Annual Report of the Board of Directors
For the financial year 2017

Headquarters: RO – 550321 Sibiu | Stefan cel Mare street No. 156 | office@sgb-smit.group | www.retrasib.ro
Phone +40 (0) 269 25 32 69, +40 (0) 369 40 52 78 | Fax +40 (0) 269 25 32 79 | VAT No.: RO 3906360 | Trade Registry No.: J32/16/93

Bank details: Banca Transilvania Sibiu, IBAN: RO84 BTRL 0330 1202 L438 30XX

RETRASIB
Your dedicated partner
of the SGB-SMIT Group

Table of contents:

Annual Report of the Board of Directors
According Regulation CNVM no. 1/2006 (annex 32)
For the financial year 2017

Date of report: 11.04.2018
Name of company: Retrasib SA
Headquarter: Stefan cel Mare street, no. 156, Sibiu, county of Sibiu
Telephone: 0269253269 Fax: 0269253279
Nr. of incorporation Commercial Registry: J32/16/1993
Fiscal code: RO 3906360
The regulated market on which the shares are traded: Bucharest Stock Exchange
Subscribed and paid-up share capital: RON 10,001,205.40
Main characteristics of the shares issued by the trading company: nominative, dematerialized shares, nominal value = 0.1 lei, number of shares 100.012.054.

1. General Information

RETRASIB SA (" Company ") is a joint stock company which operates in accordance with Romanian Law No. 31/1990 on trading companies.
The company is headquartered in Sibiu, Stefan cel Mare Street, no. 156, county of Sibiu.
-The main activity of the company is producing and selling of the following products:
parts for and power transformers and autotransformers with powers up to 400 MVA and voltages up to 440 kV.

- Special transformers for:
  Mobile substations
  Rail- and subway substations
  Industrial sector
- Engineering, production, delivery, on-site erection, site acceptance tests, commissioning, after market services, trainings for operating staff
- Diagnostics, maintenance, repairing and refurbishments of transformers at own facility and on-site.

The main activity of the Company is the „production of motors, generators and electrical transformers", as per CAEN code 2711.
The Company has been established under the Government Decision 322/1992 by separation from the National Electricity Company „Renel" – FRE Sibiu – department of equipment repairs and manufacturing of products specific to the electricity sector.

In the second halfyear 2014, the company SGB-SMIT International Gmbh from Germany launched the Public Offer for Voluntary Take-Over, becoming major shareholder by holding, at the date of 22.09.2015, a number of 67.459.613 shares, respectively 67.46% from the total shared capital of Retrasib. The ultimate parent is an investment fund called One Equity Partners. Also, in 2017 it was decided to perform a capital increase of EUR 4 million (18 million RON) of which 12.15 million RON by converting an existing Group loan into share capital. The procedure is ongoing in 2018 due to pre-emption issues.

RETRASIB
Your dedicated partner
of the SGB-SMIT Group

2.Assessment of Company's activity

2.1. Economical situation assessment

Statement of comprehensive income

	2017	2016	% EVOLUTION
Revenue	122.655.715	61.284.891	200,14
Other incomes	6.910	102.620	6,73
Changes in inventories of finished goods and work in progress	-9.523.836	-8.033.809	118,55
Total income	113.138.791	53.353.702	212,05
Raw material costs and consumables	-79.301.559	-42.118.862	188,28
Merchandise sold	-48.819	-	-
Expenditure on services provided by third parties	-14.566.329	-13.718.930	106,18
Personnel expenses	-12.062.690	-10.943.676	110,23
Depreciation and amortization and impairment of tangible assets	-2.765.059	-2.341.914	118,07
Net income (expense) from provisions	-1.458.865	6.905.466	-21,13
Other expenses	-1.731.333	-2.317.117	74,72
Total expences	-111.934.654	-64.535.032	173,45
Net gain from fair value adjustment on investment property	797.682	-	
Operating result	**2.001.817**	**-11.181.331**	
Financial Result	-2.399.455	-2.114.975	
Profit (loss) before tax)	**-397.637**	**-13.296.305**	
Income tax, current, deferred	-566.932	2.468.821	
Profit (loss) for the year	-964.569	-10.827.484	

The revenue, in total value of 122.655.715 RON, where the main parts represents power transformer manufacturing, in value of 73.263.404 RON and parts manufacturing for Group in value of 47.124.016 RON, respectively 38,42% from total turnover. Revenue from external markets represents 74.139.061 RON compared 35.484.239 RON in 2016.

At 31.12.2017 the revenue value has increased by 200% compared to 2016 revenues. During the financial year 2017, the Company increased component production by 36.275.748 RON compared to the component output in 2016, and the revenues from power transformers production increased by 25.095.076 RON, mainly by increasing production for the domestic market, thus, the Company strengthens its competitive position. With regard to the external market, during the financial year 2017, the Company penetrates new markets like Poland, the Czech Republic, Sweden or Italy, as well, has registered increased revenues in Denmark, a market where it entered since 2016.

