

ELECTROMAGNETICA SA

Half-Yearly Report of the Board of Directors
under Regulation no. 5/2018 of the Financial Supervisory Authority

Individual and consolidated interim financial statements
for the six month-period ended on 30 June 2018

Unaudited

10 August 2018

Identification data

Date of the report:	10 August 2018
Company name:	SC Electromagnetica SA
Registered office:	266-268 Calea Rahovei Street, District 5, Bucharest
Telephone/fax:	tel 021.404.2102, fax:021.404.2195
Sole registration code:	414118
Trade Register no.:	J40/19/1991
Subscribed and paid capital:	LEI 67,603,870.40
Regulated market:	Bucharest Stock Exchange, Shares, Category I
Stock symbol:	ELMA

Financial statements auditing

The individual and consolidated financial statements of Electromagnetica SA for the first six months of 2018, prepared in accordance with the applicable national regulations, have not been audited.

Declaration regarding the perspectives

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

1. Economic and financial standing of Electromagnetica SA

a) The financial position for the first semester of 2018 is the following:

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	<u>30 June 2018</u>	<u>31 December 2017</u>
ASSETS		
Non-current assets of which		
Tangible assets	282,785,829	286,427,678
Other non-current assets, long-term	21,910,287	19,802,564
Total non-current assets	314,192,566	316,001,253
Current assets, of which		
Inventories	17,326,935	16,763,968
Trade receivables	46,086,929	40,417,745
Cash and cash equivalents	22,331,174	16,362,058
Total current assets	88,442,909	75,973,726
Total assets	402,635,475	391,974,979
EQUITY AND LIABILITIES		
Total equity attributable to company shareholders	327,075,406	316,104,451
Total long-term liabilities	21,885,386	22,130,270
Total current liabilities	53,674,684	53,740,257
Total equity and liabilities	402,635,475	391,974,979

The following conclusions can be drawn from the above information:

As a whole, the non-current assets decreased by 0.6% in the first semester of 2018, as a result of depreciation of buildings, technological equipments, appliances and machinery used for the production activity, their value exceeding the non-current asset inputs, concurrently with a decrease of intangible assets and an increase of other non-current assets (long-term trade receivables increased by 10.6%).

During the first half of the year, there were tangible asset inputs resulted from investments in the modernization of technological manufacturing processes. The investments were made from own financing resources.

The short-term trade receivables increased by 14% as a result of the growing sales through supplier credit.

The total current assets increased by 16.4% as compared to the beginning of the reporting period, under the influence of the higher cash levels, inventories and trade receivables. The cash levels at the end of the first semester of 2018 increased by 36.5% as compared to the beginning of the year, due to the growing business on some segments as well as the postponement of certain

investments for the next period. A percentage of 56% of the available cash is used to guarantee certain obligations (collateral cash).

As at 30.06.2018 the equity reached 327,075,406 RON, which means a 3.5% increase as compared to the end of 2017, due to the net profit of 10,781,326 lei generated in the reporting period.

The company had no long-term loans contracted with banks as at 30 June 2018, while its short-term loans were fully reimbursed. The other long-term liabilities maintained at a low level, which was 1.1% less than at the end of 2017.

The current liabilities maintained at a relatively constant level, with a slight decrease of 0.1%.

b) The profit and loss statement of the company for the first half of 2018 is the following:

	6-month period ended on 30 June 2018	6-month period ended on 30 June 2017
Revenues	151,697,371	97,684,978
Revenues from investments	36,923	429,525
Other net revenues	2,476,320	3,167,656
Variation of finished product inventories and production in progress	10,454,887	5,103,659
Work performed and capitalized	277,016	1,149,972
Raw materials and consumables used	(114,158,762)	(76,935,676)
Personnel expenses	(15,162,956)	(17,134,640)
Expenses with depreciation and impairment loss	(4,938,582)	(7,904,945)
Other expenses	(17,225,355)	(13,672,828)
Financial costs	(476,330)	(327,085)
Profit/(Loss) before tax	12,980,531	(8,439,385)
Corporation tax	(2,199,205)	(317,262)
Profit/(Loss) for period	10,781,326	(8,756,647)

The elements which led to the result of the first six months of 2018 were influenced by the following:

- The production volume increased by 1.6%, in the context of the grown sales of LED lighting units, meters and tele-management systems.
- The lower rates registered in certain product groups such as plastic injection and moulds (but the weight of these products in the turnover is quite small).
- The significant increase of the energy production and supply business.

