purchased consisted of several software licenses.

During the reporting period, no significant alienation of tangible assets took place; the Company discarded a few items and made a few low value sales of old vehicles and equipment which had been put out of service.

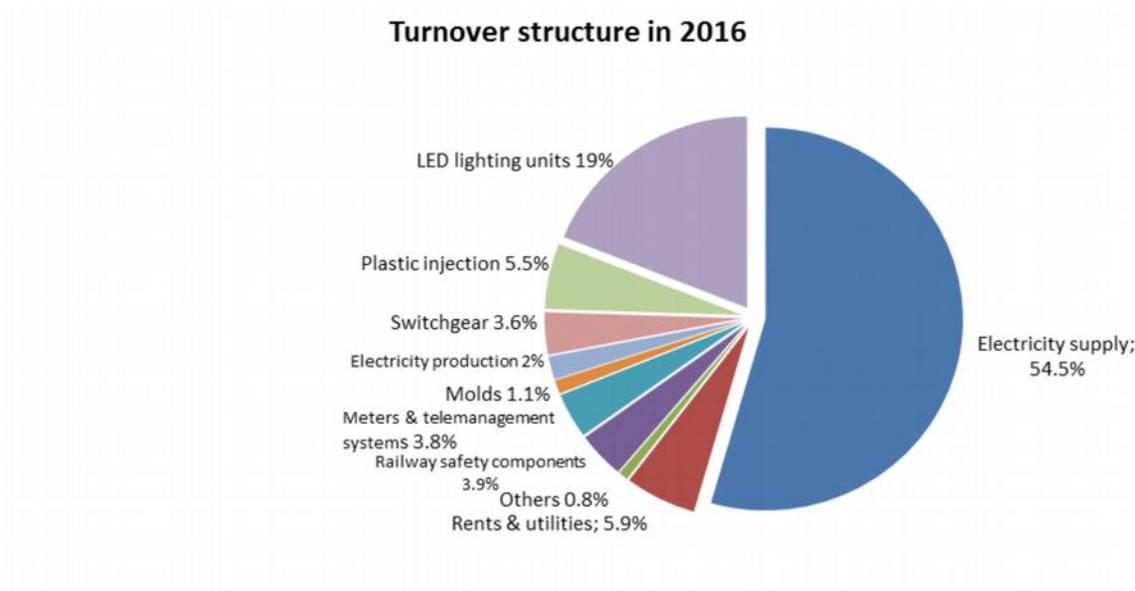
7.3. Main events with significant impact

During 2016, the main elements significantly impacting on the Company activity were the following:

- the greater weight of production in the total amount of turnover as a result of the increased volume of production and the adjustment of the power supply activity;
- The restructuring of the portfolio of customers for whom the Company is a power supplier, in order to ensure an adjustment to the current market conditions and a better risk control;
- The increased number of turn-key LED lighting projects integrating several products and services provided by the Company (lighting units, design, installation, maintenance);
- The revitalization of the production of railway traffic safety components in the context of some projects for the modernization of the national railway infrastructure;
- New highly efficient LED lighting units started to be manufactured, to maintain sales on the most dynamic market segments (street lighting and commercial lighting);
- The rental income was maintained as a result of the stabilized market prices and the influence exercised by the exchange rate;
- The normal hydrological conditions allowed for a renewable energy production to reach the average amount achieved in the last years.

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7.4. Turnover structure

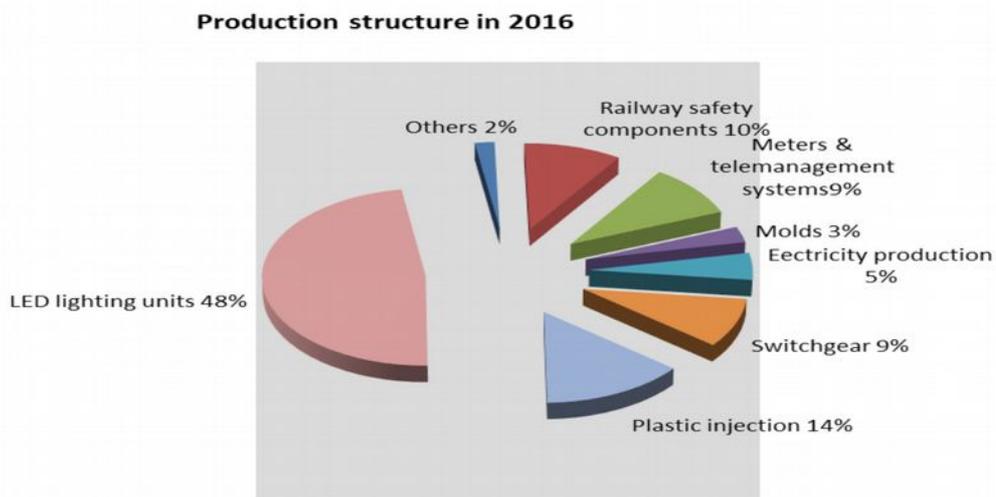


The production-related income increased by nearly 6%, while those resulted from electricity supply services halved as compared to the previous year. The main production value increase was registered for LED lighting units, railway traffic safety components and plastic injection. There was a decrease in the production of meters, telemanagement and molds.

7.5. Evaluation of the Company's technical level

7.5.1. Main products and production structure

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



7.5.2. LED lighting units, systems and solutions

The production of LED lighting units has the largest share on the whole production of the Company (47.8% of the sales). In 2016, the sales increased by 18.7% as compared to the previous year. The growth trend maintains particularly in the street and commercial lighting sector. The export sales have, for the time being, a less significant weight. The product range covers the following:

- Street lighting;
- Commercial premises (supermarkets, commercial galleries, gas stations, warehouses, stands, parks, showcases, advertising panels);
- Industrial premises (plants, warehouses, etc.);
- Offices;
- Public buildings (institutions, hospitals, schools);
- Residential sector.

The competitive advantage of LED lighting equipment is due to their high efficiency (from 100 up to 130 lm/w), long service life and reduced maintenance costs. In addition, the LED lighting units provide high quality lighting, are environmentally friendly and can be integrated in telemanagement systems.

7.5.3. Electricity distribution and metering equipment

The whole production of meters and metering systems is targeted at the domestic market. The electricity meters are sold as such or integrated in EnergSys systems for electricity metering and telemanagement. In 2016, the sales of meters and telemanagement systems represented 3.8% of the total turnover of the Company, cumulating almost RON 9 billion. Like in the previous years, the specific production fluctuated with the dynamics of the acquisitions carried out by the electricity distribution companies. In comparison with the previous year, 2016 brought 44.9% less sales. EnergSys is already a well-known product on the market, being produced in its third version. The latest version of the system reflects the worldwide trends in the field of smart networks and also the requirements imposed by the energy market regulator (ANRE). The new system allows for improved quality of the services provided, better safety in operation as well as the operation information of consumers thanks to its capacity of monitoring, measuring and sending a range of complex information to the electricity distributor.

7.5.4. Plastic injection molded subassemblies

Following the expansion of the customer base, both domestic and external, the production of plastic injection molded subassemblies increased by 18% as compared to the previous year. This group of products has the largest share (46%) of the exports carried out by the Company. The production of plastic injection molded subassemblies benefits from the investments in machinery made in the last years and also from the internal manufacture of molds.

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7.5.5. Low voltage electrical switchgear

The production of low voltage electrical switchgear (for ABB Italy) was an element of continuity in the production intended for export. This group of products represents 9% of the production related turnover, their sales slightly decreasing by 6% as compared to 2015.

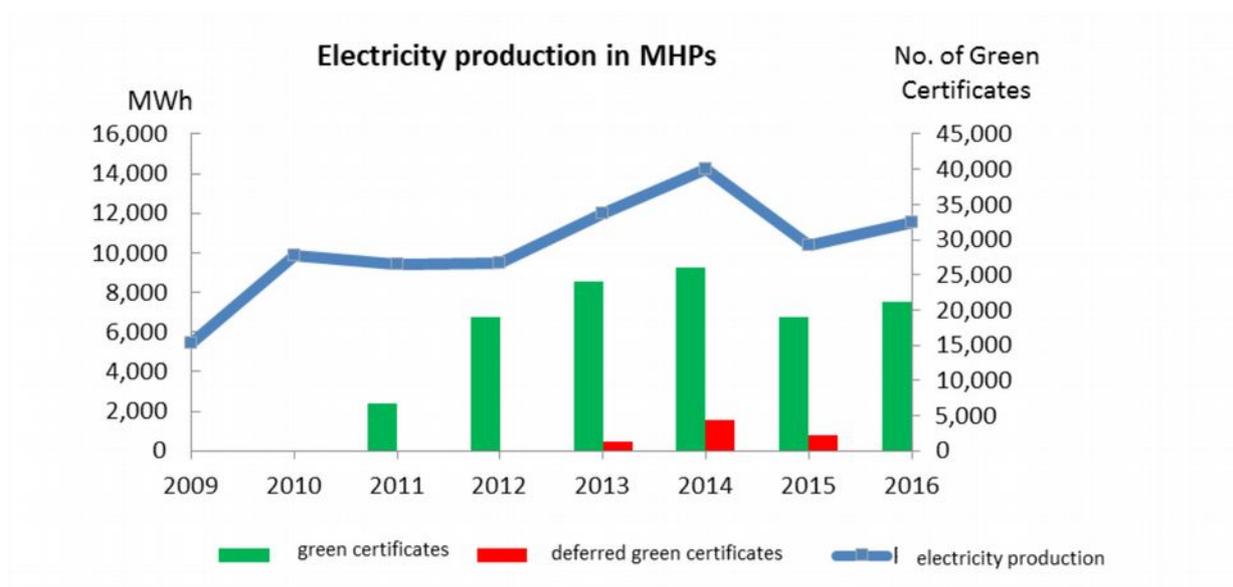
7.5.6. Molds

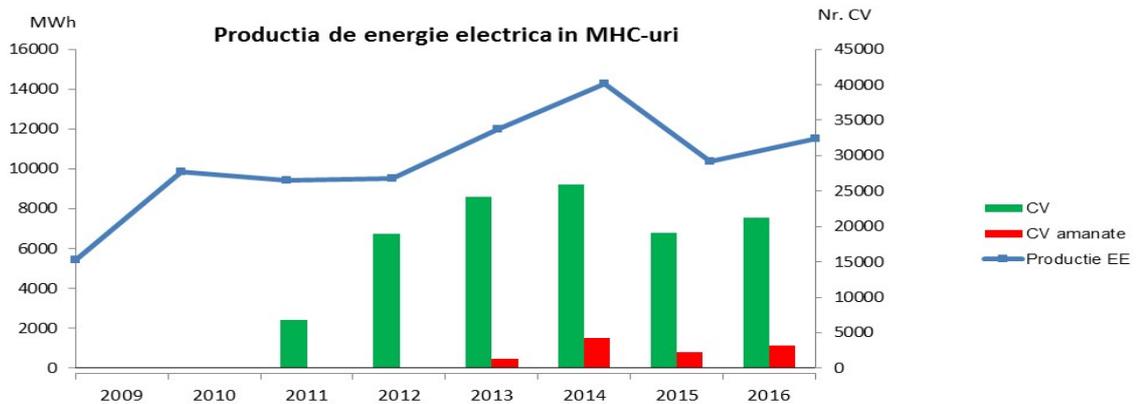
The manufacture of tools and molds is targeted at fulfilling the orders received from third parties, but mainly at ensuring the internal needs for the production of plastic injection molded subassemblies. The modernization and extension of tool production capacity is essential in supporting the diversification of the production of LED lighting units and the implementation of new manufacturing technologies. The external orders for injection molded plastics are often accompanied by orders for the design and execution of highly complex molds needed for the manufacturing process.

7.5.7. Electricity production from renewable sources

The electricity production is regulated by ANRE; the Company has been a licensed producer since 2007. In 2016 there was no further need for investments in the 10 micro-hydro power plants (MHPs) along the Suceava River, as they had been recently modernized through an investment program completed in 2014. In 2016 the electricity production amounted to 11,512 MWh, which is the average level of the last 5 years.

The revenues of 2016 were 8.7% higher than in the previous year, being related to an increase of the physical energy production.





The green certificates deferred upon the entry into force of Government Emergency Order no. 57/2013 have reached a total amount of almost 1.54 million RON. For 2017 we estimate a production of 12,000 MWh and a number of 21,862 green certificates.

7.5.8. Railway traffic safety components

The sales of railway traffic safety components benefited from the launch of some projects for railway infrastructure modernization. Therefore, their share was exceptionally close to 10% of the production-related turnover. The future evolution of this product category broadly depends on the continuation of the said projects.

7.5.9. Other industrial products

This category includes the production of subassemblies for motor vehicles, electrical and electronic subassemblies, metal works etc.; from the production of 2016, the sale of these products represented a total share of 1.9%.

7.6. Main services provided

7.6.1. Electricity supply services

The supply of electricity is regulated by ANRE. The Company has been an authorized supplier since 2001; the license was renewed in 2013 under the provisions of the new energy law (Law no. 123/2012) for another 10 years. In 2016, the turnover achieved from the electricity supply business decreased by 54% as compared to the previous year, as a result of a gradual restructuring of the customer portfolio, carried out for a more effective risk management. This action was necessary due to the difficult conditions of the energy market, where the fact that the producers and suppliers mainly contracted electricity from the Day Ahead Market (DAM) created a high price risk.

In 2016, about 23% of the necessary green certificates for the entire portfolio of supply customers were covered by the certificates obtained for the electricity produced by the Company's own micro-hydro power plants.

7.6.2. Rental and utility supply services

Electromagnetica administers approximately 28,700 sqm of rentable premises in Bucharest, as well as 3,500 sqm in Varteju commune, Ilfov County. At the end of 2016, the average occupation level for the headquarters located at 266-268 Calea Rahovei Street was 95.64%, for an average rental price of 6.59 euro/square meter. For the premises in Varteju commune (Magurele), the level of occupation was 81.68%, for an average rental price of 1.93 euro/square meter. As as December 31, 2016, the structure of the rentable premises by their destination was as follows:

Item no.	Destination of rentable premises at the headquarters	Share %	Destination of rentable premises in Varteju	Share %
1	Offices	42,78	Offices	-
2	Warehouses	26,9	Warehouses	26,64
3	Production	12,07	Production	42,98
4	Services	18,25	Services	30,38

The rental and utility supply activity was stable, with a slight increase of 2% as compared to the previous year, in the context of a little bit lower average rental tariff in euro and level of occupation, while the Romanian Leu to Euro exchange rate had a favorable evolution. The pressure on rental revenues will also manifest in the following period, as an effect of renegotiation of expired rental agreements and the reduced activities of certain tenants or their migration to premises with a lower average price/sqm, given the increase in the offer of premises for rent on the market. The office market will become increasingly competitive and its high level of delivery will exceed the office demand in Bucharest, possibly leading to a lower level of occupation, mainly in buildings which are old or located in hard-to-reach areas. These building will need investments in retrofitting or a reduction of the costs of occupation in order to remain competitive with the new generation of buildings, most of which are environmental-friendly, equipped with state-of-the-art facilities and excellent connections to public transport, especially to the underground.

7.7. New products for which additional resources are to be allocated. New product stage of development

In 2016, over 40% of the revenues achieved from the sale of LED lighting units (LLU) came from the new products manufactured during the period January 2015 - December 2016. In 2017, we will manufacture other new products and technologies with the following research objectives: 14 aiming at new products and systems, 9 for upgrading, 4 relating to technologies and 3 objectives of applied scientific research. We believe that the current technology largely covers the achievement of these goals and it is only necessary to allocate additional assets for the design of tools and devices. The improvement of the technical solutions for increasing the resilience of electromagnetic pulse sources to extreme weather conditions requires the acquisition of a pulse generator to verify immunity to shock waves, in compliance with SR EN 61000 4-5. Another category of new products is the battery charging stations for electric cars and rectifiers for industrial applications.