Starting 2017, the company applies the IAS11, and measures the turnover and the related receivables and payables based on the long term contracts percentage of completion. The Company uses the 'percentage-of-completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. The net balance sheet position for ongoing construction contracts as of 31 December 2017 is value of 15.768.306 RON.

RETRASIB
Your dedicated partner of the SGB-SMIT Group

A regional breakdown of revenues is as follows:

Country	**2017**	**2016**
Related parties:		
Germany	46.851.193	10.848.268
Netherlands	272.824	-
Third party customers:		
Hungary	11.830.158	21.841.574
Denmark	7.358.875	2.250.000
Poland	5.043.819	-
Czech Republic	2.499.838	-
Sweden	121.797	-
Italy	120.203	-
Azerbaijan	40.355	-
Switzerland	-	544.397
Total export revenues	**74.139.061**	**35.484.239**
Romania	48.516.654	25.800.652
Total revenues	**122.655.715**	**61.284.891**

From the operational activity the company recorded in 2017 a profit of 2.001.818RON, compared with 2016 when the Company recorded a loss of 11.181.330 RON and 2015 a loss of 12.471.917 RON. If in the financial year 2016 the operational expenses exceeded the revenue and the Company recorded operating loss, in financial year ended 31 December 2017, by improving both the technical projects used in the power transformers production and internal processes, the Company recorded an operating profit of 2.001.817 RON.

Total costs for 2017 are summing up to 111.934.654 RON compared initial report value 2016 of 64.535.032 RON, the main part is repesented by raw material like copper, isolation kits, steel.

The different income and expenses items registered following development:

- Expenses with raw materials and consumables 2017, in value of 79.301.559 RON, respectively 188% compared 2016, when they were summing up to 42.118.862 RON. In 2017, the ratio of raw materials expenses and expenses with consumables within total income was 70%, while 2016 the ratio was 79%.
- Expenses with personnel in 2017, in value of 12.062.690RON, respectively 110% compared 2016, when the value was 10.943.676 RON. In 2017, the ratio of personnel expenses within operating revenue value was 11%, whereas in 2016 the ratio was 21%.

Financial activity registered following evolution within last 3 years:

- Financial income in 2017, in amount of 503 RON, respectively 0,04% compared 2016 where they had a value of 1.296.697 RON and were representing 85,19% from financial income 2015. In 2017, the foreign exchange effect reported under Financial expenses and income are only those related to the loans. All other foreign exchange effects from commercial transactions are repositioned under operating expenses
- Financial expenses in 2017, amounting 2.399.959 RON, respectively 99,51% compared 2016 when their value was 3.411.672 RON and where representing 99,51% compared to the financial expenses in 2015.

The company recorded a gross loss of 397.637 RON in 2017, compared with the gross loss of 13.296.305 RON registered in 2016 and 14.378.327 RON in 2015.

RETRASIB
Your dedicated partner of the SGB-SMIT Group

The status of liquidity – at 31.12.2017 compared 31.12.2016 is as follows:

	31.dec.17	31.dec.16
Cash in bank	150.574	3.097.597
Restricted cash	-	24.500
Petty cash	1.502	2.670
Total cash and cash equivalents	152.076	3.124.767

Statement of financial position

	31/12/2017	31/12/2016
ASSETS		
Tangible assets	25.592.101	27.028.918
Investment property	10.064.020	9.138.000
Intangible assets	1.049.786	1.303.090
Financial assets	1.307.138	81.634
Deferred tax asset	2.990.790	3.710.273
Total fixed assets	**41.003.835**	**41.261.915**
Inventories	7.447.283	18.462.499
Trade receivables	38.453.676	18.990.436
Hedge receivables	915.181	-
Prepaid expenses	327.761	95.267
Cash and cash equivalents	152.076	3.124.767
Other receivables	414.160	746.762
Total current assets	**47.710.137**	**41.419.731**
TOTAL ASSETS	**88.713.972**	**82.681.647**
EQUITY		
Share capital	10.001.205	10.001.205
Revaluation reserves	8.912.344	9.595.691
Reserves	5.417.099	4.730.542
Retained earnings	-31.700.289	-30.844.351
Equity	**-7.369.641**	**-6.516.913**
LIABILITIES		
Lease liability. long term	3.405.501	3.092.784
Long-term provisions	1.174.596	1.185.984
Total liabilities on long term	**4.580.097**	**4.278.768**
Short-term trade payables	28.515.851	19.575.379
Short term bank loans	31.126.987	33.488.868
Lease liability. short term	374.291	206.779
Hedge liabilities	113.803	-
Short-term intra-group loans	23.950.858	18.947.740
Provisions	3.114.267	5.039.202
Other liabilities	4.307.459	7.661.825
Total current liabilities	**91.503.516**	**84.919.792**
TOTAL LIABILITIES	**96.083.613**	**89.198.560**
TOTAL LIABILITIES AND EQUITY	**88.713.972**	**82.681.647**