No business segment was sold or stopped by the company during the first semester of 2018 and no such changes are estimated. Moreover, the company tries to develop and promote electric vehicle charging stations, but this business is also influenced by the pace at which this market is developing in Romania.

Both the EBIT margin and the EBITDA margin had registered positive values of 7.53%, respectively 10.34%.

Dividends. According to the resolution adopted by the Ordinary General Meeting of Shareholders (AGOA) 25 April 2018, the company did not distribute dividends. Following the above mentioned resolution, the dividends for the financial year 2014, which were not claimed until 18 June 2018, will be prescribed.

c) Cash flow

	<u>6-month period ended on 30 June 2018</u>	<u>6-month period ended on 30 June 2017</u>
<i>Net cash used in operating activities</i>	6,984,428	(6,120,444)
<i>Net cash used in investment activities</i>	(1,015,311)	(2,381,910)
<i>Net cash used in financing activities</i>	0	280,266
<i>Cash and cash equivalents net increase/decrease</i>	5,969,117	(8,222,088)
<i>Cash and cash equivalents at the beginning of period</i>	16,362,057	17,822,290
<i>Cash and cash equivalents end of period</i>	22,331,174	9,600,202

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

- The operating activity recorded a surplus at the end of the reporting period.
- Credit lines were accessed to a greater extent than in the same period of 2017. Until 30.06.2018, the withdrawals from credit lines were fully repaid.

2 Analysis of the business operation of Electromagnetica SA

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

The company business is focused on:

the energy sector, through:

- the production of LED lighting systems (for energy efficiency improvement) and manufacture of power distribution and metering equipment;
- the production of electricity from renewable sources in the 10 micro-hydroelectric plants and the electricity supply business

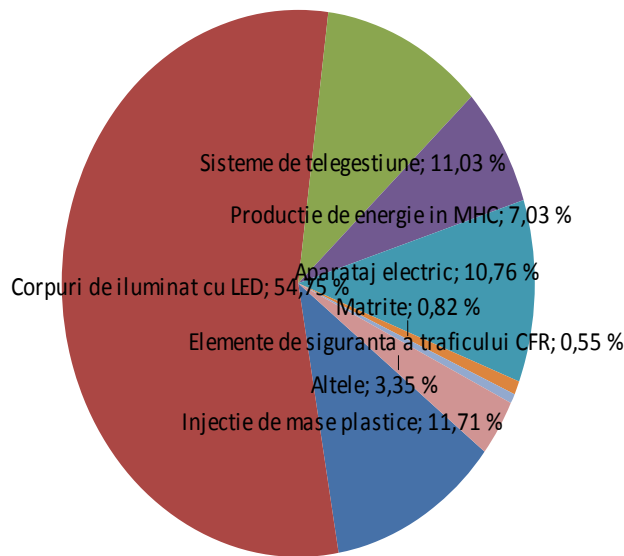
other areas:

- the production with a large export share, i.e. low voltage switchgear, injection mould plastics, steelwork, various subassemblies;
- the production of other industrial products and services for the domestic market, among which the production of railway safety systems;
- the rental and the utility supply services.

The trends of each activity separately are described below:

Production activity

Structure of Electromagnetica production turnover in the first 6 months of 2018



Production recorded an overall increase of 1.06%. Among the groups of products representing a large share, an increase was recorded for meters and tele-management systems (281%) and LED lighting units (8.5%), while a decline could be seen in low voltage switchgear (2%), injection mould plastics (11%), moulds (60%) and also in energy production in micro-hydroelectric plants, which is greatly influenced by weather, respectively by the rainfall.