7.8. Evaluation of the sourcing activities

The prices of raw materials and other materials increased slightly, being mainly affected by the increase of the exchange rate and the higher price of the better performing, state-of-the-art components used in the LED lighting units. In the absence of domestic suppliers, the Company had to make most of its purchases from import or local dealers. As the delivery deadlines became increasingly longer, the optimization of the value of lots and inventories became more difficult and negatively impacted on the production costs.

In general, the sources for the production supplies are reliable and the objective is to maintain a minimum number of 2 suppliers / product type.

In terms of ensuring the energy resources necessary for the electricity supply activity, the price predictability was low given that both those producing from renewable sources and those producing from conventional sources sold most of their production under short-term contracts, therefore at volatile prices, to the detriment of long-term contracts. In such circumstances, the Company adopted a balanced acquisition policy, combining acquisition under long-term contracts with the acquisitions made on the Day Ahead Market.

7.9. Evaluation of the sale activity

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

The licensed production and supply of electricity are only carried out on the domestic market. The production of meters, energy telemanagement systems, railway traffic safety components, as well as the rental services, are exclusively sold on the domestic market. The revenues achieved from the production intended for the domestic market significantly increased, being 14.6% higher than in 2015.

Export is sustained by the low voltage electrical switchgear, a large part of the plastic injection mold production and partially by the LED lighting units. The molds are other products which go to export. The Company's exports are mainly directed to the euro zone, in countries such as Italy, Germany, France, Bulgaria, but also to Serbia and Moldova.

Viewed by groups of products, the evolution of exports was mixed. The highest increase was registered for plastics, while for molds there was a decrease. In comparison with the previous year, exports decreased by 15.6% in 2016.

The decline of sales within the electricity supply business was closely related to the decrease in the number of consumer-customers in the Company portfolio. Following a restructuring process, only those consumer-customers who adhered to the more prudential and balanced policy of the Company were maintained. Even if, during certain periods, this policy could not ensure the lowest prices in the market, its advantage is a stability which benefits the business continuations and a good risk management

The distribution on the market of the LED lighting units and systems is mainly done directly by the Company through its specialized division from the commercial directorate. The LED lighting systems of large sizes, such as the ones designed for street lighting are promoted by means of supplier credit facilities, mainly intended for municipalities. The development of a larger number of turn-key projects ensured the sale of a more products and services.

With respect to the assurance of medium- and long-term distribution, we mention that the average duration of rental agreements is approximately 2 years, while the average duration of electricity supply contracts is 1 year, while production is generally based on short-term orders, except for the production of meters and remote management equipment that are contracted annually.

7.9.2. Market shares and competitors

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

Energy meters and metering and distribution equipment are intended for the energy distribution companies. In their plans for network modernization, they also included investments in smart metering. The main local manufacturers and competitors of Electromagnetica are AEM Timisoara and Elster.

Significant changes in market shares are taking place on the market of electricity supply services due, on the one hand, to the appearance of new suppliers and the migration of consumers from one supplier to another. In the first 11 months of 2016, the share held by Electromagnetica on the competitive market was less than 1 as shown in the ANRE report on energy market monitoring for November 2016.

On the local market of railway traffic safety systems, the number of purchase orders depends on the progress of the programs for the modernization of the infrastructure.

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

The products with a large share at the moment, such as LED lighting units and injection molded products are targeted at a wide customer portfolio and do not depend on a certain customer or group of customers. As regards the meters and telemanagement systems, the Company depends on the traditional beneficiaries, i.e. the electricity distribution companies. The same applies to the railway traffic safety components intended for the ultimate beneficiary CFR Infrastructura. The possible difficulties encountered by these customers in financing their modernization programs could affect the specific production of the Company.

7.10. Evaluation of personnel-related issues

The high qualification level of employees enabled the Company to carry out sustained research and development activities. In 2016, the average headcount was 583, i.e. 5.2% less than in the previous year, of which 35% employees with higher education and 35% with secondary education. The Company employees follow a continuing vocational training program, each of them benefiting, on average, from 50 hours/year internal and external professional training in quality, occupational health and safety, environment protection etc. In 2016 there was no case of occupational disease and no event with a major impact on human health and safety. The 3 accidents did not result in permanent invalidity or death. The management and employees interact in normal conditions. The unionization rate is approximately 72% and there were no labor conflicts between the management and the union.

More information about the social and staff policy, the policies on occupational health and safety, respect for human rights and the related risks and key performance indicators is available in the non-financial declaration of the Board of Directors for 2016, published together with this report on the Company website www.electromagnetica.ro.

7.11. Company business impact on the environment

The Company holds all the environmental permits required under the law for its business. The environmental management system is integrated with the quality management system. Following the audits conducted in the Company, the certifications for Integrated Management System maintained their validity for the period 2016-2018. The issuer does not carry out activities with significant impact on the environment and there are no litigations related to breaches of the legislation on environmental protection.

The production of energy from renewable sources in low power plants is considered to be clean.

The Company carries out an effective environmental risk control, implementing and complying with the waste management procedures, emergency procedures, production retrofitting, designing and testing new environmental-friendly products, standardizing and optimizing products. One of the research and development objectives is to implement new energy-efficient and less polluting manufacturing technologies and launch new products with reduced environmental impact during their service life. The Company took steps to raise the awareness of its employees and tenants of the significant impact on the environment and its prevention. Further information about the Company environmental policy, the risk factors and key performance indicators is available in the non-financial declaration of the Board of Directors for 2016, published together with this report on the Company website www.electromagnetica.ro.

7.12. Evaluation of the research and development activity

The research-design-development activity is carried out within three departments: the Research and Design Department, which includes the Photometry and Electromagnetic Compatibility Laboratory, the Electrical Equipment Design and Communication Department, and also the Self-Equipping Design Workshop. Considering that the products of Electromagnetica are completely designed internally, approximately 12% of the employees work in the research-design-development sector.

7.12.1. Research and Design Department

Most of the activity of this department is dedicated to the LED lighting sector.

The main objective was the research in thermally conductive plastics from the family of polymers with added graphite, in view of replacing the current aluminum radiators required to move heat away from LED lighting units. This technology will allow the construction of such radiators using our existing plastic injection molding machines. Implementing this technology, we pursue a higher added value and improved design. At this stage, we built research molds for the injection of test specimens and tested the injection of several radiators for CETUS 2M lighting units and LED bulbs.

In 2016, we continued to implement smart lighting management systems. Several lighting variation systems driven by light sensors were integrated in the generic automation solutions of four Dedeman do-it-yourself stores, using the DALI communication protocol. Moreover, an emergency lighting system, with centralized emergency supply, was integrated. A pilot project was installed in the Republic of Moldova, where the lighting management by means of Bluetooth radio technology was successfully experimented.

In the Antiex field, we obtained certification in compliance with the new SR EN 60079 standards for the products CETEX and GEMMA with 2 and 4 lighting modules in zone 2 gas and zone 22 dust in explosive atmosphere.

As far as internal lighting is concerned, we started the production of CIL ARGO with symmetric and asymmetric lenses which are entirely designed and manufactured at Electromagnetica. This is the 2nd generation of CIL ARGO produced in 44 design versions and having over 100lm/w luminous efficiency. To improve luminotechnical performances, we upgraded 10 CIL families (100 versions), all having a luminous efficiency higher than 100lm/w at warm, neutral and cold color temperatures.

The design and technology management was improved through three software applications for document management and uniform codification of CIL. These applications allow a controlled access of the staff involved in CIL research, design, production, quality-related and sales activities.

In the coming period, the main objective in applied scientific research will be to determine composition and obtain a casting mass with bituminous content for the encapsulation of power sources, which will result in reduced costs and higher reliability of the supply sources. We will continue research in designing radiators and passive cooling systems made of thermally conductive plastics, which are to replace the current radiators made of aluminum alloys. Furthermore, we are going to diversify a number of niche products with specific requirements, such as those for walkway, architectural lighting, stadiums, airports and festive lighting, at competitive costs and technical performances. Special attention will be paid to the design and homologation of the 22kW battery charging station for electric cars, in accordance with the European standard in force SR EN 61851, as well as to the construction of a few pilot charging stations in Romania.

7.12.2. Research and Development Department for Electrical Equipment Design and Communication

In 2016, the Company continued the program for the development of the ENERGSys remote reading and telemanagement system, registered trademark of Electromagnetica SA, mainly aiming to obtain define new functions that lead to active involvement and awareness of the household consumers included in the system on measures to increase energy efficiency and respond to the new ANRE requirements regarding electricity supply interruption (ANRE Order no.11/2016 - Distribution service performance standard).

The development of EnergSys 3 system (the version launched in 2015) we took into account the latest ANRE regulations on the functional requirements and the method of evaluation of smart measurement system pilot projects, the performance of a cost-benefit analysis for each of the pilot projects approved to be installed, as well as of the provisions on the installation of such pilot projects in areas which require the execution of works for the rehabilitation of the low voltage distribution network (ANRE Order no. 145/2014 as further amended).

At the same time, we took into account the need to extend the bidirectional communication interface of the system. In this context, the continuation of the program for the development of ENERGSys system is both appropriate and essential for the fulfillment of its potential on the market.

7.12.3. Self-Equipping Design Workshop

The Self-Equipping and Maintenance Workshop manufactures, on a one-off basis, means of production for the mechanization and automation of the serial production, for supporting the technical program for new technologies and products and for ensuring the environmental and organizational conditions at work. The Company manufactured ultrasonic welding machines, blister packs for LED bulbs, re-circulated water mechanized device for product water-tightness testing, X-Y manipulator, with the related intermediary warehouses, to serve the steel laser inscription post, the recess for plate lacquering, which allowed the implementation of the lacquering technological method in the process for supply sources manufacturing, thus improving product resistance to the external environment.

7.13. Risk management objectives and policies

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

Price risk

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

The risk of changes in the interest rates is maintained under control by adopting an investment policy exclusively based on own funding sources, which allows for the use of credit lines only for the working capital.

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

Penalty risk

At the beginning of 2016, the Competition Council notified Electromagnetica about its Decision no. 82/24.12.2015 to impose a fine of RON 9,021,308 on the Company, for alleged anti-competitive acts on the energy market. The payment of the fine was suspended by ANAF (National Agency for Fiscal Administration) until the procedures at first instance are completed for case no. 3778/2/2016 pending before the 8th Division for Contentious Administrative and Tax Matters of the Bucharest Court of Appeal, whereby Electromagnetica applied for the annulment of the decision. Note that the Company submitted a bank guarantee letter to ANAF to fully cover the amount of the fine. This fine did not affect the financial result in 2016 because its influence was taken into consideration in the financial result reported for 2015.

Dispute-related risk

The Company is involved in disputes related to small values which could not affect its financial stability. The only exception, given the claims of plaintiff Hidroelectrica, is case no. 13259/3/2015 pending before the Bucharest Tribunal.

Credit risk

Credit risk is the possibility that contracting parties breach their contractual obligations resulting in financial loss for the Company. When possible and allowed by market practices, the Company requests guarantees. Trade receivables derive from a wide range of customers operating in various fields of activity and different geographical areas. To counteract this risk factor, the Company applied restrictive policies to the delivery of products to doubtful customers. Insurance policies were contracted for foreign market receivables. Due to the increase of insolvency cases in the economy, there is a concrete risk related to the recovery of the equivalent value of products and/or services supplied prior to the declaration of insolvency. The Company is paying more attention to the creditworthiness and financial discipline of its contractual partners. It should be mentioned that from the end of the financial year 2016 until the date of this report several electricity suppliers became or declared to be insolvent. Therefore, we can speak about a deterioration of the business environment and a direct manifestation of the credit risk.

Equity risk

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

Liquidity and cash flow risk

The Company cash flow department 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 decision of the general meeting of shareholders of April 21, 2016 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 the total fixed assets, less receivables, to ensure the Company's capacity to perform its obligations in case of short-term cash deficit. At the same time, investments were limited to own sources of funding and to those with direct impact on the turnover. The liquidity and cash-flow risk management policy should be adapted to the resized activity of electricity supply. The risk analyzed above is closely related to the sanction-related risk and the dispute-related risk, which are described below and the new and more exigent commercial practices. This risk is closely related to the risks described above.

Disaster risk

The production of electricity in low power plants without dams is subject to the risk of destruction caused by floods. Under these circumstances, the Company concluded insurance policies to protect not only the MHPs, but also its headquarters against disasters. In 2016, based on the insurance agreement, the Company could cover the damages caused by a landslide at Brodina 2 micro-hydro power plant.

Political and legislative risk

The Company's activity on regulated markets, such as the electricity supply and production market, exposes the Company to a legislative risk. For instance, the energy market was influenced by the exemption of large consumers from the obligation to pay an important part of the green certificates and also by the price changes which stimulated the export of energy.

The national implementation of European directives on energy efficiency can stimulate the sale of LED lighting solutions; at the same time, their delayed or inappropriate regulation can disturb the specific market.

7.14. Company business prospects

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

Market trends

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

The energy market is subject to the influence of several factors. First, the producers and suppliers maintained an abnormal practice of excessively trading energy under short-term contracts, to the detriment of the long-term contracts. Secondly, under the pressure of a competition intensified by the entry of new players into the market, some of the suppliers accepted increasingly high risks in energy acquisition. This behavior showed its limits at the beginning of 2017 when, in the context of an enhanced volatility of prices on the DAM, several suppliers became insolvent. A larger number of insolvency cases could affect the liquidities of the Company due to an increased claim recovery period. The connection of the energy market with the regional market favored the alignment of energy prices without moderating their volatile nature. There are signs of market reorientation towards a more predictable business model, a trend materialized in the appearance of some offers of energy supply at a fixed price and for a 2-year period, intended for household customers.

Commercial policy trends

The Company's commercial policy aims to control the number of days agreed under contract for the payment of receivables by its customers. The Company will continue to sell its LED lighting systems under supplier credit facilities for medium and large scale projects. The application of this commercial policy requires a sufficient level of available cash; therefore, the Company intends to identify additional funding sources.

Uncertainty factors

The worldwide accelerated dynamics of innovation in the field of LED lighting technology is an uncertainty factor as regards the pricing of new materials and components.

For the revenues from the production of energy, the main factor of uncertainty is the level of rainfall which influences the physical production of electricity in micro-hydro power plants.

The volume of purchase orders for exports is, by nature, less predictable on medium and long term.

The supply of energy is confronted with the volatility of energy prices. The increase of production capabilities in wind and solar power plants adds a factor of uncertainty with regard to the quantitative offer on the day-ahead market and increases the volatility of energy prices.

The period for receivables collection becomes uncertain in the context of an increased frequency of insolvency cases among electricity consumers or suppliers.

7.14.2. Presentation and analysis of the effects of current or expected capital expenditure on the Company financial standing

Aiming to maintain a high technical level, to raise production capacity and labor productivity, in 2016 the Company acquired technological equipment and measuring and checking devices and instrumentation cumulating RON 2.1 million. In 2017, the investments will continue to be directed to the refitting and upgrading of the production capacities, as well as to the modernization of several substations and electrical installations and the achievement of an increased power of 5.2 MW.

With such investments, we estimate a higher capacity for plastic injection mold production as a result of the construction of a new production hall, an extension of the capacities of the metrology and electromagnetic compatibility certification laboratories and the modernization of several wings of our buildings. The investment program is estimated at about 5 million euro, but it will be conditional, as before, on the existence of own funding sources.