RETRASIB
Your dedicated partner
of the SGB-SMIT Group

The main financial items are:

- fixed assets which 2017 are summing up to 41.003.835 RON. respectively 46.22% from total assets. while 2016 the value recorded was 41.261.915 RON. respectively 49.90% of total assets.
- noncurrent receivables, value of 1.307.138 RON, represent retentions related to construction contracts and will be cashed by the company according to the contractual terms agreed with the clients, in 2016 thouse amounts were booked as trade receivables.
- stocks. which 2017 are summing up to 7.447.283 RON. respectively 8.39% from total assets. while 2016 value recorded was 18.462.499 RON. respectively 22.33% from total assets.
- stocks are represented mainly by raw materials. as of 31 december 2017: 3.685.863 RON (31 december 2016 1.495.157 RON) and work in progress. which 2017 was summing up 3.504.594 RON. while 2016 the value was 16.395.002 RON. Starting 2017. the company applies the IAS11. and measures the turnover and the related receivables and payables based on the long term contracts percentage of completion. As of 31 December 2016 thouse amounts were booked in work in progress. 16.216.676 RON.
- account receivables which 2017 were summing up 38.453.676 RON. respectively 43.35% from total assets. while 2016 their value was 18.990.436 RON. respectively 22.97% from total assets. In 2017 the company is applying IAS 11 and records receivables based on the „percentage-of-completion method" to determine the appropriate amount to recognise in a given period. as of 31 December 2017 the amounts booked due from customers for construction contracts is 17.146.913 RON.
- total current assets are summing up to 47.710.137 RON in 2017. while 2016 the value was 41.419.731 RON.
- trade payables, which at 31 December 2017 are value of 28.515.851 RON, are increased by 50.5% compared to 31 December 2016, this increase is correlated with the development of the production, respectively with the increase of the revenue from 2017.
- in order to cover the working capital needs, the Company obtained, at 31 December 2017, from SGB SMIT International, majority shareholder, loans amounting 5.140.000 eur (23.950.858 lei), at 31 December 2016 the value of the loans was 4.172.500 eur (18,947,740 lei). Part of these loans (2.700.000 eur) will be converted into equity in 2018 to improve financial convenants. During the financial year 2017, the Company repaid the equivalent of 72.500 eur and accessed an additional amount of 1.040.000 eur.
- the short-term provisions, amounting 3.114.267 RON, are registered to cover the risk of commercial penalties for late delivery of the power transformers. During the financial year 2017, the Company build a value of 1.742.667 RON for these risks. As of 31 December 2016, the provision line included some other provisions, that in 2017 Financial Statements were reclassifed (reclassification of provisions for staff bonuses, untaken holiday , to Personnel liabilities; reclassification of provisions for risks and charges related to audit fees and technical services, into Accrued payables; reclassification of provision for cost to come and for making loss contract, from the Provisions line to Allowances to receivables, under the framework of changes induced by applying the Construction Contracts standard).
- total current liabilities are summing up to 91.503.517 RON in 2017. while 2016 the value was 84.919.791 RON.
- no part of the activity was stopped or sold in the course of 2016 and nor for 2017 it is forecasted that this will happen.

General liquidity in 2017, calculated as a ratio between current assets and current liabilities, has increased compared to 2016, from 0.49 to 0.52. The current assets have increased, representing 115% compared to current assets from last year. The current liabilities have also increased, but more, representing 108% compared with current liabilities from 2016.

The immediate liquidity, calculated base formula (current assets-stocks)/current liabilities at 31.12.2017 has been 0.44, while the immediate liquidity at 31.12.2016 was 0.27.

The level of indebtedness, calculated as a ratio between total liabilities and total assets has increased in 2017 at 108,31% compared to 107,88% in 2016.

2.2. Assessment of technical level of the company

Main products and services are:

- Production of power transformers
- Production of parts for power transformers
- Special transformers for:
  - Mobile substations
  - Rail- and subway substations
  - Industrial sector
- Engineering, production, delivery, on-site erection, site acceptance tests, commissioning, after market services, trainings for operating staff
- Diagnostics, maintenance, repairing and refurbishments of transformers at producers facility and on-site.

The main customers in 2017 are: Starkstrom Geratebau Regensburg, CNTEE Transelectrica Bucureşti, MAVIR Ungaria, Innogy Stoen Operator SP, Enel Distribuție Muntenia, Elpro-Energo S.R.o., Romelectro Romania.
For 2016 the main customers were: MAVIR Ungaria, CNTEE Transelectrica Bucureşti, Starkstrom Geratebau Regensburg, Enel Distribuție Muntenia, Enertech Ungaria, EnergiMidt Danemarca, EFACEC.
Repair works are being performed at companies headquarter or on-site, if applicable.
The company does not have subsidiaries or retail/wholesale stores.