In terms of sales markets, the sales in the domestic market increased by 5.4% as a result of the larger number of orders for LED lighting units.

The electricity supply was carried out in a market stabler than in the equivalent period of 2017, implementing risk mitigation policies through the acquisition of energy during favorable periods, signing and executing EFET-type contracts on OTC market with reputed partners, thus avoiding acquisitions on more volatile markets such as DAM. The company continues the restructuring of its customer portfolio in parallel with its efforts to re-win some older consumers with acknowledged worthiness.

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

Investments during the first six months of 2018 were lower than in the same period of 2017, reaching 1.95 million lei, made especially in technological equipment. The modernization works had also a significant contribution. All investments were made from the company own funds.

Human resources continued to be at the heart of the activities of restructuring and reorganization of the company in the first six months of the year, the personnel costs being reduced. At the same time, a greater attention was paid to the implementation of the program for compliance with Regulation (EU) 2016/679 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (GDPR).

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

- the dynamics of the local market of LED lighting units and the competition with imported products;
- the receivables collection timescale; in the context of an increasing competition on all markets, the payment terms became unfavorable for sellers/suppliers. Around 32% of the company's receivables have a collection time limit of over 1 year;
- the high volatility of prices in the energy market;
- the level of rainfall, with a direct influence on our own electricity production;
- the volume of domestic and export orders, which makes the medium- and long-term production less predictable;
- the risk of insolvency appeared for certain customers; Electromagnetica tries to minimize these risks by analyzing partners (including through the partnership with RISCO), both before signing contracts and during the execution of those contracts;
- the exchange rate, the imports of materials etc.

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

The previous regular reports indicate that certain groups of products, such as energy metering and tele-management systems or the railway safety systems may register extensive fluctuations of incomes from one period to another, depending on the pace at which our customers initiate or complete investment programs or launch tenders. Therefore, the changes occurred in the production structure are inherent and they do not necessarily represent a long-term trend.

The electricity supply business, as restructured in the last eighteen months, reached an appropriate size for the current market conditions, where risk control is more effective.

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

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

N/A

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

N/A

4. Significant transactions

N/A.

5. Information on consolidated results

In the first six months of 2018, there was no change in the interests of Electromagnetica in its subsidiaries (Electromagnetica Goldstar SRL, Procetel SA, Electromagnetica Fire SRL and Electromagnetica Prestserv SRL) or in their governing structures.

The companies under Electromagnetica's control have a little influence on the profit before tax after consolidation, as their transactions are mostly made with their parent company.

	Group	Parent company	%	Group	Parent company	%
	30 June 2018	30 June 2018		31 December 2017	31 December 2017	
Non-current assets	320,433,450	314,192,566	98.05%	321,205,820	316,001,253	98.38%
Current assets	92,636,411	88,442,909	95.47%	81,182,023	75,973,726	93.58%
Equity from company shareholders	336,460,896	327,075,406	97.21%	325,297,542	316,104,451	97.17%
Long-term liabilities	22,402,412	21,885,386	97.69%	22,656,057	22,130,270	97.68%
Current liabilities	53,938,170	53,674,684	99.51%	54,179,155	53,740,257	99.19%
Profit/Loss before tax	13,198,747	12,980,531	98.35%	14,011,821	14,970,380	106.84%
Profit/Loss for period	10,978,259	10,781,326	98.21%	14,449,482	15,370,332	106.37%
EBITDA	18,518,516	18,178,530	98.16%	8,454,157	7,975,124	94.33%

6. Financial reporting calendar for 2018

14 August 2017: Publication of the financial results for the first six months of 2018; Meeting with analysts

15 November 2018: Publication of quarterly financial results – 3rd Quarter 2018

7. Signatures

Eugen Scheusan,
General Manager

Cristina Florea
Business Manager