7.15. Tangible assets of the Company

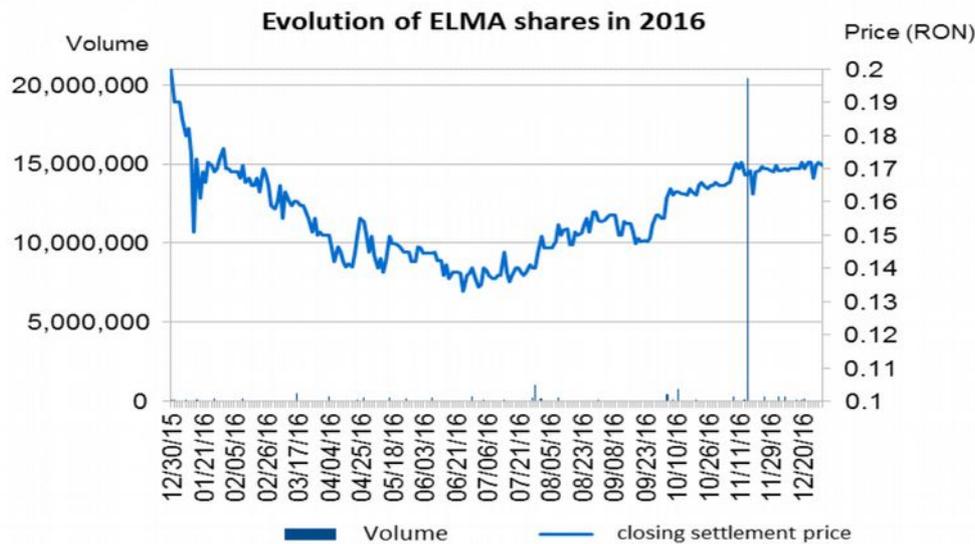
- 7.15.1.** The production facilities of the Company are mainly located at its headquarters at 266-268 Calea Rahovei Street, district 5, Bucharest, except for the facilities producing energy from renewable sources, which are located in Suceava river basin, Radauti area, over approximately 70 km. The production facilities of the Company include technologies such as: machining, sheet metal processing (stamping, bending, cutting, milling), plastic injection, technological assembling operations, etc. They are characterized by complexity, accuracy, flexibility, automation etc.
- 7.15.2.** The Company is not involved in any litigation related to the ownership of the land pertaining to its headquarters in Bucharest, 266 - 268 Calea Rahovei Street or to its micro-hydro power plants in Radauti area. Following the settlement of case no. 1029/2/2014* (222/2016), the court admitted the claim under guarantee against AAAS and obliged the defendant to pay Electromagnetica the amount of RON 50,084 representing legal court costs, and the amount of RON 1,252,394 as compensation for the loss of the land of 1,248 sq m located at 23-24 Petre Ispirescu Street, District 5, Bucharest, land which initially was part of the state contribution to the share capital of the Company and later on it was restituted to its former owner.

7.16. Securities market

Subsidiaries are not listed companies. The shares of Electromagnetica listed on the Bucharest Stock Exchange (BVB), for Premium Category, with the following trading characteristics:

- Stock symbol: ELMA
- Ordinary, nominative, dematerialized shares
- Number of issued shares: 676,038,704
- Nominal value: RON 0.1000
- Share capital: RON 67,603,870.40
- ISIN code ROELMAACNOR2
- Bloomberg ID: BBG000CMQBR5
- Reuters symbol: ROELMA.BX

The ELMA shares are part of the BET Plus index, weighing 0.32%. Due to reduced liquidity, the ELMA shares were excluded from BET-BK and BET-XT indices upon the quarterly adjustment operated by the Index Committee in September 2016.



The shares traded in 2016 totaled 4.68% of the Company share capital, at an average price of RON 0.1474/share (calculated for all market segments). The reference price varied between a minimum of RON 0.1330 and a maximum of RON 0.19/share. The closing settlement price at the end of 2016 was RON 0.1710/share, 14.5% less than at the end of the previous year, corresponding to a market capitalization of RON 115.6 million.

8. Separate financial and accounting statement as at December 31, 2016 (all amounts are expressed in RON, unless otherwise specified)

8.1. Financial position

	December 31, 2016	December 31, 2015
ASSETS		<i>(Restated)</i>
Non-current assets		
Property, plant and equipment	298,078,444	228,873,139
Investment property	7,664,546	2,194,374
Intangible assets	1,637,684	1,378,645
Other non-current assets	17,038,631	5,687,074
Total active imobilizate	324,419,304	238,133,232
Current assets		
Inventories	18,029,921	13,975,583
Trade receivables	34,516,350	51,343,760
Cash and cash equivalents	21,521,428	17,009,936
Financial assets at fair value through profit or loss	-	1,100,280
Other current assets	3,165,527	2,100,890
Current tax assets	-	770,955
Total current assets	77,233,226	86,301,404
Total assets	401,652,531	324,434,636

	December 31, 2016	December 31, 2015 <i>(Restated)</i>
EQUITY AND LIABILITIES		
Equity		
Share capital	67,603,870	67,603,870
Reserves and other equity	181,225,908	136,205,544
Retained earnings	90,053,565	60,597,289
Total equity attributable to parent's shareholders	338,883,343	264,406,703
Non-controlling interests	215,061	146,750
Non-current liabilities		
Trade payables and other liabilities	2,784,610	2,956,025
Investment subsidies	4,899,962	5,063,180
Deferred tax liabilities	17,785,656	4,594,356
Total non-current liabilities	25,470,228	10,432,123
Current liabilities		
Trade payables and other liabilities	34,811,611	34,933,358
Investment subsidies	163,219	163,219
Provisions	1,833,135	12,171,045
Current income tax liabilities	275,933	-
Total current liabilities	37,083,898	47,267,622
Total liabilities	62,554,126	59,881,182
Total equity and liabilities	401,652,531	324,434,636

The comparative analysis of the balance sheet items revealed the following:

The equity registered a significant increase of 28.16%, reflecting the positive net result of the land and building revaluation and, to a smaller extent, the profit achieved during the respective period.

The positive net result of the Company lands and buildings re-evaluation contributed to the significant increase of the tangible assets, respectively of the investment property. The acquisition of the technological equipments necessary for the manufacturing process, the modernization of the existing ones and the execution of tools, devices and verifiers (SDV) also had a positive influence on the tangible assets which increased by 30.2%.

The 23.8% increase of the total assets was exclusively due to the increase of non-current assets, while the current assets maintained at the same level.

The payables decrease in correlation with the reduced electricity supply activity.

In 2015, the share of the liabilities in the total assets slightly decreased by 18.4%, up to 15.5% in 2016.

8.2. The consolidated profit or loss are as follows:

The total revenue was 32.25% less than in 2015, but the total expenditure decreased by 37.09%, which meant earned profit.

	12-month period ended December 31, 2016	12-month period ended December 31, 2015 <i>(Restated)</i>
Revenues	236,253,958	385,483,375
Investment income	5,545,363	173,120
Other net income	4,890,167	3,717,420
Changes in inventories of finished goods and work in progress	15,924,804	10,608,436
Own work capitalised	1,246,195	1,742,457
Raw materials and consumables used	(170,169,019)	(315,091,428)
Employee-related expenses	(36,459,838)	(34,862,468)
Expenses related to depreciation and impairment	(16,930,717)	(15,956,520)
Other net expenses	(32,255,671)	(56,670,923)
Financial expenses	(654,692)	(936,411)
Profit/(Loss) before tax	7,390,550	(21,792,941)
Income tax	(1,010,554)	1,017,300
Profit/(Loss) of the period	6,379,995	(20,775,641)
distributable to the parent	6,298,733	(20,790,501)
distributable to non-controlling interests	81,262	14,860

Revenue increases were registered in the production of lighting units and systems, plastic injection, railway traffic safety components, rents and electricity, while for meters and telemanagement systems, molds, switchgear and particularly electricity supply registered lowered revenues.

All the production activities (except electricity production in micro-hydro power-plants) as well as the rental activity were profitable.

The electricity production registered a loss as a result of the assets re-evaluation in micro-hydro power plants, with a negative impact of the financial result, while for the electricity supply there was no more loss, as it registered in the previous year, being at the limit of profitability.

The level of amortization maintained at a level comparable with the one recorded in the previous year.

8.3. Consolidated cash flows

	12-month period ended December 31, 2016	12-month period ended December 31, 2015
Net cash generated by/ (used in) operating activities	6,750,364	(9,807,435)
Net cash used in investments	(2,199,774)	(2,121,994)
Net cash used in financing activities	(39,098)	(2,510,384)
Net increase / (decrease) of cash and cash equivalents	4,511,492	(14,439,813)
Cash and cash equivalents at the beginning of the period	17,009,936	31,449,749
Cash and cash equivalents at the end of the period	21,521,428	17,009,936

At the end of the period, the cash registered a 26.52% increase as compared to the beginning of the reporting period. The higher cash level can be explained by the tying-up, in the first half of the year, of some cash resources intended for the payment of the RON 9,021,308 fine to the Competition Council, which limited the fulfillment of the investment program.

The level of the investments was comparable with 2015. The highest weight was registered for the investment in technological equipments.

Credit lines were used to a smaller extent than in the previous year, but they had no influence on the net cash because they were used on a short term and fully reimbursed.

9. Important events occurred after the closing of the financial year

In the first two and a half months of the year, several electricity suppliers submitted petition for starting insolvency. The exposure of the parent to these suppliers represents less than 1% of its turnover in 2016.

At the time this report was prepared, the management of the company was not aware of any events, economic changes or other factors of uncertainty that could significantly affect the Group revenues or liquidities, other than those mentioned herein.

10. Statement of corporate governance of parent

10.1 The relevant corporate governance code

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

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

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

10.2. General meetings of shareholders and rights of shareholders

The rights of the shareholders and the procedure for participation in the general meetings of shareholders are described in the notice convening the general meeting and were summarized in a regulation available in the Corporate Governance section of the Company's website www.electromagnetica.ro/companie/info.

10.3. Management system

The company is currently managed under the one-tier system consisting of a Board of Directors composed of 9 members. This system meets the current management needs and it is not necessary to implement a two-tier system.

10.4. Corporate governance structures

The main administration, management and supervisory structures of the Company are the Board of Directors, the Managers, the External Auditor and the Internal Auditor. The professional qualification and management experience of the members of the Board enables them to assess on a regular basis the aspects related to the review of the managers' activity, nomination and remuneration or internal audit. There are no separate permanent advisory committees, such as audit, remuneration or nomination committees, established because no director declared to be independent and the legal requirements for most of the members or leaders of such committees to be independent directors are not met. The members of the administration, management and supervision bodies have the joint obligation to ensure that the annual financial statements and the report of the directors are prepared and published in accordance with the national legislation.

10.4.1. Board of Directors and managers

The members of the Board of Directors were elected by majority vote in the ordinary meeting of shareholders on 25 September 2015, the candidates being proposed by the shareholders. No director stood as a candidate as an independent person. There are no family relationship between the directors or members of the executive management and third parties based on which they were elected or appointed. The Board of Directors is composed of 9 members elected for a 4-year term of office. Their mandate expires on October 18, 2019, while the mandates of the managers end upon revocation. Following the resignation of Mr. Preda Cristinel Laurentiu, starting from 15 March 2016 Mrs. Hodea Cristina Ioana Rodica was appointed interim director. Subsequently, Mrs. Hodea was confirmed as director by the ordinary general meeting of shareholders on 21.04.2016. The composition of the Board of Directors faithfully reflects the participation in the Company's share capital (over 70% of the capital is represented in the BoD).

	Name	Position	Term of office	Age, profession, experience	ELMA shares ownership	Positions held in other listed companies
1	Scheusan Eugen	BoD Chairman	18 Oct 2015 - 18 Oct 2019	63, engineer, Electromagnetica SA	0.2428%	-
2	Vlad Florea	BoD Member	18 Oct 2015 - 18 Oct 2019	69, economist, Electromagnetica SA	1.1640%	-
3	Stancu Traian	BoD Member	18 Oct 2015 - 18 Oct 2019	64, engineer, Electromagnetica SA	0.0462%	-
4	Stancu Ioan	BoD Member	18 Oct 2015 - 18 Oct 2019	67, technician, Electromagnetica SA	0.0027%	-
5	Macovei Octavian	BoD Member	18 Oct 2015 - 18 Oct 2019	67, engineer, Electromagnetica SA	0%	-
6	Calitoiu Elena	BoD Member	18 Oct 2015 - 18 Oct 2019	54, engineer, SIF Oltenia	0%	SIF Oltenia – Head of Investments and Risk Management; Antibiotice Iasi - director
7	Bucur Vasilica	BoD Member	18 Oct 2015 - 18 Oct 2019	59, legal professional, SIF Oltenia	0%	SIF Oltenia – head of legal department
8	Sichigea Elena	BoD Member	18 Oct 2015 - 18 Oct 2019	62, economist, SIF Oltenia	0%	SIF Oltenia – head of economic department
9	Hodea Cristina Ioana Rodica	BoD Member	15 Mar 2016 - 18 Oct 2019	53, CFA, MBA, engineer, auditor	0%	-
10	Preda Cristinel Laurentiu	BoD Member	15 Oct 2015 - 15 Mar 2016 (resignation)	37, lawyer	0.000015%	Flaros SA Bucharest - director

The diversity of the members of the Board enables the efficient use of supplementary skills and professional experience and knowledge in various fields. Most of the members of the Board are non-executive managers, which ensure the proper balance of authority. In 2016, the Board of Directors met every month in the presence of all the Board members, whether in person or by representative. The level of the compensation for the Board members is established by decision of the general meeting of shareholders.

10.4.2. Managers

According to the provisions of the Company's Articles of Incorporation, the Chairman of the Board of Directors also exercises the function of Managing Director and duly represents the Company. The Board of Directors can delegate certain powers to one or more managers, based on mandate agreements, and establish the tasks of each manager who is subject to such delegation. The executive management is currently ensured by 5 managers, as follows:

No.	Surname/ Name	Capacity	Shares owned as of December 31, 2016	Other positions held in listed companies
1	Scheusan Eugen	Managing Director	0.2428%	-
2	Frasineanu Ilie	Economic Manager	0.0486%	-
3	Stancu Traian	Production Manager	0.0462%	-
4	Macovei Octavian	Technical Manager	0%	-
5	Balmus Dumitru	Commercial Manager	0.0001%	-

The remunerations of the managers are established by decision of the Board of Directors. The gross annual remuneration and other benefits, including the remuneration approved for the management by the general shareholders' meeting, which is part of the revenue and expenditure budget, cannot exceed 5% of the value of the equity determined in the annual balance sheet. There are no arrangements whereby managers are granted compensation in case of resignation or revocation without reasonable cause.

10.4.3. Independent external auditor

Based on the power of attorney granted by the general meeting of Electromagnetica shareholders under article 9 of its decision dated 21.04.2016, the Board of Directors met on 31.05.2016 decided to sign with Deloitte Audit SRL an agreement for auditing the separate and consolidated financial statements for the financial years ended December 31, 2016 and December 31, 2017.

The audit company is represented by Mr. Farrukh Khan – partner and director, while the audit mission is run by Mr. Zeno Caprariu, audit director.

The identification data of Deloitte Audit SRL are the following:

- Tax ID: 7756924
- Trade Register no.: 40/6775/1995
- License issued by the Chamber of Financial Auditors of Romania: no. 25/25.06.2001
- Company head office: 4-8 Nicolae Titulescu Street, 2nd Floor, Deloitte area and 3rd Floor, District 1, Bucharest
- Tel 021/222.16.61
- Fax 021/319.51.00

10.4.4. Internal control

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

The company has in place an internal control/management review system designed and implemented to enable the executive management and the Board of Directors to provide reasonable assurance that the company funds allocated to the achievement of general and specific objectives were used lawfully, regularly, efficiently, effectively and economically.

The internal control / management review system comprises both self-control and subsequent control mechanisms applied by the Budgetary Surveillance and Execution Office and the Internal Control and Audit Department; the implementation of the measures aimed at increasing its efficiency is also based on the assessment of risks.

The accounting and financial internal review is a basic component of internal control. The company applied the internal accounting and financial review to ensure the accounting management and the surveillance of the Company activity from the financial perspective.

The internal audit activity was focused on:

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

The control activity was carried out according to a schedule approved by the company management. Only insignificant irregularities were found, for which concrete measures were taken.

10.5. Capital structure and major shareholders

The company did not issue shares that grant special controlling rights or other types of rights. During 2016 there were no suspensions of voting rights or restrictions related to the ownership of shares. The members of the executive management are also members of the Electromagnetica Association of Shareholding Employees (PAS); this association is not controlled by a single person. At the date of 31.12.2016, the Company had 6,143 shareholders.