The evolution of market in view of company's object of activity is strictly conditioned by the entire economic evolution, respectively by the evolution of the electro-energetic national system and entering new markets. The actual trends of the market are changing, the company has a duty of permanent adjustment, through increased flexibility and sustained effort to cope with both domestic and foreign competition.

The breakdown into products and services from total turnover within the last 3 years is:

	2015		2016		2017	
	RON	**%**	**RON**	**%**	**RON**	**%**
Turnover	**61.878.605**	**100,00**	**61.284.891**	**100,00**	**122.655.715**	**100,00**
Products	59.102.009	95,51	58.301.841	95,13	120.387.420	98,15
Services	2.032.434	3,29	2.345.679	3,83	625.317	0,51
Rents	342.791	0,55	468.416	0,77	889.915	0,73
Scrap	245.526	0,40	167.569	0,27	628.738	0.51
Goods - materials	155.845	0,25	1.386	0,00	124.325	0.10

RETRASIB
Your dedicated partner
of the SGB-SMIT Group

2.3. Assessment of purchasing activity

In 2017, from the total of purchased materials and services, 81.6% are from export.
The main local suppliers are: Electromontaj Craiova, ES Elektro Cluj-Napoca, Simtech International Bucureşti, E-on Romania, Eastern Shipping Constanța, Mondo Bestoil Tg.Mureș, Athos Transport Sibiu.
The main external suppliers are: Essesx Italia, DE Angeli Italia, ASTA Elektrodraht Austria, Legnano Teknoelectric Italia, Vicente Torns Slovacia, ABB Components Suedia, Starkstrom Geratebau Germania, Company Trafil Production Italia, Weidmann Electrical Elveția , Maschinenfabrik Reinhausen Germania.

2.4. Competition

Considering market share held by the company in view of main type of products, such a market study has not been performed by the company due lack of specialized personell and funds, consequently the company does not have these data nor for 2017 or 2016.Total income at 31.12.2017 was 113.138.791 RON compared 53.353.702 RON in 2016.

Major local competitors are: Electroputere Craiova and Elerom Roman.
Major external competitors are: Koncar Croaţia, ETRA Slovenia, Hyundai, ABB, Siemens.

Our company is appreciated by the customers and won market share by the quality of products and services, the company beeing accredited ISO 9001-2008, ISO 14001-2004, OHSAS 18001-2007 by the Romanian Society for Quality Assurance and The International Quality Network.

With regards to the market share of the company's products and the market share of competition, the company does not have data.

2.5. Assessment of personnel data

At 31.12.2017 the company had 191 employees with labor contract and 2 employees with Mandate Contract (General Manager and Financial Manager).
The breakdown of personnel structure as follows:

	2017	2016	Delta
Total out of which	193	200	-7
Management	3	2	-
White collars	75	63	+12
Blue collars	115	135	-20
Average number	182	192	-10
Average age	43	41	+2
Average brutto salary (RON)	4.015	3.767	+248

The breakdown of personnel expenses (RON) as follows:

Personnel expenses	2017	2016
Salaries	8.029.624	8.491.058
Staff accruals	1.207.800	-
Contractors	334.824	-
Social security contributions	2.057.429	2.053.970
Meal tickets	433.013	398.648
Total	**12.062.690**	**10.943.676**

There were no labor conflicts registered. The level of skills and capabilities of the employees is sustained by the continuous trainings and on-the job formation programs conducted by the mixt SGB-Retrasib teams. The level of participation into workers union is 69%.

The intercourse between manager and employees are good. There are no conflictual aspects between managers and employees.

2.6. Environmental impact

The company has implemented an environmental management system according to ISO 14001 certified by SRAC - Bucharest.
For the year 2017 the company has fulfilled its legal duties. The company is in posession of environmental authoriozation. The company has reported to the authorities the data related to environmental impact.

2.7. Assessment of R&D activity

The company did not register research and development expenditures for 2017.
The research and development activity is carried out at the Group level with the implementation of the relevant technologies within the company.

2.8. Assessment on risk management

Risk factors consist of those elements, situations or conditions, whether internal or external, which may affect by their nature the activity of a company, generating effects contrary to what is expected.
Risks are classified into two main categories depending on whether or not they can be avoided or diminished by the company:

- **Systemic risks** - risks caused by the evolution of political and economic events that objectively influence in one way or another all the activities of an economy. The systemic risk is undifferentiated and cannot be eliminated. This includes country risk, political risk, globalization, inflation risk and interest rate risk.
- **Non-systemic risks** - risks that only affect certain markets, business sectors, companies.

Considered are:

- **Price risk** - the possibility that, in an international trade operation, the expected gain or loss cannot be obtained due to the change in international prices between the time of the conclusion of the contract and the delivery (or purchase) of the goods. To mitigate this risk, the company has implemented the hedging system for main material prices.

- **Natural disasters** - are generally unpredictable and are manifested by natural phenomena or caused by force majeure which make company unable to honor its obligations.