According to the Central Securities Depository, the capital structure as of 31.12.2016 was the following:

Shareholder	Ownership	Number of shares
PAS Electromagnetica	29.6288%	200,302,763
SIF Oltenia SA	25.3939%	171,672,301
Natural persons	28.6638%	193,778,348
Legal entities	16.3135%	110,285,292
TOTAL	100.00%	676,038,704

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

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

10.7. Own shares redemption

There is no approved program for the redemption of shares or price stabilization and there is no scheme for granting of shares to employees or management members. Note that the extraordinary general meeting of shareholders of April 30, 2015 approved, in principle, the repurchase by the Company of its own shares in order to implement a system for employee remuneration and retention, and later on a new extraordinary general meeting is to be convened to establish the number of shares, the minimum price and the term of redemptions.

10.8. Reporting share transactions by directors and other stakeholders

The company does not apply additional rules, other than those provided for by legislation, to the transactions conducted with the shares of the Company by its directors or other stakeholders. The directors are aware of the legislation on transactions with Company shares. In 2016, pursuant to Article 150 of Regulation no. 1/2006 of the National Securities Commission (CNVM), the following shareholders included in the list of persons having access to inside information reported transactions with the Company shares: SIF Oltenia (major shareholder), Vlad Florea (director), Stanila Antoaneta Monica (Vlad Florea's daughter and member of the management of PAS Electromagnetica, major shareholder).

10.9. Amendments to the Articles of Incorporation

The Articles of Incorporation were updated on April 21, 2016 in terms of directors (Article 16.1), based on the decision of the ordinary general meeting of the shareholders of 21 April 2016 regarding the election of Mrs Hodea Cristina Ioana Rodica as a director and the deregistration of Mr. Preda Cristinel Laurentiu, following his resignation.

10.10. Disclosure of corporate information

Every year, the Company establishes and publishes a financial reporting calendar. The Company regularly and permanently prepares and discloses information that is relevant for investment decisions. The staff dedicated to this activity is trained on a continuous basis, educated and instructed in issues related to the company's relation with its shareholders and the corporate governance principles. In 2016, the information was disclosed in Romanian and in English for those categories of documents envisaged by the applicable legislation. The Company encourages communication with shareholders the Investors section on its web page available at http://www.electromagnetica.ro/companie/info.php?ik_comp=4; for further information, investors can either call to 021.404.2132, use the fax no. 021.404.2195 or the e-mail address: juridic@electromagnetica.ro.

**Board of Directors Chairman/Managing Director
Eugen Scheusan**

ELECTROMAGNETICA S.A.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE 12-MONTH PERIOD ENDED DECEMBER 31, 2016
(all amounts are expressed in RON, unless otherwise specified)

	Nota	12-month period ended December 31, 2016	12-month period ended December 31, 2015 <i>(Restated)</i>
Revenues	19	236,253,958	385,483,375
Investment income	19	5,545,363	173,120
Other net income	19	4,890,167	3,717,420
Changes in inventories of finished goods and work in progress	19	15,924,804	10,608,436
Own work capitalized	19	1,246,195	1,742,457
Raw materials and consumables used	20	(170,169,019)	(315,091,428)
Employee-related expenses	20	(36,459,838)	(34,862,468)
Expenses related to depreciation and impairment	20	(16,930,717)	(15,956,520)
Other expenses	20	(32,255,671)	(56,670,923)
Financial expenses	21	(654,692)	(936,411)
Profit/(Loss) before tax		7,390,550	(21,792,941)
Income tax	22	(1,010,554)	1,017,300
Profit/(Loss) of the period		6,379,995	(20,775,641)
Distributable to the parent		6,298,733	(20,790,501)
Distributable to non-controlling interests		81,262	14,860
Other comprehensive income			
of which:			
other comprehensive income that cannot be reclassified to profit or loss, of which:			
- revaluation surplus for tangible assets		81,594,328	21,095,837
- deferred tax recognized in equity	22	(13,698,750)	(3,290,625)
Comprehensive income for the period		74,275,573	(2,970,429)

These consolidated financial statements were approved for issuance by the management as at March 21, 2017.

Eugen Scheuşan
Managing Director

Ilie Frăsineanu
Economic Manager

ELECTROMAGNETICA S.A.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2016
(all amounts are expressed in RON, unless otherwise specified)

	<u>Note</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u> <i>(Restated)</i>
ASSETS			
Non-current assets			
Property, plant and equipment	4	298,078,444	228,873,139
Investment property	5	7,664,546	2,194,374
Intangible assets	6	1,637,684	1,378,645
Other non-current assets	7	17,038,631	5,687,074
Total active imobilizate		324,419,304	238,133,232
Current assets			
Inventories	8	18,029,921	13,975,583
Trade receivables	9	34,516,350	51,343,760
Cash and cash equivalents	12	21,521,428	17,009,936
Financial assets at fair value through profit or loss	11	-	1,100,280
Other current assets	10	3,165,527	2,100,890
Current tax assets	22	-	770,955
Total current assets		77,233,226	86,301,404
Total assets		401,652,531	324,434,636
EQUITY AND LIABILITIES			
Equity			
Share capital	13	67,603,870	67,603,870
Reserves and other equity	14	181,225,908	136,205,544
Retained earnings	15	90,053,565	60,597,289
Total equity attributable to parent's shareholders		338,883,343	264,406,703
Non-controlling interests		215,061	146,750
Non-current liabilities			
Trade payables and other liabilities	18	2,784,610	2,956,025
Investment subsidies	16	4,899,962	5,063,180
Deferred tax liabilities	22	17,785,656	4,594,356
Total non-current liabilities		25,470,228	10,432,123
Current liabilities			
Trade payables and other liabilities	18	34,811,611	34,933,358
Investment subsidies	16	163,219	163,219
Provisions	17	1,833,135	12,171,045
Current income tax liabilities	22	275,933	-
Total current liabilities		37,083,898	47,267,622
Total liabilities		62,554,126	59,881,182
Total equity and liabilities		401,652,531	324,434,636

These consolidated financial statements were approved for issuance by the management as at March 21, 2017.

Eugen Scheuşan
Managing Director

Ilie Frăşineanu
Economic Manager

The accompanying notes form an integral part of these consolidated financial statements.

ELECTROMAGNETICA S.A.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
(all amounts are expressed in RON, unless otherwise specified)

	<u>Note</u>	<u>12-month period ended December 31, 2016</u>	<u>12-month period ended December 31, 2015</u>
Cash flows from operating activities:			
Cash receipts from customers		270,415,479	451,549,590
Payments to suppliers		(204,055,209)	(367,590,655)
Payments to employees		(35,254,088)	(33,883,003)
Other operating activities		(24,184,527)	(59,690,534)
Cash used in operating activities		<u>6,921,656</u>	<u>(9,614,602)</u>
Interest paid		(72,757)	(98,579)
Income tax paid		(98,535)	(94,254)
Net cash generated by/ (used in) operating activities		<u>6,750,364</u>	<u>(9,807,435)</u>
Cash flows from investing activities			
Acquisition of property, plant and equipment		(2,263,613)	(2,322,774)
Proceeds from sale of non-current-assets		33,155	83,807
Interest received		30,684	77,307
Dividends received		-	39,666
Net cash used in investing activities		<u>(2,199,774)</u>	<u>(2,121,994)</u>
Cash flows from financing activities			
Proceeds from loans		68,918,650	123,807,974
Cash repayments of amounts borrowed		(68,918,650)	(123,804,974)
Dividends paid		(39,098)	(2,510,384)
Net cash used in financing activities		<u>(39,098)</u>	<u>(2,510,384)</u>
Net increase/decrease of cash and cash equivalents		<u>4,511,492</u>	<u>(14,439,813)</u>
Cash and cash equivalents at beginning of period	12	<u>17,009,936</u>	<u>31,449,749</u>
Cash and cash equivalents at end of period	12	<u>21,521,428</u>	<u>17,009,936</u>

These consolidated financial statements were approved for issuance by the management as at March 21, 2017.

Eugen Scheuşan
Managing Director

Ilie Frăsineanu
Economic Manager

ELECTROMAGNETICA S.A.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016
(all amounts are expressed in RON, unless otherwise specified)

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Tangible assets revaluation reserve</u>	<u>Other reserves</u>	<u>Legal reserve</u>	<u>Non-controlling interests</u>	<u>Total equity</u>
Balance as at January 1, 2015	67,603,870	16,491,195	77,337,185	53,673,554	56,862,531	151,215	270,992,247
Transfer of revaluation reserve to retained earnings further to transition to IFRS in 2012	-	72,040,578	(72,040,578)	-	-	-	-
Balance as at January 1, 2015 - restated	67,603,870	88,531,773	4,169,304	53,673,554	56,862,531	151,215	270,992,247
Comprehensive income for the period							
Loss of the period	-	(20,790,501)	-	-	-	14,860	(20,775,641)
Other comprehensive income							
Transfer of revaluation reserve to retained earnings following the depreciation of revalued tangible assets	-	1,095,192	(1,095,192)	-	-	-	-
Revaluation of tangible assets	-	-	21,095,837	-	-	-	21,095,837
Deferred tax recognized to reserves	-	-	(3,290,625)	-	-	-	(3,290,625)
Total comprehensive income for the period	-	(19,695,310)	16,710,020	-	-	14,860	(2,970,429)
Transactions with shareholders recognized directly in equity							
Transfer of the retained earnings to reserves	-	(5,010,458)	371,123	4,415,497	3,515	(19,325)	(239,648)
Dividends allocated to shareholders	-	(3,170,576)	-	-	-	-	(3,170,576)
Other items	-	(58,140)	-	-	-	-	(58,140)
Balance as at December 31, 2015 (restated)	67,603,870	60,597,289	21,250,447	58,089,051	56,866,046	146,750	264,553,453

Restatements for previous years are presented in Note 29.

These consolidated financial statements were approved for issuance by the management as at March 21, 2017.

Eugen Scheuşan
Managing Director

Ilie Frăsineanu
Economic Manager

The accompanying notes form an integral part of these consolidated financial statements.

ELECTROMAGNETICA S.A.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016
(all amounts are expressed in RON, unless otherwise specified)

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Tangible assets revaluation reserve</u>	<u>Other reserves</u>	<u>Legal reserve</u>	<u>Non-controlling interests</u>	<u>Total equity</u>
Balance as at January 1, 2016 (restated)	67,603,870	60,597,289	21,250,447	58,089,051	56,866,046	146,750	264,553,453
Comprehensive income for the period							
Profit or loss of the period	-	6,298,733	-	-	-	81,262	6,379,995
Other comprehensive income							
Transfer of revaluation reserve to retained earnings following the depreciation of revalued tangible assets	-	449,478	(449,478)	-	-	-	-
Revaluation of tangible assets	-	-	81,594,328	-	-	-	81,594,328
Deferred tax recognized to reserves	-	-	(13,698,750)	-	-	-	(13,698,750)
Total comprehensive income for the period	-	6,748,211	67,446,100	-	-	81,262	74,275,573
Transactions with shareholders, directly registered to equity							
Setup of legal reserve	-	-	-	(273,331)	273,331	-	-
Transfer of the retained earnings to reserves	-	22,716,628	-	18,878	(22,716,628)	-	18,878
Dividends allocated to shareholders	-	-	-	-	-	-	-
Other items	-	(8,563)	56,960	-	(7)	(12,951)	35,439
Balance as at December 31, 2016	67,603,870	90,053,566	88,753,507	57,834,598	34,422,742	215,061	338,883,343

The legal reserve decreased in 2016 as a result of covering the accounting loss recorded in 2015 by the adjustment of the legal reserve calculated according to IAS 29 following the transition to IFRS (Note 14).

These consolidated financial statements were approved for issuance by the management as at March 21, 2017.

Eugen Scheuşan
Managing Director

Ilie Frăsineanu
Economic Manager

The accompanying notes form an integral part of these consolidated financial statements.

ELECTROMAGNETICA S.A.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(all amounts are expressed in RON, unless otherwise specified)

1. GENERAL INFORMATION ON THE GROUP

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

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

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

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

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

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

Statement of interest in subsidiaries

	<u>Share capital total</u>		<u>Of which: parent company</u>		
	<u>Value</u>	<u>No. of securities</u>	<u>Value</u>	<u>No. of securities</u>	<u>Ownership and voting right percentage</u>
Procetel	110,005	44,002	732,008*)	42,483	96,548
Electromagnetica Goldstar	295,080	2,650	3,126,197*)	2,650	100
Electromagnetica Prestserv	30,000	300	29,500	295	98,333
Electromagnetica Fire	80,000	800	79,782	799	99,875

*) *Negotiated purchase value*

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

ELECTROMAGNETICA S.A.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(all amounts are expressed in RON, unless otherwise specified)

1. GENERAL INFORMATION ON THE GROUP (continued)

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

a) Electromagnetica Goldstar SRL

Administrative management: Florea Vlad – Sole Director, under a 4 year mandate valid until 1 August 2019

Executive management: Viorel Stroică – Executive Director

b) Electromagnetica Fire SRL

Administrative management: Maria Rogoz – Sole Director, under a 4 year mandate valid until 26 March 2018

Executive management: Maria Rogoz – Managing Director

c) Electromagnetica Prestserv SRL

Administrative management: Gheorghe Ciobanu – Sole Director, under a 4 year mandate valid until 3 November 2018

Executive management: Gheorghe Ciobanu – Managing Director

d) Procetel SA

Administrative management: Florea Vlad – Sole Director, under a 4 year mandate valid until 29 April 2018

Executive management: Mihai Sanda – Accounting Officer

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

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

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

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** - Investment Entities: Applying the Consolidation Exception - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations - adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Disclosure Initiative - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** - Clarification of Acceptable Methods of Depreciation and Amortization - adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** - Bearer Plants - adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),

ELECTROMAGNETICA S.A.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(all amounts are expressed in RON, unless otherwise specified)

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

Initial application of new amendments to the existing standards effective for the current reporting period (continued)

- **Amendments to IAS 19 "Employee Benefits"** - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- **Amendments to IAS 27 "Separate Financial Statements"** - Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- **Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)"** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards has not led to any material changes in the Group's financial statements.

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

At the date of authorization of these financial statements, the following new standards and amendments to standards issued by IASB and adopted by the EU are not yet effective:

- **IFRS 9 "Financial Instruments"** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018)
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

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

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

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),

ELECTROMAGNETICA S.A.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(all amounts are expressed in RON, unless otherwise specified)

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

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

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IAS 7 "Statement of Cash Flows"** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 "Income Taxes"** - Recognition of Deferred Tax Assets for Unrealized Losses (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).

The Company anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Group in the period of initial application. On the publication date of these consolidated financial statements, the Group has not estimated the impact of applying the new standards.

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Company's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements, if applied as at the balance sheet date.

More details about individual standards, amendments to existing standards and interpretations:

- **IFRS 9 "Financial Instruments"** issued on 24 July 2014 is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

Classification and Measurement - IFRS 9 introduces new approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements under IAS 39. The new model also results in a single impairment model being applied to financial instruments falling within the scope of IFRS 9 "Impairment".

Impairment - IFRS 9 has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected losses on a more timely basis.

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

Hedge accounting - IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities.

Own credit - IFRS 9 removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss.

- **IFRS 15 "Revenue from Contracts with Customers"** issued by IASB on 28 May 2014 (on 11 September 2015 IASB deferred effective date of IFRS 15 to 1 January 2018 and on 12 April 2016 IASB made clarifications to this standard). IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.
- **IFRS 16 "Leases"** issued by IASB on 13 January 2016. Under IFRS 16 a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. As with IFRS 16's predecessor, IAS 17, lessors classify leases as operating or finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. For finance leases a lessor recognizes finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognizes operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.
- **Amendments to IFRS 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions** issued by IASB on 20 June 2016. The amendments provide requirements on the accounting for: (a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (b) share-based payment transactions with a net settlement feature for withholding tax obligations; and (c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.
- **Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts** issued by IASB on 12 September 2016. The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the replacement standard that the Board is developing for IFRS 4.
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** issued by IASB on 11 September 2014 (on 17 December 2015 IASB deferred indefinitely effective date). The amendments address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business.

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

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" - Investment Entities: Applying the Consolidation Exception** issued by IASB on 18 December 2014. The narrow-scope amendments to IFRS 10, IFRS 12 and IAS 28 introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances.
- **Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations** issued by IASB on 6 May 2014. The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.
- **Amendments to IAS 1 "Presentation of Financial Statements" - Disclosure Initiative** issued by IASB on 18 December 2014. The amendments to IAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.
- **Amendments to IAS 7 "Statement of Cash Flows"** - Disclosure Initiative issued by IASB on 29 January 2016. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.
- **Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealized Losses** issued by IASB on 19 January 2016. The amendments to IAS 12 clarify how to account for deferred tax assets related to debt instruments measured at fair value.
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" - Clarification of Acceptable Methods of Depreciation and Amortization** issued by IASB on 12 May 2014. Amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. Amendments also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" - Agriculture: Bearer Plants** issued by IASB on 30 June 2014. The amendments bring bearer plants, which are used solely to grow produce, into the scope of IAS 16 so that they are accounted for in the same way as property, plant and equipment.
- **Amendments to IAS 19 "Employee Benefits" - Defined Benefit Plans: Employee Contributions** issued by IASB on 21 November 2013. The narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.
- **Amendments to IAS 27 "Consolidated and Separate Financial Statements" - Equity Method in Consolidated Financial Statements** issued by IASB on 12 August 2014. The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

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

- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property issued by IASB on 8 December 2016. The amendments state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. Amendments also state that the list of evidence in paragraph 57 was designated as non-exhaustive list of examples instead of the previous exhaustive list.
- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** issued by IASB on 12 December 2013. Amendments to various standards resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording. The most important changes include new or revised requirements regarding: (i) definition of 'vesting condition'; (ii) accounting for contingent consideration in a business combination; (iii) aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets; (iv) measuring short-term receivables and payables; (v) proportionate restatement of accumulated depreciation application in revaluation method and (vi) clarification on key management personnel.
- **Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)"** issued by IASB on 25 September 2014. Amendments to various standards resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording. Changes include new or revised requirements regarding: (i) changes in methods of disposal; (ii) servicing contracts; (iii) applicability of the amendments to IFRS 7 to condensed interim financial statements; (iv) discount rate: regional market issue; (v) disclosure of information 'elsewhere in the interim financial report'.
- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** issued by IASB on 8 December 2016. Amendments to various standards resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording. Changes include: (i) deletion of the short-term exemptions in paragraphs E3-E7 of IFRS 1, because they have now served their intended purpose, (ii) clarification of the scope of the IFRS 12 by specifying that the disclosure requirements in IFRS 12, except for those in paragraphs B10-B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", (iii) clarification of the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** issued by IASB on 8 December 2016. Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional and presentation currency

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

Basis of preparation

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

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

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

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

The consolidated financial statements include the separate financial statements of SC Electromagnetica SA (the parent company) and its subsidiaries ("the Group") as at December 31, 2016, prepared based on uniform accounting and measurement principles. The financial statements of the subsidiaries are prepared at December 31, 2016, the same reporting date as for the parent company.

Consolidation of subsidiaries

The assets and liabilities of the subsidiaries are stated at fair value on the date of acquisition. If the interest of the Group in the net fair value of the assets, liabilities and contingent liabilities identifiable and recognised exceeds the cost related to the business combination, the surplus is recognised in the profit and loss account. Non-controlling interests, which entitle the holders to a proportionate share of the net asset in case of the company liquidation, can be initially measured either at fair value or at a value that reflects the share of the minority in the fair value of the identifiable and recognised net assets. The recognition method is selected for each transaction separately. The goodwill is recognised as an asset and is assessed for impairment at least annually. The loss from goodwill impairment is immediately recognised in the profit or loss for the period and is not carried forward in the next periods. The non-controlling interest is the share of the profit or loss and net assets of a subsidiary that is not owned by the parent company and is presented in the consolidated statement of comprehensive income and in the equity presented in the consolidated statement of financial position, separately from the equity of the parent's shareholders.

The returns of the subsidiaries acquired or disposed of during the year are included in the consolidated statement of the profit and loss and other comprehensive income on the effective date of the acquisition, or until the effective date of the disposal, respectively. Where applicable, the financial statements of the subsidiaries are adjusted in order to align their accounting policies to those of the parent company. All the transactions, balances, revenues and expenses within the Group are fully eliminated upon consolidation.

The Group does not own securities in associated entities and interests in joint ventures.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Comparatives

Certain amounts in the statement of financial position, the statement of profit or loss and other elements of comprehensive income, the statement of cash flows and the statement of changes in equity were reclassified to comply with the presentation of the current year (Notes 4, 9, 10, 20, 21, 22, 27).

Foreign currency

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

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

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

	Exchange rate as at December 31, 2016	Exchange rate as at December 31, 2015
EUR	4.5411	4.5245
USD	4.3033	4.1477

Use of estimates and professional judgement

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

Estimates and judgements are periodically reviewed. The reviews of accounting estimates are recognized in the period in which the estimate is reviewed, if the review affects only that period, or in the current and future periods, if the review affects both the current period and future periods. The effect of the modifications pertaining to the current period is recognized as revenue or expense in the current period. The effect on the future periods, if any, is recognized as revenue or expense in the corresponding future periods.

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

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Accounting principles, policies and methods

According to IAS 8 - Accounting policies, changes in accounting estimates and errors, the accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

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

The Group changes an accounting policy only if the change:

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

We present below a summary of the significant accounting policies applied to all the periods presented in the financial statements, except for the changes deriving from the new standards and amendments to standards with the date of initial application January 1, 2016 and presented in section 2.

Fair value

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Initial measurement

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

Measurement subsequent to initial recognition

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

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

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

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

Property, plant and equipment

Initial measurement

Tangible assets are initially recognized at acquisition cost or production cost.

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

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

Measurement subsequent to initial recognition

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

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

The fair value of land and buildings is generally market-based, through a valuation made by professional and qualified valuers.

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement subsequent to initial recognition (continued)

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

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

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

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

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

The depreciation of an asset ends at the earliest of the date when the asset is classified as held for sale (or included in a group intended for disposal and classified as held for sale), according to IFRS 5, and the date when the asset is derecognized. Therefore, depreciation does not end when the asset is idle, except when the asset is completely depreciated.

Land and buildings are separable assets and are carried separately even when they are acquired together.

Land is not depreciated.

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

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

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

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

Tangible assets	<u>Duration (years)</u>
Buildings	20 - 60
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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment policy applied by the company

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

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

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

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

If items of tangible assets that were held for rental to others are sold repeatedly, these assets are transferred to inventories at the carrying amount of the date when they cease to be rented and become held for sale. The proceeds from the sale of these assets are recognized as revenue in accordance with IAS 18 – Revenue.

Maintenance and capital repairs

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

Investment property

Initial measurement

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

Measurement after recognition

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

Financial assets

Financial assets include the loans granted to entities, other investments held as fixed assets and other loans.

According to IAS 39, financial assets are classified in four categories

- financial assets at fair value through profit or loss – the financial assets held for trading;

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

- loans and receivables - non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:
 - those intended by the entity to be sold immediately or within a short period (which should be classified as held for trading) and those designated by the entity on initial recognition as assets at fair value through profit or loss;
 - those designated by the entity on initial recognition as available-for-sale; or
 - those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration (which should be classified as available for sale).
- held-to-maturity investments – non-derivative financial assets with fixed or determinable payments and fixed maturity that the entity firmly intends and is able to hold to maturity.
- available-for-sale financial assets – any financial assets not classified in one of the above categories.

According to **IAS 39 - Financial Instruments**, the Group classifies the financial assets held as financial assets at fair value through profit or loss and classifies in this category the shares acquired for the purpose of trading, BVB portfolio. Short-term securities (shares and other financial investments) admitted to trading on a regulated market are measured at the quoted value on the last trading day.

Investments in related parties

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

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

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

None of the companies in which SC Electromagnetica holds interests is quoted on a stock exchange. The corresponding assets are measured at the acquisition cost, are annually tested for impairment and the impairment, if any, is recognised at the date of finding.

Consolidation procedures used

To consolidate the financial statements, Electromagnetica Group

- a) combines similar items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries
- b) offsets (eliminates) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary
- c) eliminates in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, or eliminated in full). Intragroup losses may indicate an impairment requiring recognition in the consolidated financial statements. IAS 12 – Income Taxes is applied to the temporary differences occurring from the elimination of profits and losses deriving from transactions inside the group.

The non-controlling interests in subsidiaries are presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Uniform accounting policies

Electromagnetica Group prepares consolidated financial statements using uniform accounting policies for similar transactions and events in similar circumstances.

If a subsidiary, part of Electromagnetica Group, uses accounting policies other than those adopted in the consolidated financial statements for similar transactions and events in similar circumstances (different methods of depreciation, different methods of measurement, etc.), the financial statements shall be adjusted to enable the use of the financial statements of that subsidiary in the preparation of the consolidated financial statements and ensure compliance with the Group's accounting policies.

Electromagnetica Group includes in its consolidated financial statements the income and expenses of a subsidiary from the date it gains control until the date when the entity ceases to control the subsidiary.

Non-controlling interests – the profit or loss and each component of other comprehensive income is attributed to the owners of the parent and to the non-controlling interests.

Reporting date

The financial statements of the parent and its subsidiary use the same reporting date in the preparation of the consolidated financial statements, namely December 31, 2016 for these financial statements.

Electromagnetica does not have joint arrangements, as regulated by IFRS 11 – Joint Arrangements, or interests in other entities, unconsolidated subsidiaries or unconsolidated structured entities.

The management assessed the power over its investees, derived from the voting rights attributed based on equity instruments (shares). The parent has rights to variable returns from its involvement in the subsidiaries in which it invested, which rights correspond to the performance of the investee. The management concluded that it not only has power over the group entities, but it also has the ability to use its power to affect its returns from its involvement with the investees.

The management of Electromagnetica reviewed the level of control on investments in other entities in accordance with IFRS 10 and concluded that there is no effect on the classification of any of the investments held during the reporting period or the comparative periods covered by these financial statements.

Borrowing costs

The interest on the loans directly attributable to the purchase, construction or manufacture of an asset with long production cycle are capitalized until the asset is prepared for its predetermined use or sale. All the other costs related to loans are recognized as expenses in the profit and loss account for the period of their occurrence. Interest expenses are recorded using the effective interest rate method. In the years ended December 31, 2016 and December 31, 2015 the Group did not capitalize interest expenses in the assets' value.

Government grants

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

According to IAS 2 - Inventories, these assets are:

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

Inventories are stated at the lower of cost and net realizable value. The net realizable value is estimated based on the selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale. For inventories without moving or slow moving ones and finished goods adjustments are made based on the management's estimates. The set-up and reversal of allowances for inventories impairment is made in the profit and loss account.

The Group uses the First-in-First-out (FIFO) method to determine the inventory outflow cost of supplied materials.

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 similar assets

Receivables and other similar assets are stated at amortized cost less impairments.

When a receivable is expected not to be fully collected, impairment allowances are recorded at the level of the amount that cannot be recovered. Recoverability is analysed based on the number of days elapsed from the maturity date, corroborated with an analysis of the status of litigation, where applicable.

Receivables are written off following their collection or assignment to a third party. Current receivables can also be written off by the mutual offset of accounts receivable and payables between third parties, under the law. The receivables with expired collection time limits are written off after the Group obtains the documents proving that all the legal steps to recover these receivables were taken. Receivables written off continue to be monitored off the accounting records.

Cash and cash equivalents

Cash is considered to include the existing petty cash and the cash in current bank accounts. Cash equivalents represent deposits and investments with high liquidity and initial maturities under three months.

Liabilities

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

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

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

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Liabilities (continued)

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

Financial liabilities are presented at amortized cost. Deferred income classified as non-current liabilities are discounted using the effective interest rate method. The discount rate used to this effect is the rate determined according to the Group's own procedures.

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

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

The amounts representing dividends attributed from the net profit for the reporting period are recorded in the following year as retained earnings, to be carried as dividends payable following the approval of this destination by the general meeting of shareholders.

Current income tax

The current tax payable is 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 tax authority.

Revenue recognition

Revenues are measured according to IAS 18 – Revenue, at the fair value of the consideration received or receivable. Revenue is written down accordingly by the estimated value of the goods returned by customers, discounts and other similar items.

Sale of goods

Revenue arising from the sale of is recognized when all of the following criteria have been satisfied:

- the Group has transferred to the buyers the significant risks and rewards of ownership;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from the current activities is recognized when it is probable that any future economic benefits will flow to the Group and the amount of these benefits can be reliably measured.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The amount of the revenue deriving from a transaction is usually determined by the agreement of the entity and the buyer or user of the asset. Revenue is measured at the fair value of the consideration received or receivable, considering the value of any commercial discounts and quantity rebates granted.

The consideration consists of cash or cash equivalents and the amount of the revenue is the amount of the cash or cash equivalent received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration can be inferior to the nominal amount of the cash received or receivable.

This is also the case of supply contracts with supplier credit facility if the Group can offer to the buyer an interest-free credit or can accept from the latter trade instruments with a below-market rate of interest as consideration for the sale of goods.

For the commercial contracts concluded as deferred payment supplier, the difference between the fair value and the nominal amount of the consideration is recognized as **interest income**. The fair value of the consideration is determined by discounting all the amounts receivable in the future using an implicit interest rate.

The Group chose to use the interest rate determined under an internal procedure (based on interest rates used in the Romanian banking system) to discount the amounts receivable in the future.

Provision of services

When the result of a transaction that involves the rendering of service can be estimated reliably, the revenue associated to the transaction must be recognized depending on the transaction stage of completion at the closing date of the reporting period. The result of a transaction can be reliably estimated when all the conditions below are met:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the transaction stage of completion at the balance sheet date can be measured reliably;
- the costs incurred, or to be incurred, in respect of the transaction can be measured reliably.

The Group uses the "percentage of completion method" to recognize the revenue depending on the transaction stage of completion. According to this method, revenue is recognized in the accounting periods of the rendering of services. The recognition of revenue on this base provides useful information on the shares of the rendering of services and its results during a period.

The revenue is recognized only when it is probable that the economic benefits associated with the transaction will flow to the entity. When the collectability of an amount already accounted for as revenue is uncertain, the amount that can no longer be collected or the amount the collection of which ceased to be probable is recognized as an expense (provision for receivables) rather than an adjustment of the initially recognized revenue amount.

When the result of a transaction that involves the rendering of services cannot be reliably estimated, the revenue must be recognized only to the extent of the expenses recognized that are recoverable.

Rental income is recognized on a straight-line basis in the profit and loss account over the duration of the rental agreement.

Dividends and interest

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

Provisions are recognized for present obligations to third parties when it is probable that the obligation will be settled and the settlement amount can be estimated reliably. Provisions for separate 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.

Restructuring provisions

The implicit restructuring obligation occurs where an entity:

- has in place an official detailed restructuring plan that presents: the activity or part of activity it refers to, the main locations affected, the location, position and approximate number of employees to receive compensation for the termination of their activity, the expenses involved, the date of implementation of the restructuring plan.
- has generated the reasonable expectation of the affected parties that the restructuring will be performed by starting the implementation of the restructuring plan or the communication of its main features to those affected by the restructuring process

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

Provisions for employee benefits are recorded during the financial year for annual leaves not taken or other long-term employee benefits (if provided for in the labor contract). Upon their recognition as due to employees, the amount of provisions will be carried in the corresponding revenue accounts.

Other provisions

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

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

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

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

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

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

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

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

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

Profit or loss of the year

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

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

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

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

Earnings per share

IAS 33 - Earnings per Share stipulates that the entities which present both the consolidated financial statements and the separate financial statements are required to present the earnings per share only on the basis of consolidated information. If the entity chooses to present the earnings per share based on its separate financial statements, it is required to present the information about the earnings per share only in the statement of comprehensive income. In this case, the Group will present the earnings per share in the consolidated financial statements.