- **Competition** - refers to the business sector of the company. Competing firms may be larger and may have more advanced financially, technically or with respect to operational resources. The market has a high degree of competitiveness both in terms of price and diversity of products and services. The company's management analyses on a case-by-case basis the possible causes of market risks such as: new competition into the market, by implementing appropriate risk avoidance / mitigation measures.
  The company relies on the quality of the services it carries out, on a good technical endowment, on the application of a well-integrated quality system, protection of work and environment, and last but not least, a trained and professional staff.

RETRASIB
Your dedicated partner of the SGB-SMIT Group

- **Financial risks such as:**

Currency risk: The Company performs transactions expressed in different currencies, mainly in EUR. Hence, there is the risk of fluctuations in the exchange rates. The exposures to the exchange rate are managed according to the approved policies. Currency hedging procedure is in place.

Liquidity risk: is the ability of the Company to finance asset growth and / or meet its obligations when they become due and liquidity management is an integral part of the management of assets and liabilities.
This risk of loss, can lead to inability to meet payment on short term without bank loans.
Liquidity analysis is carried out according to weekly payments and receipts and is correlated with cash needs. Management decided to use short term loans to finance the working capital because the products are produced with long manufacturing cycle and between the time when an order is released and the accounts receivables, production financing is needed.

Credit risk: relates to the risk that a counterparty will not meet its obligations causing financial losses to the Company. The Company has adopted a policy of performing transactions only with trustworthy parties and of obtaining sufficient guarantees, if applicable, as a means of decreasing the financial losses caused by breaches of contracts. The Company's exposure and the credit ratings of third parties to contracts are monitored by the management.
Trade receivables consist in a number of clients from energy industry and different geographical areas. The permanent credit assessment is performed in relation to the clients' financial condition and, when appropriate, a credit insurance is concluded.
The carrying amount of receivables, net of the provision for receivables, plus the cash and cash equivalents, are the maximum amount exposed to the credit risk.
Although the receivable collection could be influenced by economic factors, the management considers there is no significant loss risk for the Company, beyond the provisions already recorded.
Currently there is no trial pending with regards to the collection of accounts receivables.

Our company's customers are companies of national interest or companies investing in industry with capital and financial strength, thus it is considered that cashing risk is low and has little chance to influence the activity of the company, although there are occasionally notices on delays in collection.

Interest risk: During 2017 Retrasib SA, accessed a number of loans for current activity.
Accessed loans are due to insufficient liquidity and the specificity of manufacturing segment - long manufacturing cycle, whereas accounts receivables are booked and collected at the latter stage of contract performance.

Accessed loans are aimed mainly to cover the purchase of raw materials and cover liquidity up to the collection of receivables.

The company has access to a Global Exploitation Ceiling contracted with the financing bank. The Global Exploitation Ceiling includes credit line for the current activity and letters of bank guarantee.
This ceiling is guaranteed by a pledge on the buildings, receivables and inventories.

Capital risk: is analyzed based on the gearing ratio. This ratio is calculated as net debt divided by equity. The net debt is represented by the total loans less the cash and cash equivalents and considering settlement measures taken by the Group in 2017 to manage this risk.
In order to improve the Company's capital risk position in 2017, the Company's Shareholders decided to increase the share capital with a value of 18.013.343 RON, partly through conversion of existing group loans for an amount o 12.150.000 RON and the rest through cash contribution.

Exposure risk: in the energy industry, given the complexity of the works/projects is the participation in public procurements as consortium is traditional.
Following these tenders awarded, which may have significant value, there is a possibility that any part of the consortium does not fulfil its contractual obligations which will generate delays and losses.

Due to large contracts with certain beneficiaries, the exposures may be significant and may create pressure on delivery times and accounts receivables.
Under Law 72/2013, there is some protection on debt recovery.
To reduce the risk of exposure to a beneficiary and also to consolidate its market position, the company constantly looking for and participate in tenders, inquiries both domestic and foreign markets.

2.9. Financial instruments

The Company uses hedging instruments in order to avoid price fluctuations that could have a negative effect. As of 31 December 2017, the Company had 16 active hedging contracts for commodity, copper, and 14 contracts against foreign exchange, DKK and SEK.
The Company documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.
The amounts recognized in respect of financial derivative instruments at 31 December 2017 are presented below:

Gains and losses on hedged items	**2017**
Gains (-) and losses (+) on the hedged copper	-528.894
Gains (-) and losses (+) on the hedged foreign currencies	-94.363
Hedge effects in equity, net of deferred tax	686.557
Hedge expense in the income statement	-15.951

Breakdown of positive and negative market values of derivates recognized in BS in cash flow and fair value hedges	**31.dec.2017**
Positive market values from hedge accounting	**915.181**
thereof cash flow hedges	880.636
thereof fair value hedges	34.545
Negative market values from hedge accounting	**-113.802**
thereof cash flow hedges	-97.173
thereof fair value hedges	-16.629