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Earnings per share (continued)

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

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

Segment reporting

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

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

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

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

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

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

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4. PROPERTY, PLANT AND EQUIPMENT

Cost	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
As at December 31, 2015	119,797,935	81,528,447	36,574,839	5,479,880	1,694,592	245,075,693
Inflows of which:	25,866,238	57,215,602	4,700,778	1,086,602	1,580,505	90,449,725
- from revaluation	25,866,238	56,828,512	1,307,002	40,061	-	84,041,813
Outflows of which:	(591,758)	(14,058,969)	(12,329,553)	(3,398,939)	(1,833,935)	(32,213,153)
- from the determination of the net amount for revaluation	(591,758)	(6,415,490)	(10,779,298)	(2,847,002)	-	(20,633,548)
- revaluation decrease	-	(7,643,616)	(1,042,862)	-	-	(8,686,478)
As at December 31, 2016	145,072,415	124,685,081	28,946,064	3,167,543	1,441,162	303,312,264
Accumulated depreciation	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
As at December 31, 2015	251,379	3,421,548	9,979,271	2,451,989	-	16,104,187
Depreciation for the year	25,834	3,329,237	5,087,547	728,806	-	9,171,424
Accumulated depreciation for outflows of which:	-	(6,415,490)	(10,779,298)	(2,847,002)	-	(20,041,790)
- from the determination of the net amount for revaluation	-	-	-	-	-	-
As at December 31, 2016	277,213	335,295	4,287,520	333,793	-	5,233,821

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4. PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment allowances	<u>Land and land improvement</u>	<u>Buildings</u>	<u>Plant and machinery</u>	<u>Other tangible assets</u>	<u>Tangible assets in progress</u>	<u>Total</u>
As at December 31, 2015	-	-	-	-	98,367	98,367
Allowances for impairment recognized in profit or loss	-	-	-	-	-	-
Reversal of allowances for impairment recognized in profit or loss	-	-	-	-	(98,367)	(98,367)
As at December 31, 2016	-	-	-	-	-	-
Net book value						
As at December 31, 2015	<u>119,546,556</u>	<u>78,106,899</u>	<u>26,595,568</u>	<u>2,892,832</u>	<u>1,596,225</u>	<u>228,873,139</u>
As at December 31, 2016	<u>144,795,202</u>	<u>124,349,786</u>	<u>24,658,544</u>	<u>2,833,750</u>	<u>1,441,162</u>	<u>298,078,444</u>

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4. PROPERTY, PLANT AND EQUIPMENT (continued)

Cost	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
As at December 31, 2014	104,172,467	80,952,468	32,920,204	4,538,021	1,848,438	224,431,598
Inflows of which:	21,709,106	587,084	4,084,935	855,226	2,293,977	29,530,328
- from revaluation	21,709,106	-	-	-	-	21,709,106
Outflows of which:	(6,083,638)	(11,105)	(430,300)	(48,426)	(2,447,823)	(9,021,292)
- from the determination of the net amount for revaluation	-	-	-	-	-	-
- revaluation decrease	(5,490,996)	-	-	-	-	(5,490,996)
As at December 31, 2015	119,797,935	81,528,447	36,574,839	5,344,821	1,694,592	244,940,634
Accumulated depreciation	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
As at December 31, 2014	225,545	111,766	5,400,540	1,415,491	-	7,153,342
Depreciation for the year	25,834	3,312,361	4,628,985	1,042,873	-	9,010,053
Accumulated depreciation for outflows of which:	-	(2,579)	(50,254)	(6,375)	-	(59,208)
- from the determination of the net amount for revaluation	-	-	-	-	-	-
As at December 31, 2015	251,379	3,421,548	9,979,271	2,451,989	-	16,104,187

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4. PROPERTY, PLANT AND EQUIPMENT (continued)

	<u>Land and land improvement</u>	<u>Buildings</u>	<u>Plant and machinery</u>	<u>Other tangible assets</u>	<u>Tangible assets in progress</u>	<u>Total</u>
Impairment allowances						
As at December 31, 2014	<u>1,077,197</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,077,197</u>
Allowances for impairment recognized in profit or loss	-	-	-	-	98,367	98,367
Reversal of allowances for impairment recognized in profit or loss	<u>(1,077,197)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,077,197</u>
As at December 31, 2015	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>98,367</u>	<u>98,367</u>
Net book value						
As at December 31, 2014	<u>102,869,725</u>	<u>80,840,702</u>	<u>27,519,664</u>	<u>3,122,530</u>	<u>1,848,438</u>	<u>216,201,059</u>
As at December 31, 2015	<u>119,546,556</u>	<u>78,106,899</u>	<u>26,595,568</u>	<u>2,892,832</u>	<u>1,596,225</u>	<u>228,873,139</u>

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4. PROPERTY, PLANT AND EQUIPMENT (continued)

As at December 31, 2016, property, plant and equipment increased by 30% compared to December 31, 2015, which is mainly due to the reevaluation by the parent of assets in Group 1 Buildings and Groups 2-3 Machinery, equipment less SDVs. The revaluation of property, plant and equipment as at December 31, 2016 generated a value increase recognized in reserves, in amount of RON 81,571,124 and a decrease recognized in the consolidated statement of comprehensive income in amount of RON 6,676,511. The revaluations were performed by ANEVAR authorized companies.

The inflows of tangible assets consist of modernization of the Group's premises and purchases of plant and machinery.

The outflows of tangible assets consist in decreases of value after reevaluation and disposals.

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

Name of asset	Net book value as at December 31, 2016	Net book value as at December 31, 2015
Land com. Domnesti, Ilfov County = 67.713,56 m2	12,299,569	13,491,154
Land com. Moara Vlasiei, Ilfov County = 70.469 m2	7,680,362	8,608,599
Land str. Mitropolit Filaret 35-37 sect. 4 Bucharest = 1.595 m2	3,621,527	2,388,687
Land str. Veseliei nr. 19 sect. 5 Bucharest =16.095 m2	11,694,241	11,797,136
Real estate (cadastral parcels no.13,15,16) Calea Rahovei 266-268 Sector 5 Bucharest	40,004,085	14,919,711

The tangible assets also include assets acquired by Government grant and used in licensed activity in one of the small hydropower plants located in Brodina, Suceava County. The net carrying amount of the investment at December 31, 2016 is RON 14,050,717, of which RON 5,063,181 represents grant. For 2015, the net carrying amount of the investment at December 31, 2015 was RON 16,427,078 of which RON 5,226,399 represents grant.

At December 31, 2016 the parent-company holds 98.5% of total tangible assets of the Group.

Fair value of tangible assets

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

Fair value for lands was determined using direct comparison method.

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

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

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

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

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4. PROPERTY, PLANT AND EQUIPMENT (continued)

Information on the fair value hierarchy as at December 31, 2016 and December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	Fair value at December 31, 2016
Lands and land improvements	-	-	144,795,202	144,795,202
Constructions	-	-	124,349,786	124,349,786
				Fair value at December 31, 2015
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Lands and land improvements	-	-	119,546,556	119,546,556
Constructions	-	-	78,106,899	78,106,899

During 2016 and 2015, there were no transfers between levels related to fair value.

5. INVESTMENT PROPERTY

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

According to IAS 40, this category of property is recognized as investment property. The Group selected the fair value model for the presentation of investment property in its financial statements. The fair value revaluation as at December 31, 2016 was performed by an ANEVAR authorized company who used the income approach (discounted cash flow method)

As at December 31, 2016 the investment property is structured as follows:

	<u>2016</u>	<u>2015</u>
Opening balance	2,194,374	2,154,439
Inflows, of which:		
fair value valuation	5,525,428	39,935
Outflows, of which:		
fair value valuation	(55,256)	-
	<u>(55,256)</u>	<u>-</u>
Closing balance	7,664,546	2,194,374

The revenues arising from the investment property in 2016 amounts to RON 2,485,235 and covers the expenses incurred by the owner (2015: RON 2,416,423).

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

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

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6. INTANGIBLE ASSETS

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

In the statement of financial position, they are presented at historical cost, less amortization and impairment.

The increase of intangible assets is mainly due to the renewal of some licenses.

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

Intangible assets as at December 31, 2016 are as follows:

Cost	Concessions patents licenses	Other intangible assets	Intangible assets in progress	Total
As at December 31, 2015	356,826	2,302,492	12,701	2,672,019
Inflows	318,334	122,236	584,633	1,025,203
Outflows	(29,816)	(9,672)	(131,346)	(170,834)
Transfers	-	-	-	-
As at December 31, 2016	645,344	2,415,056	465,988	3,526,388
Accumulated amortization	Concessions patents licenses	Other intangible assets	Intangible assets in progress	Total
As at December 31, 2015	232,347	1,061,027	-	1,293,374
Amortization for the year	83,387	511,943	-	595,330
Accumulated amortization for outflows	-	-	-	-
As at December 31, 2016	315,734	1,572,970	-	1,888,704
Net book value				
As at December 31, 2015	124,479	1,241,465	12,701	1,378,645
As at December 31, 2016	329,610	842,086	465,988	1,637,684
Cost	Concessions patents licenses	Other intangible assets	Intangible assets in progress	Total
As at December 31, 2014	367,872	2,131,032	128,228	2,627,132
Inflows	74,501	171,460	431,625	677,586
Outflows	85,547	-	(547,152)	(632,699)
Transfers	-	-	-	-
As at December 31, 2015	356,826	2,302,492	12,701	2,672,019

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6. INTANGIBLE ASSETS (continued)

	Concessions patents licenses	Other intangible assets	Intangible assets in progress	Total
Accumulated amortization				
As at December 31, 2014	268,775	539,560	-	808,335
Amortization for the year	49,119	521,467	-	570,327
Accumulated amortization for outflows	(85,547)	-	-	(85,547)
As at December 31, 2015	232,347	1,061,027	-	1,293,374
Impairment allowances				
As at December 31, 2014	-	90.000	-	90.000
Impairment allowances recognized in profit or loss	-	-	-	-
Reversals of impairment allowances recognized in profit or loss	-	(90,000)	-	(90,000)
As at December 31, 2015	-	-	-	-
Net book value				
As at December 31, 2014	99,097	1,501,472	128,228	1,728,797
As at December 31, 2015	124,479	1,241,465	12,701	1,378,645

7. OTHER NON-CURRENT ASSETS

This category mainly includes the performance guarantees granted to customers, which were classified as non-current according to the respective contracts and the green certificates deferred under GEO no. 57/2013.

The amount of RON 1,547,641 represents the counter value of 11,047 deferred green certificates, of which 3,132 relate to 2016. Such certificates may be traded starting from 2018, and the Group estimates that it may fully use them.

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

	December 31, 2016	December 31, 2015 (Restated)
Performance guarantees granted to customers	1,190,452	1,111,417
Deferred green certificates	1,547,641	1,133,486
Trade receivables scheduled on the long-term	14,300,538	3,442,171
Total	17,038,631	5,687,074

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Trade receivables scheduled on the long-term in net value of RON 14,300,538 as at December 31, 2016 have been discounted at present value, and the effect of the discount amounted to RON 855,275. The short-term portion is recognized in trade receivables (Note 9).

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8. INVENTORIES

	December 31, 2016	December 31, 2015
Materii prime	8,835,518	7,341,734
Materiale consumabile	2,193,526	985,965
Produse finite	4,072,140	4,131,739
Produse în curs de execuție	2,095,608	2,537,295
Alte stocuri	2,145,191	244,766
Ajustări pentru deprecierea stocurilor	<u>(1,312,063)</u>	<u>(1,265,916)</u>
Total	<u>18,029,921</u>	<u>13,975,583</u>

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

The changes in inventory impairments is as follows:

	2016	2015
Balance at the beginning of period	<u>1,265,916</u>	<u>892,472</u>
Increase	234,823	1,436,080
Decrease	<u>(188,676)</u>	<u>(1,062,636)</u>
Balance at the end of period	<u>1,312,063</u>	<u>1,265,916</u>

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

The Group did not pledge inventories to secure its liabilities. Out of total inventories registered as at December 31, 2016, 96.55% are of the parent.

9. 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.

	December 31, 2016	December 31, 2015
Internal trade receivables*		<i>(Restated)</i>
	26,927,153	43,381,824
External trade receivables	8,038,254	4,542,562
Estimated trade receivables	1,654,838	4,953,257
Adjustment of internal trade receivables at present value	(479,967)	-
Impairment of trade receivables	<u>(1,623,928)</u>	<u>(1,533,883)</u>
Net trade receivables	<u>34,516,350</u>	<u>51,343,760</u>

* Internal trade receivables include performance guarantees granted to customers with maturity under one year. As at December 31, 2016 they amounted to RON 1,627,928 (December 31, 2015: RON 1,013,604).

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9. TRADE RECEIVABLES (continued)

The sale contracts or services provision contracts concluded with customers under credit facilities have been discounted at present value. The total effect of the discount at present value was RON 1,335,242, of which RON 479,967 due in one year and RON 855,275 due in more than one year (Note 8).

In 2016, sales under a supplier credit facility increased substantially, and receivables due in more than one year grew 4 times compared to the beginning of the year.

The balance of trade receivables from customers as at December 31, 2016 is RON 3,126,627 (December 31, 2015: RON 6,642,971) and represents promissory notes issued by customers in favor of the Group under the contracts concluded.

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

	<u>2016</u>	<u>2015</u>
Balance at the beginning of period	1,533,883	1,467,579
Impairment allowance	158,651	78,789
Decreases of impairment allowances	<u>(68,606)</u>	<u>(12,485)</u>
Balance at the end of period	1,623,928	1,533,883

Doubtful accounts or litigating customers are in amount of RON 1,646,498 as at December 31, 2016 (December 31, 2015: RON 1,501,900).

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

The accounts receivable collection period has raised in 2016 to 76 days, compared to 52 days in 2015 because of the increase of sales under a supplier credit facility.

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

	Gross value as at December 31, 2016	Provision as at December 31, 2016	Gross value as at December 31, 2015 <i>(Restated)</i>	Provision as at December 31, 2015
Outstanding	29,138,179	-	42,541,558	-
Overdue between 1 – 30 days	3,035,113	-	4,194,362	-
Overdue between 31 – 90 days	378,656	-	3,742,724	-
Overdue between 90 – 180 days	506,012	-	794,703	-
Overdue between 180 – 365 days	354,436	-	1,583,797	-
More than 1 year	<u>2,727,885</u>	<u>(1,623,928)</u>	<u>1,522,398</u>	<u>(1,533,883)</u>
Total	<u>36,140,278</u>	<u>(1,623,928)</u>	<u>52,877,643</u>	<u>(1,533,883)</u>

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10. OTHER CURRENT ASSETS

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Debtors	179,553	359,659
Prepaid expenses	2,642,925	1,395,374
Debtor suppliers	21,175	43,502
Other assets	<u>321,873</u>	<u>302,355</u>
Total	<u>3,165,527</u>	<u>2,100,890</u>

The accrued expenses of RON 2,642,925 mainly consist of rent paid in advance, insurance premiums for the civil liability of directors and various subscriptions.

Other assets also include the value of the VAT non-chargeable in amount of RON 315,550 (December 31, 2015: RON 135.936).

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In the group of financial assets at fair value through profit or loss the Group includes shares traded at the stock exchange (Level 1 inputs - determining fair value).

	<u>2016</u>	<u>2015</u>
Opening balance	<u>1,100,280</u>	<u>224,000</u>
Inflows of quoted shares	-	5,004,292
Outflows of quoted shares	<u>(1,100,280)</u>	<u>(4,128,012)</u>
Closing balance	<u>-</u>	<u>1,100,280</u>

12. CASH AND CASH EQUIVALENTS

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Petty cash	16,421	21,882
Current accounts with banks	21,502,666	16,981,503
Cash equivalents	<u>2,341</u>	<u>6,551</u>
Total	<u>21,521,428</u>	<u>17,009,936</u>

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13. SHARE CAPITAL

The Group's share capital subscribed and paid up is RON 67,603,870, divided into 676,038,704 shares at nominal value 0.10 RON/share, fully paid-up and belongs to the parent.

The structure of the shareholders that own over 10% of the share capital as at December 31, 2016 is the following, according to the Central Depository Register:

SHAREHOLDER	December 31, 2016		December 31, 2015	
	No. of shares	%	No. of shares	%
Asociația PAS	200,302,763	29.6288	200,302,763	29.6289
SIF Oltenia SA	171,672,301	25.3939	170,646,321	25.2421
Natural persons	193,778,348	28.6638	195,457,639	28.9122
Legal persons	110,285,292	16.3135	109,631,981	16.2168
Total	676,038,704	100	676,038,704	100

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

14. RESERVES

Legal reserve

	2016	2015
Balance at the beginning of the period	56,866,046	56,862,531
Increases	273,331	3,515
Reductions	(22,716,635)	-
Balance at the end of the period*	34,422,742	56,866,046

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

The legal reserves decreased during 2016 as a result of the covering of the accounting loss recorded in 2015 with the allowance for inflation following the application of IAS 29. During the same period, this reserve increased following the set-up of the legal reserve (5% of the accounting profit determined under the law).

* The allowance for inflation following the application of IAS 29 to this reserves amounts to RON 24,020,209 at December 31, 2016 (December 31, 2015: 46,736,837).

Revaluation reserves amount to RON 88,753,507 as at December 31, 2016. They increased compared to the balance at the beginning of the year because of the revaluation.

	2016	2015
Balance at the beginning of the period	21,250,447	4,169,304 <i>(Restated)</i>
Increases	81,651,288	21,466,960
Reductions	(14,148,228)	(4,385,817)
Balance at the end of the period	88,753,507	21,250,447

At December 31, 2016 the Group has **other reserves** amounting to RON 57,834,598 of which reserves for own sources of founding represent 98%.

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14. RESERVES (continued)

	<u>2016</u>	<u>2015</u>
Balance at the beginning of the period	<u>58,089,051</u>	<u>53,673,554</u>
Increases	18,878	4,415,497
Reductions	<u>(273,331)</u>	<u>-</u>
Balance at the end of the period	<u>57,834,598</u>	<u>58,089,051</u>

15. RETAINED EARNINGS

As at December 31, 2016 the retained earnings arising from the transfer of reserves from revaluation related to depreciated or decommissioned assets was in amount of RON 449,478.

The parent's loss of the year 2015 was covered in the year 2016 according to the decision of the general meeting of shareholders of April, 21 2016 from the allowance for inflation according to IAS 29 upon the adoption of IFRS.

16. INVESTMENT SUBSIDIES

	<u>Total</u>	<u>Within one year</u>	<u>In more than one year</u>
Investment subsidies as at December 31, 2016	5,063,180	163,219	4,899,962
	<u>Total</u>	<u>Within one year</u>	<u>In more than one year</u>
Investment subsidies as at December 31, 2015	5,226,399	163,219	5,063,180

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

17. PROVISIONS

Name	<u>Balance 01.01.2016</u>	<u>Inflows (set-up)</u>	<u>Outflows (write-off)</u>	<u>Balance 31.12.2016</u>
Litigation provisions	955,808	-	(955,808)	-
Provisions for performance guarantees to customers	1,628,030	1,201,409	(1,366,689)	1,462,750
Provisions for risks and charges	9,025,808	-	(9,021,308)	4,500
Provision for employees' benefits	<u>561,399</u>	<u>365,885</u>	<u>(561,399)</u>	<u>365,885</u>
TOTAL	<u>12,171,045</u>	<u>1,567,294</u>	<u>(11,905,204)</u>	<u>1,833,135</u>

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

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17. PROVISIONS (continued)

During the reporting period, the provision recorded at the end of 2015 for the fine announced by the Competition Council has been written off and as a result of receiving the formal decision this value has been recorded as current cost.

The provision for employee benefits relates to the value of the rest leaves not taken in the previous year; its decrease was recorded while performing such leaves during the reporting period.

18. TRADE AND OTHER PAYABLES

	December 31, 2016	December 31, 2015
Internal trade payables	16,067,057	11,114,695
External trade payables	2,857,934	4,471,777
Estimated trade payables	1,859,924	8,644,309
Total	20,784,915	24,230,781
	December 31, 2016	December 31, 2015
Advances received from customers	645,602	1,589,689
Salaries and social security contributions	3,636,730	3,041,098
Deferred income	1,548,974	2,787,366
Other payables	10,980,000	6,240,449
Total	16,811,306	13,658,602

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

The liability settlement period increased to 62 days in 2016 compared to 35 days in 2015.

The Group does not have significant outstanding trade payables.

The Group does not have outstanding liabilities to employees and the state budget; the amounts presented represent liabilities for December 2016, which are paid on the due date, in January 2017.

The Group did not have long-term loans at December 31, 2016.

The Group has several loan agreements approved as at December 31, 2016. Their status is presented in Note 27 to these financial statements. There were no outstanding liabilities related to loans as at December 31, 2016.

Other payables include guarantees received from tenants, VAT to be paid, other taxes and the fine in amount of RON 9,021,308 for the supply of electricity as a result of the Competition Council's decision. For this, amount the Group requested ANAF the suspension according to Art. 235 of the Fiscal Procedure Code.

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18. TRADE AND OTHER PAYABLES (continued)

The guarantees received as at December 31, 2016 amount to RON 2,671,804 and will be settled according to the contractual terms.

	<u>Total</u>	<u>Within one year</u>	<u>In more than one year</u>
Guarantees received	2,671,804	1,435,676	1,236,128

19. INCOME

	<u>2016</u>	<u>2015</u>
Income	236,253,958	385,483,375
- Income from sold production	93,346,773	88,093,211
- Rental income	13,066,586	12,816,244
- Income from sale of goods	129,840,599	284,573,921
Investment income	5,545,363	173,120
- Interest income	15,909	53,674
- Net income from fair value measurement of investment property	5,571,031	-
- Other net investment income	(41,577)	119,446
Variation in inventories of finished goods and work in progress	15,924,803	10,608,483
Own work capitalized	1,246,195	1,742,457
Other net income	4,890,167	3,717,420
- Income from subsidies	2,805,486	2,496,527
- Net provisions	1,573,885	212,081
- Net foreign exchange difference	(2,671)	263,247
- Other income	811,467	745,565
Net income	263,860,487	401,724,808

The revenue from sale of goods decreased in 2016 by 54.3% due to reduced customer portfolio in the licensed activity.

Rental income as at December 31, 2016 includes RON 2,485,235 representing rental for investment property.

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20. EXPENSES

	2016	2015
		<i>(Restated)</i>
Expenses related to materials	170,169,019	315,091,428
- Raw materials and consumables	51,806,832	48,235,312
- Goods purchased for resale	115,897,480	264,379,663
- Electricity, heating and water	2,464,707	2,476,453
Employee-related expenses	36,459,838	34,862,468
- Salaries	29,840,447	28,508,585
- Other employee-related expenses	6,619,391	6,353,883
Other expenses	32,255,671	56,670,923
Post	306,227	404,256
Maintenance expenses	508,967	541,853
Rentals	273,723	338,913
Advertisement and entertainment	369,102	977,911
Insurance	542,993	558,006
Transport and travel	1,659,303	1,959,661
Subcontracted work	8,279,692	8,249,132
Other taxes	1,331,265	1,195,023
Consultants and collaborators	1,809,617	1,814,036
Costs of green certificates	10,641,189	24,994,610
Other operating expenses	6,533,593	15,637,522
Expenses related to depreciation and impairment	16,930,717	15,956,520
- Depreciation	9,804,683	9,555,556
- Net impairment	6,498,964	6,400,965
- Impairment of current assets	627,070	439,749
Total expenses	255,815,245	422,581,339

The raw materials and consumables expenses increased due to increasing CIL sales. Expenses related to merchandise decreased because the volume of electricity transactions decreased as well.

21. FINANCIAL EXPENSES

	2016	2015
Interest expenses	72,757	97,678
Bank charges	581,935	838,733
Total financial expenses	654,692	936,411

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22. INCOME TAX

Income tax recognized through profit or loss:

	<u>December 31, 2016</u>	<u>December 31, 2015</u> <i>(Restated)</i>
Current income tax		
Current income tax expenses	1,140,304	96,961
Deferred income tax		
Deferred income tax expenses/income	<u>(129,750)</u>	<u>(1,114,261)</u>
	<u>1,010,554</u>	<u>(1,017,300)</u>

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

Caption	<u>2016</u>	<u>2015</u> <i>(Restated)</i>
Net accounting (loss)/profit	<u>6,379,995</u>	<u>(20,775,641)</u>
Deductions	(8,839,506)	(9,561,474)
Non-taxable income	(14,412,875)	(3,535,013)
Non-deductible expenses	29,975,025	27,986,447
Taxable (loss)/profit	13,021,377	(5,885,681)
Tax loss from previous years	(5,630,827)	75,591
Current income tax	1,012,357	(1,017,300)
Income tax reduction	<u>(1,803)</u>	<u>-</u>
Income tax due at the end of period	<u>1,010,554</u>	<u>(1,017,300)</u>

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

As at December 31, 2016, the current income tax due is RON 275,933 (December 31, 2015: RON 770,955).

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

	<u>Opening balance Restated</u>	<u>Through profit or loss</u>	<u>Through other comprehensive income</u>	<u>Closing balance</u>
Property, plant and equipment	6,033,723	781,318	13,698,750	18,313,956
Receivables	(245,421)	14,407	-	(259,828)
Impairment of receivables	(202,547)	7,383	-	(209,930)
Impairment of inventories	(89,824)	(31,282)	-	(58,542)
Employee-related benefits	<u>(901,576)</u>	<u>(901,576)</u>	<u>-</u>	<u>-</u>
TOTAL	<u>4,594,356</u>	<u>(129,750)</u>	<u>13,698,750</u>	<u>17,785,656</u>

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

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23. AVERAGE NUMBER OF EMPLOYEES

Evolution of the average number of employees:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Group	652	686
Parent	583	615

The expenses incurred for salaries and related taxed in the years of 2016 and 2015 are:

	<u>2016</u>	<u>2015</u>
Expenses related to salaries	29,840,447	28,508,585
Expenses related to social security contributions	6,619,391	6,353,883
Total	<u>36,459,838</u>	<u>34,862,468</u>

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

24. RELATED PARTY TRANSACTIONS

At December 31, 2016 and December 31, 2015, the Group had no related parties apart from the subsidiaries included in the consolidation. Balances and transactions with them were eliminated in the preparation of the consolidated financial statements.

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

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

25. INFORMATION ON SEGMENTS OF ACTIVITY

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

- Licensed activity – electricity supply and production
- Unlicensed activity

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

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

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25. INFORMATION ON SEGMENTS OF ACTIVITY (continued)

2016	Unlicensed activity	% Total Group	Licensed activity	% Total Group	Total Group
Net profit	12,852,878	100.0	(6,472,883)	n/a	6,379,995
Total assets	325,042,188	80.92	76,610,343	19.08	401,652,531
Total liabilities	31,504,577	50.36	31,049,549	49.64	62,554,126
Customer revenue	105,360,293	44.59	130,893,665	55.41	236,253,958
Interest income	75,089	100	-	n/a	75,089
Impairment and depreciation	7,626,421	45.05	9,304,296	54.95	16,930,717
2015	Unlicensed activity Restated	% Total Group	Licensed activity	% Total Group	Total Group Restated
Net profit	6,513,171	100.0	(27,288,812)	n/a	(20,775,641)
Total assets	232,363,331	71.62	92,071,305	28.38	324,434,636
Total liabilities	23,553,694	39.33	36,327,488	60.67	59,881,182
Customer revenue	100,628,060	26.10	284,855,315	73.90	385,483,375
Interest income	77,307	100	-	-	77,307
Impairment and depreciation	7,246,329	46.46	8,350,191	53.54	15,596,520

Main products and production structure

The Group benefits from a wide range of technologies and equipment that enabled it to obtain a rich diversity of products. The main groups of products in its turnover from the industrial production (excluding services) is as follows:

LED lighting units, systems and solutions

The production of LED lighting units has the largest share on the whole production of the Group (47.8% of the sales). In 2016, the sales increased by 18.7% as compared to the previous year. The growth trend maintains particularly in the street and commercial lighting sector. The export sales have, for the time being, a less significant weight. The product range covers the following areas:

- Street lighting;
- Commercial premises (supermarkets, commercial galleries, gas stations, warehouses, stands, parks, showcases, advertising panels);
- Industrial premises (plants, warehouses, etc.);
- Offices;
- Public buildings (institutions, hospitals, schools);
- Residential sector

Electricity distribution and metering equipment

The electricity meters are sold as such or integrated in EnergSys systems for electricity metering and telemanagement. The whole production of meters and metering systems is targeted at the domestic market. In 2016, the sales of meters and telemanagement systems represented 3.8% of the total turnover of the Company, cumulating almost RON 9 million. Like in the previous years, the specific production fluctuated depending on the dynamics of the acquisitions carried out by the electricity distribution companies. In comparison with the previous year, 2016 brought 44.9% less sales.

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25. INFORMATION ON SEGMENTS OF ACTIVITY (continued)

Plastic injection molded subassemblies

Following the expansion of the customer base, both domestic and foreign, the production of plastic injection molded subassemblies increased by 18% as compared to the previous year. This group of products has the largest share (46%) of the exports carried out by the Group. The production of plastic injection molded subassemblies benefits from the investments in machinery made in the last years and also from the internal manufacture of molds.

Low voltage electrical switchgear

The production of low voltage electrical switchgear (for ABB Italy) was an element of continuity in the production intended for export. This group of products represents 9% of the production related turnover, their sales slightly decreasing by 6% as compared to 2015.

Molds

The manufacture of tools and molds is targeted at fulfilling the orders received from third parties, but mainly at ensuring the internal needs for the production of plastic injection molded subassemblies. The modernization and extension of tool production capacity is essential in supporting the diversification of the production of LED lighting units and the implementation of new manufacturing technologies.

Electricity production from renewable sources

The electricity production is regulated by ANRE. The Group has been a licensed producer since 2007.

In 2016 there was no further need for investments in the 10 micro-hydro power plants (MHPs) along the Suceava River, as they had been recently modernized through an investment program completed in 2014.

The revenues in 2016 were 8.7% higher than in the previous year, being related to an increase of the physical energy production.

In 2016, Government Emergency Order no. 57/2013 entered into force, which stipulates the deferred trading of a green certificate for every MWh produced in new micro-hydro power plants.

Railway traffic safety components

The sales of railway traffic safety components benefited from the launch of some projects for railway infrastructure modernization. Therefore, their share was exceptionally close to 10% of the production-related turnover. The future evolution of this product category broadly depends on the continuation of the said projects.

Other industrial products

This category includes the production of subassemblies for motor vehicles, electrical and electronic subassemblies, metal works etc. Out of the 2016 production, the sale of these products represented a total share of 1.9%.

Main services provided

Electricity supply services

The supply of electricity is regulated by ANRE. The Group has been an authorized supplier since 2001; the license was renewed in 2013 under the provisions of the new energy law (Law no. 123/2012) for another 10 years. In 2016, the turnover achieved from the electricity supply business decreased by 54% as compared to the previous year, as a result of a gradual restructuring of the customer portfolio, carried out for a more effective risk management. This action was necessary due to the difficult conditions of the energy market, where the fact that the producers and suppliers mainly contracted electricity from the Day Ahead Market (DAM) created a high price risk.

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25. INFORMATION ON SEGMENTS OF ACTIVITY (continued)

Main services provided (continued)

Electricity supply services (continued)

In 2016, about 23% of the necessary green certificates for the entire portfolio of supply customers were covered by the certificates obtained for the electricity produced by the Company's own micro-hydro power plants

Rental and utility supply services

Electromagnetica administers approximately 31,000 sq m of rentable premises in Bucharest, as well as 3,500 sq m in Varteju commune, Ilfov County. At the end of 2016, the average occupation level for the headquarters located at 266-268 Calea Rahovei Street was 95.64%, for an average rental price of 6.59 euro/sq m. For the premises in Varteju commune (Magurele), the level of occupation was 81.68%, for an average rental price of 1.93 euro/square meter.