RETRASIB
Your dedicated partner of the SGB-SMIT Group

2.10. Perspectives on the activity of the company:

For 2018, the Company aim to consolidate the positive results achieved in 2017. The measures implemented so far with regard to the optimization of technical transformers projects, internal processes and production times to ensure operational efficiency, together with planned equipment investments will be a key component of the sustainable growth strategy.
In this respect, the Company's budget for 2018 forecasts a 54% increase in revenue compared to the revenue registered in 2017. The Company plans to strengthen its position in the domestic market, as well as expanding the portfolio of successful delivered transformers on the export market. Benefiting of the large network of SGB-SMIT partners and cumulated with the ongoing investment in quality staff, the Company wishes to become an important player of the large power transformer market in the targeted regions. Cumulated with the projects of large energy distribution companies, 2018 will be an year in which Retrasib will continue to develop sales channels toward private projects in energy field.

3. Tangible assets of the company

3.1. The location and main production facility

The facility of the company is located in Sibiu, Stefan cel Mare street, no. 156, except an office space located in Cluj Napoca purchased in July 2013. The field surface is summing up to 30.654 mp split into 10 topographic numbers, constructions surface 14.286 mp, networks 89 mp, roads and platforms 16.279 mp.

Company's assets are mainly:
- 1 winding and insulation workshop
- 2 assembly workshops
- 1 mechanical workshop
- 1 high voltage laboratory
- 1 micro-production workshop
- 1 offices building
- 1 offices space in Cluj

The investments and acquisitions of tangible assets in 2017 are summing up to 715.147 RON:

-buildings	203.718 RON
-technological equipments	344.327 RON
-measuring devices	148.871 RON
-transport means	13.531 RON
-furniture and office equipment	4.700 RON

For technological equipments an add of 904.493 RON, as per long-term rent contract with the company SGB from the SGB-SMIT Group, where according to IAS 17, the conditions of a financial leasing are met, shall be considered.

The investments and acquisitions of intangible assets in 2017 are summing up to 8.235 RON, representing computer software.

RETRASIB
Your dedicated partner of the SGB-SMIT Group

3.2. Description and assessment of property's depreciation's degree

Item	Fixed assets group	No. of fixed assets	Out of which completely depreciated
1	Constructions	31	7
2	Technological equipments	226	62
3	Measurement devices	76	25
4	Transport means	25	16
5	Furniture, offices equipments	34	12
	Total	**392**	**122**

The low level of depreciation in case of constructions is due to revaluation of constructions performed end 2017 and registry in the course of 2013 of the Cluj office space, which is clasified as investment property and which is stated at fair value.
There a are no/nor estimated claims regarding the property right over the tangible assets of the company.

3.3. The fixed assets aquired 2017 are summing up to 715.147 RON as follows :

Purchase and modernization of buildings	**203.718 RON**
- rehabilitation of mechanical workshop	203.718 RON
Technical equipments:	**344.327 RON**
- rehabilitation of the 440 mc oven	101.557 RON
- installation for generation of dry air	39.518 RON
- windings lifting beam	24.690 RON
- rehabilitation of the electric oven	23.620 RON
- transposition making device	17.299 RON
- other 24 technical equipments	137.643 RON
Measuring equipment:	**148.871 RON**
- humidity measuring kit	126.625 RON
- 2 notebooks HP	9.334 RON
- other 3 measuring equipments	12.912 RON
Transport and lifting devices:	**13.531 RON**
- rehabilitation of the crane	13.531 RON
Furtiture and office devices:	**4.700 RON**
- large cabinet with sliding doors	4.700 RON

Current assets were purchased base production necessities.

Disposals in total of 34.102 RON:
fixed assets:
- installation for generation of dry air value of 24.708 RON
- universal device with rotating jaws value of 9.395 RON

current assets:
- by selling finished goods and materials

RETRASIB
Your dedicated partner of the SGB-SMIT Group

4. Share capital

The company's shares are traded on the Bucharest Stock Exchange under the symbol RTRA.
Within 2017 there was registered a loss of 964.569 RON and no dividends wil be granted. In 2017 and 2016 where no dividends granted.
The company has not performed any activity of purchasing its own shares.
The company has no subsidiaries.

5. Company's Management

The administrative management
The administrative management of the company is ensured by the Board of Directors, having the following structure during 2017:

Name	Capacity	Age	Qualification	Position	Seniority in position
Jan Ölscher	Administrator	52	Engineer	President	2 year
Michael Georg Amon	Administrator	52	Engineer	Member	2 year
Iulian Stancu	Administrator	47	Engineer	Member	7 year
Uekermann Heinrich	Administrator	53	Economist	Member	2 year
Schatzl Franz	Administrator	45	Engineer	Member	2 year

Starting with September 13, 2017, the membership of the Board of Directors changed, taking note of the resignation as Administrator, member of BoD of Mr. Amon Michael Georg, who was replaced by Mr. Tilo Dorn, interim member.

At the date of 31.12.2017, the members of the Administration Board do not own shares within the company and the structure is as following:

Name	Capacity	Age	Qualification	Position	Seniority in position
Jan Ölscher	Administrator	52	Engineer	President	2 year
Tilo Dorn	Administrator	47	Engineer	Member	4 months
Iulian Stancu	Administrator	47	Engineer	Member	7 year
Uekermann Heinrich	Administrator	53	Economist	Member	2 year
Schatzl Franz	Administrator	45	Engineer	Member	2 year

Affiliated legal persons: SGB-Smit International GmbH, SGB - Smit Management GmbH, SGB – SMIT GmbH, STARKSTROM SGB, Royal TRANSFORMATOREN Smit BV, Trafo Proiect, SCANDO Trading

Members of management have not been involved in 2017 in litigations or administrative proceedings.

There were no loans granted to members of the Administration Board.

The executive management

The executive management of the company has been performed by:

General Manager – Gherghel Claudia Adela – starting 01.11.2016
Financial Manager – Bratu Roxana Meda – until 04.05.2017
Financial Manager – Popianos Andra Minerva – strating 12.06.2017
Operational Manager – Draghici Emilian – starting 27.11.2017

Participation in the share capital of the unit:
At 31.12.2017 members of executive management do not own shares within the company.
There is no agreement or family relationship due to which any of the members of the executive management have been nominated into their positions.

Members of the executive management have not been involved in 2017 in litigations nor administrative proceedings.

There were no loans granted to the members of the executive board.

6. Corporate Governance

The Bucharest Stock Exchange launched on 11 September 2015 the new Corporate governance code of the Stock Exchange. The document comprises a set of principles and recommendations for companies whose shares are admitted to trading on the regulated market. The purpose of the code is to create an internationally attractive capital market in Romania, based on best practices, transparency and trust. The code encourages societies to build a strong relationship with their shareholders and other holders of interests (stakeholders), to communicate effectively and transparently and to show openness to all potential investors.
The objective of the corporate governance Code of the Bucharest Stock Exchange is to increase confidence in the listed companies by promoting improved corporate governance standards in these companies.
In this respect, the companies listed must include a corporate governance declaration in the annual report in a separate section, which will include a self-assessment of how the ' provisions to be respected ' are fulfilled, and the measures taken to comply with the provisions which are not fully fulfilled.
Annually, the Company reports to BVB the status of compliance with the provisions of the Corporate Governance code issued by BVB.
The corporate governance code of RETRASIB SA is being updated and will be published on the company's website as soon as it is approved by the general meeting of the shareholders.

6.1 Structure and functioning of the management bodies

General Assembly of Shareholders

The General Assembly of Shareholders is the supreme governing body of the company that decides on its business and assures its economic and commercial policy.
The General Assembly of Shareholders comprise all shareholders or major part and shall meet in ordinary meetings (AGOA) and in extraordinary meetings (AGEA.), each with the competences established by the legal provisions and the Constitutive Act. Convening, organizing and conducting the works of General Assembly of Shareholders is made in strict compliance with the legal provisions, ensuring the presentation of the materials, the recording of the works and the adopted decisions.
The attributions and details regarding the functioning and exercising of the voting rights of the General Assembly of Shareholders can be found in the Articles of Incorporation published on the company's website www.retrasib.ro.

Board of Directors

Retrasib is managed by a Board of Directors composed by 5 members elected by the General Assembly of Shareholders on the basis of the constitutive document and exercising its mandate with loyalty, in the company's interest, with the prudence and diligence of a manager and taking all the necessary and useful measures , which are in its competence, in order to achieve the activity of society in the best conditions. The Board of Directors is subordinated to the General Assembly of Shareholders.

The Board of Directors is managed by a President, elected from among the administrators. The President of the Board of Directors calls the Board of Directors as often as necessary, but at least once a quarter, sets the agenda, presides over the meeting and ensures that administrators are properly informed of the items on the agenda. The President of the Board of Directors coordinates the work of the Board and reports to the General Assembly of Shareholders. The Board of Directors has the duty to supervise, analyze and evaluate the activity of directors, as well as to ensure fair treatment of all shareholders.
The Board of Directors delegates the management of the company to the general manager.

The most important responsibilities of the Board of Directors are as follows:

- approval of the strategic, operational and financial plan of the company
- assessing the organizational, administrative and accounting structure of the company
- evaluating the overall performance of the company and periodically comparing the results achieved with the planned ones
- examining and prior approval of the Company's contracts with significant impact on the profitability, assets and liabilities or financial position of the Company, with particular attention to transactions with the parties involved (the transactions with oneself)
- assessing at least once a year the size, composition and performance of the Board of Directors

The Company does not apply a diversity policy regarding the management of the Company.

In 2017, the Board of Directors met, according to the regulations, at least once per quarter, in a number of 11 sessions and issued a number of 11 Decisions of the members of the Board of Directors in a participation of 100%.
The attributions and details regarding the functioning of the Board of Directors are found in the Articles of Incorporation published on the company's website www.retrasib.ro

Operative leadership

Operational management of RETRASIB SA is ensured by a General Manager and an Economic Director. None of the directors is a member of the Board of Directors.