The rental and utility supply activity was stable, with a slight increase of 2% as compared to the previous year, in the context of a little bit lower average rental tariff in euro and level of occupation, while the Romanian Leu to Euro exchange rate had a favorable evolution.

26. RISK MANAGEMENT

The Group is exposed to the following risks:

Equity risk

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

The Group monitors capital based on the debt ratio. Since as at December 31, 2016 and December 31, 2015, the Group did not register long-term payables, the debt ratio is zero.

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 Group requests guarantees. Trade receivables derive from a wide range of customers operating in various fields of activity and different geographical areas. To counteract this risk factor, the Group applied restrictive policies to the delivery of products to doubtful customers. Insurance policies were contracted for foreign market receivables. Due to the increase of insolvency cases in the economy, there is a concrete risk related to the recovery of the equivalent value of products and/or services supplied prior to the declaration of insolvency. The Group is paying more attention to the creditworthiness and financial discipline of its contractual partners. It should be mentioned that from the end of the financial year 2016 until the date of this report several electricity suppliers became or declared to be insolvent. Therefore, we can speak about a deterioration of the business environment and a direct manifestation of the credit risk.

	<u>2016</u>	<u>2015</u> <i>(Restated)</i>
Trade receivables	34,516,350	51,343,760
Other receivables	3,165,527	2,871,845
Financial assets at fair value through profit or loss	-	1,100,280
Cash and cash equivalents	<u>21,521,428</u>	<u>17,009,936</u>
	<u>77,233,226</u>	<u>86,301,404</u>

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26. RISK MANAGEMENT (continued)

Market risk

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

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

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

The foreign currencies most frequently used in transactions are EUR and USD. The assets denominated in foreign currencies are represented by customers and available cash in foreign currency. The liabilities denominated in foreign currency are represented by suppliers. At 31 December 2016, their situation is as follows:

	<u>Assets</u>	<u>Liabilities</u>	<u>Net exposure</u>
EUR	2,491,850	447,775	2,247,795
USD	570,895	124,219	446,676

The analysis of the foreign exchange risk sensitivity for a +/- 10% variation in the exchange rate shows an impact on the gross result of the period of +/- RON 1,120,453.

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

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

The risk of changes in the interest rates is kept under control by adopting an investment policy exclusively based on own funding sources, which allows for the use of credit lines only for the working capital

The Group is exposed to exchange rate risk because the sourcing of materials is largely based on imports. In order to limit the effect of the exchange rates, the payment schedule was correlated with that of receipts in foreign exchange, usually ensuring a cash-flow surplus. The change in prices of raw materials and materials entailed a continuous review of cost prices. To maintain some of the products profitable, the Company cooperated with the suppliers for ensuring price control and the related technological processes were improved.

Liquidity and cash flow risk

The Group's 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 decision of the general meeting of shareholders of April 21, 2016 extended the mortgage agreements in favor of the banks with which the Group has opened credit lines and letters of bank guarantee within the limit of 40% of the total fixed assets, less receivables, to ensure the Group's capacity to perform its obligations in case of short-term cash deficit. At the same time, investments were limited to own sources of funding and to those with direct impact on the turnover.

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26. RISK MANAGEMENT (continued)

Liquidity and cash flow risk (continued)

The liquidity and cash-flow risk management policy should be adapted to the resized activity of electricity supply. The risk analyzed above is closely related to the sanction-related risk and the dispute-related risk, which are described below and the new and more exigent commercial practices. This risk is closely related to the risks described.

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

	<u>December 31, 2016</u>	<u>Exceeded</u>	<u>0 - 1 year</u>	<u>1 - 2 years</u>	<u>2 - 5 years</u>	<u>In more than 5 years</u>
Trade receivables	48,816,888	5,373,409	28,287,666	4,686,755	10,469,058	-
Trade liabilities	20,784,915	902,034	19,798,277	65,290	19,315	-

Political and legislative risk

The Group's activity on regulated markets, such as the electricity supply and production market, exposes the Group to a legislative risk. For instance, the energy market was influenced by the exemption of large consumers from the obligation to pay an important part of the green certificates and also by the price changes which stimulated the export of energy.

The national implementation of European directives on energy efficiency can stimulate the sale of LED lighting solutions; at the same time, their delayed or inappropriate regulation can disturb the specific market.

Disaster risk

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

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

The fair value of financial instruments

Fair value is the amount at which the financial instrument can change in arm's length ordinary transactions between interested and knowledgeable parties, other than those caused by liquidation or forced sale. Fair values are obtained from quoted market prices or discounted cash flow models as appropriate. As at December 31, 2016 and December 31, 2015, management believes that the fair values of cash and cash equivalents, trade receivables and other receivables, trade payables and other current liabilities approximate their carrying amounts.

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26. RISK MANAGEMENT (continued)

December 31, 2016	<u>Net value</u>	<u>Fair value</u>	<u>Level</u>
Financial assets			
Trade receivables	34,516,350	34,516,350	Level 1
Cash and cash equivalents	21,521,428	21,521,428	Level 1
Other current assets	3,165,527	3,165,527	Level 1
	<u>59,203,305</u>	<u>59,203,305</u>	

December 31, 2016	<u>Net value</u>	<u>Fair value</u>	<u>Level</u>
Non-current financial liabilities			
Trade and other payables	2,784,610	2,784,610	Level 1
	<u>2,784,610</u>	<u>2,784,610</u>	
Current financial liabilities			
Trade payables	34,811,611	34,811,611	Level 1
	<u>34,811,611</u>	<u>34,811,611</u>	

December 31, 2015	<u>Net value</u>	<u>Fair value</u>	<u>Level</u>
Financial assets			
Trade receivables	51,343,760	51,343,760	Level 1
Assets at fair value	1,100,280	1,100,280	Level 1
Cash and cash equivalents	17,009,936	17,009,936	Level 1
Other current assets	2,100,890	2,100,890	Level 1
	<u>71,554,866</u>	<u>71,554,866</u>	

December 31, 2015	<u>Net value</u>	<u>Fair value</u>	<u>Level</u>
Non-current financial liabilities			
Trade and other payables	2,956,025	2,956,025	Level 1
	<u>2,956,025</u>	<u>2,956,025</u>	
Current financial liabilities			
Trade and other payables	34,811,611	34,811,611	Level 1
	<u>34,811,611</u>	<u>34,811,611</u>	

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26. RISK MANAGEMENT (continued)

General framework for risk management

The Board of Directors of the Group has the general responsibility for the establishment and supervision of the risk management framework at Group level. The activity is governed by the following principles:

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

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

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

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

27. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

As at December 31, 2016, the Group had the following commitments for bank loans and guarantee agreements/loan contracts concluded with the financing banks (BCR, BRD):

- revocable credit line from BCR in amount of RON 9,000,000, not committed as at December 31, 2016.

Guarantees: 1st, 2nd, 3rd rank mortgage on land outside the built-up area, and 1st rank mortgage on the accounts opened with BCR

- non-cash guarantee agreement with BCR in amount of RON 30,000,000 of which the amount of RON 17,324,227 was committed.

Guarantees: 3rd rank mortgage on the accounts opened with BCR, 1st and 2nd rank mortgages on some real estate

- multiproduct credit facility with BRD (cash and non-cash) in amount of RON 20,000,000 of which non-cash committed as at December 31, 2016 in amount of RON 4,907,640.

Guarantees: 1st rank mortgage on property (land, building and access roads)

- guarantee agreement authorized overdraft of RON 15,000.

Guarantees: collateral cash deposit in amount of RON 15,000

- guarantee agreement authorized overdraft in amount of RON 75,000.

Guarantees: collateral cash deposit in amount of RON 75,000

The commitments from customers and tenants as letters of guarantee December 31, 2016 are in amount of RON 1,130,508 according to the contractual clauses.

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29. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Contingent liabilities

Litigation

The parent is subject to a number of legal proceedings arising in the normal course of business. Its management believes that apart from the amounts already registered in these financial statements as adjustments or provisions for impairment of assets and described in the notes to this financial statements, other legal proceedings will not have significant adverse effects on the results and on the financial position of the company

During the reporting period, Electromagnetica filed an application for annulment of decision no 82/24.12.2015 of the Competition Council and order no 297/23.2012 of the Competition Council President, which are the subject of files no 3778/2/2016 and no 3809/2/2016 at the Bucharest Court of Appeal, file no 3809/2/2016 being joined to file 3778/2/2016, and an application for suspension of execution of decision no 82/24.12.2015 of the Competition Council which is the subject of file no 3779/2/2016 at the Bucharest Court of Appeal. Electromagnetica filed appeal against the decision of the Court of Appeal which rejected the application for suspension of the decision to sanction.

Also, the parent has opened a court action relating to the contract for the supply of electricity from Hidroelectrica (file no. 13259/3/2015) for January 2011-June 2012, with the object of claims, in which Hidroelectrica is plaintiff and Electroamagnetica is defendant. At the plaintiff's request, the evidence by accounting expertise was submitted, and the report is favorable to the parent.

The management believes that it is not possible to reliably estimate the outcome of this lawsuit, therefore, in the financial statements no provision has been recorded.

As regards the other Group companies, they have not filed court actions that would affect their financial position.

28. COMPARATIVES

In the year ended December 31, 2016, the Company has restated the financial statements for the year ended December 31, 2015.

The changes in the separate statement of financial position and separate statement of comprehensive income refer to:

- 1) Transfer of revaluation reserve to retained earnings as a result of the transition to IFRS in 2012 in amount of RON 72,653,847
- 2) Reclassification of gain on revaluations from reserve to the income statement in amount of RON 613,269
- 3) Register additional deferred tax for the revaluation reserve related to land.

The changes in the separate statement of financial position and separate statement of comprehensive income are presented below.

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28. COMPARATIVES (continued)

The separate statement of financial position as at December 31, 2015 is restated as follows:

	December 31, 2015	December 31, 2015	December 31, 2015
	<i>(Initially reported)</i>	<i>(Corrections and reclassifications)</i>	<i>(Restated)</i>
Share capital	67,603,870	-	67,603,870
Reserves and other elements of equity	212,234,725	(76,029,181)	136,205,544
Retained earnings	(13,250,454)	73,847,743	60,597,289
Total equity attributable to company shareholders	266,588,141	(2,181,438)	264,406,703
Non-current liabilities			
Trade and other payables	2,956,025	-	2,956,025
Investment subsidies	5,063,180	-	5,063,180
Deferred tax liabilities	2,412,918	2,181,438	4,594,356
Total non-current liabilities	10,432,123	2,181,438	12,613,561
Total equity and liabilities	324,434,636	-	324,434,636

The separate statement of comprehensive income as at December 31, 2015 is restated as follows:

	December 31, 2015	December 31, 2015	December 31, 2015
	<i>(Initially reported)</i>	<i>(Corrections and reclassifications)</i>	<i>(Restated)</i>
Amortization/depreciation and impairment	(16,569,789)	613,269	(15,956,520)
Loss before tax	(22,406,210)	613,269	-21,792,941
Income tax	(176,596)	1,193,896	1,017,300
Loss of the period	(22,582,806)	1,807,165	(20,775,641)

29. SUBSEQUENT EVENTS

In the first two and a half months of the year, several energy suppliers have filed court applications for entry into insolvency. The parent's exposure to these suppliers represents less than 1% of the turnover of the Company in 2016.

On the date of preparation of the financial statements, the Group management has no knowledge of events, economic changes or other factors of uncertainty that could significantly affect the Group's liquidity or earnings, other than those specified.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Electromagnetica S.A.

Qualified Opinion

1. We have audited the consolidated financial statements of Electromagnetica S.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.
2. In our opinion, except for the possible effects of the matter described in the "*Basis for Qualified Opinion*" section of our report, paragraph 3, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the provisions of the Order of Ministry of Public Finances no. 2844/2016 for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by the European Union.

Basis for Qualified Opinion

3. In prior years, the land and, respectively, the buildings of the Group were revalued by an independent evaluator and the related revaluation reports do not include the necessary details, as required by the International Valuation Standards, to support the fair value of the land and buildings as presented in these reports. As presented in Note 4, the revaluation of the land and buildings performed as at December 31, 2016 by an independent valuator resulted in significant revaluation differences recorded in revaluation reserves and, respectively, in the consolidated statement of comprehensive income. We were not able to determine in the course of our audit the corrections that could have been necessary on the results of the revaluation of the land and buildings as at December 31, 2016 and, consequently, on the consolidated financial position as at December 31, 2016, and on the consolidated financial performance of the Group for the year then ended, had the revaluation reports for the land and, respectively, buildings from the prior years been included the necessary details, as required by the International Valuation Standards, to support their values as presented in the revaluation reports.
4. We conducted our audit in accordance with the Auditing Standards adopted by the Chamber of Auditors of Romania, which are International Standards on Auditing (ISAs). Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

5. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a consolidated opinion on these matters. Except for the possible effects of the matter described in the "Basis for Qualified Opinion" section of our report, paragraph 3, we have determined that there are no other key audit matters to communicate in our report.

Other matters

6. The consolidated financial statements as at December 31, 2015 were audited by another independent auditor that issued an unqualified opinion on April 1, 2016.

Reporting requirements concerning the consolidated administrators' report

7. The administrators are responsible for the preparation and presentation of the consolidated administrators' report in accordance with the requirements of the Ministry of Public Finance Order 2844/2016 for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU, which does not contain material misstatements and for such internal control as management determines is necessary to enable the preparation of administrator's report that is free from material misstatement, whether due to fraud or error.

The administrators' report is not part of the consolidated financial statements.

Our opinion on the consolidated financial statements does not cover the administrators' report.

In connection with our audit of the consolidated financial statements, we have read the administrators' report accompanying the consolidated financial statements we report as follows:

- a) in the administrators' report, we have not identified information which is not consistent, in all material respects, with the information presented in the consolidated financial statements attached;
- b) the administrators' report identified above contains, in all material respects, the required information according to the provisions of Ministry of Public Finance Order no. 2844/2016 for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU;
- c) based on our knowledge and understanding concerning the Group and its environment gained during the audit on the consolidated financial statements prepared as at December 31, 2016, and except for the possible effects on the administrator's report of the matter described in the "*Basis for Qualified Opinion*" section of our report, we have not identified information included in the administrators' report that contains a material misstatement of fact.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

The engagement partner on the audit resulting in this independent auditor’s report is Zeno Caprariu

Zeno Caprariu, Audit Director

For signature, please refer to the original Romanian version.

Registered with the Chamber of Financial Auditors of Romania under certificate no. 2693/18.11.2008

On behalf of:

DELOITTE AUDIT S.R.L.

Registered with the Chamber of Financial Auditors of Romania under certificate no. 25/25.06.2001

Bucharest, Romania

March 29, 2017

Statement of responsibility

According to Article 30 of the Accounting Law no. 82/1991, republished, I, the undersigned Eugen Scheusan, in my capacity of Managing Director and legal representative of Electromagnetica SA having its head office at 266-268 Calea Rahovei Street, district 5, Bucharest, registered with the Trade Register under no. J40/19/1991, tax ID 414118, hereby declare that I assume liability for the preparation of the individual and consolidated financial statements for 2016 and certify that, to the best of my knowledge,

- a) the accounting policies used to prepare the individual and consolidated quarterly financial statements comply with the applicable accounting regulations;
- b) the financial statement as of 31.12.2016, prepared in compliance with Order no. 2844/2016 of the Ministry of Public Finance approving the accounting regulations compliant with the international financial reporting standards, reflects a true and fair image of the assets, liabilities, financial position, profit and loss account of Electromagnetica SA and the companies included in the consolidation process;
- c) The annual report of the directors for 2016 was prepared in compliance with the provisions of CNVM Regulation no. 1/2006 and present true and complete information about the Company;
- d) Electromagnetica SA carries out its business on a continuous basis.

Managing Director
Eugen Scheusan