Retrasib is represented by the General Manager, to whom the Board of Directors delegates the following tasks:

- determination of remuneration, conclusion, modification and dissolution of individual labor contracts
- rewarding and sanctioning the employees
- establishing the tasks, competencies and responsibilities of the employees
- the approval of the organization and functioning regulations, as well as of other legal acts regulating the activity of Retrasib SA according to the law
- the conclusion of the collective labor contract
- approval of receipts and payments operations
- approving the conclusion of rental contracts (making or renting).

Rights of the shareholders

Retrasib respects the rights of the its shareholders and ensures equal treatment for all shareholders by providing them with the relevant information so that they can exercise their rights in a fair manner.
Shareholders have to exercise their rights in good faith, respecting the legitimate rights and interests of other shareholders and the priority interest of the company, otherwise they are liable for the damages caused.
Rights of the Company's minority shareholders are adequately protected according to relevant legislation. Shareholders have, among other rights provided under the Company's Articles of Association and the laws and regulations currently in force, the rights to obtain information about the activities of the Compnay, regarding the exercise of voting rights and the voting results in the General Assembly of Shareholders. Shareholders have also the right to participate and vote in the General Assembly of Shareholders, as well as to receive dividends. There are no preference sharea without voting rights or share conferring the right to more than one vote. Moreover, shareholders

have the right to challenge the decisions of General Assembly of Shareholders or to withdraw from the Company and to request the Company to acquire their shares, in certain conditions mentioned by the law. Likewise, one or more shareholders holding, individually or jointly, al least 5% of the share capital, may request the calling of a General Assembly of Shareholders. Such shareholders have also the right to add new items to the agenda of a General Assembly of Shareholders, provided such proposals are accompanied by a justification or a draft resolution proposed for approval and copies of the identification documents of the shareholders who make the proposals.

Treatment of shareholders

All shareholders will be treated fairly. All issued shares give the holders equal rights; Any modification of the rights granted by them will be subject to the approval of the directly affected shareholders. Retrasib facilitates and encourages the participation of shareholders in the works of the General Assembly of Shareholders (AGA) and the full exercise of their rights.

For shareholders who can not participate, Retrasib makes available the possibility of exercising voting by absence, based on a special power of attorney, and by voting by correspondence.

Retrasib answers all questions raised by shareholders regarding the items on the agenda of General Assembly of Shareholders in writing, transmitted by post, fax or e-mail, according to the information widely posted on the company's website. Retrasib.ro in the Communications section

6.2. Social responsibility

The social responsibility strategy of the company is based on a set of principles that define its relationship with partners - employees, creditors, suppliers, clients, investors.
The management team of Retrasib considers that development is not possible without the contribution of each employee as well as of the company as a whole.

The company proposes:

- to support and respect human rights, in particular its own employees
- to uphold the right to free association
- contribute to the elimination of discrimination in employment, the pursuit of the profession, the establishment and award of salaries
- to combat any form of corruption
- to support educational activities
- support various social categories through donations and sponsorships
- address in a forward-looking manner environmental issues and promote accountability to the environment. In this respect, Retrasib has implemented and certified an integrated quality-environment management system - occupational health and safety according to ISO 9001, ISO 14001 and OHSAS 18001

6.3. Internal control and risk management

Internal control and risk management systems in relation to the financial reporting process have as main objectives:

- Compliance with applicable financial and accounting legislation
- Applying management's instructions for financial information
- Ensuring the reliability of financial information (e.g verifying whether the disclosed accounting, financial and management information is complete and accurately reflects the entity's activity and situation)
- Preventing and detecting fraud and accounting and financial irregularity

Achieving these goals is supported by:

- recruiting staff with an appropriate level of competence, in line with the needs of the company, supported by the Local HR Department in collaboration with Recruitment Agencies, Management and Supervisory Group representatives
- continuous training of existing staff through trainings, local and intragroup trainings alongside on-the-job trainings with Group supervisors
- clear definition of the responsibilities and attributions of registration, control and approval through job descriptions
- internal procedures for accounting and control of the financial and accounting operations supported by the implemented ERP system (SAP) and satellite programs / documentation that feed the ERP system with data on financial reporting, month closures, quarterly inventory, etc.
- exercise of the control function provided by the local and intragroup controller in the context of IFRS reporting
- the Grup Accounting Policies Manual
- the existence of an internal timetable for financial reports including the Stock Exchange reporting calendar with the approval of the Board of Directors.

The company has improved quality assurance procedures and management believes that there is no technical or commercial risk quantifiable based on which to post provisions. The Company does not have a formalized internal control system in a unitary way, but it is being implemented in 2018.

7. Continuance of activity and subsequent events

These financial statements have been prepared on a going concern basis which assumes that the Company will continue trading in the foreseeable future.

For the year ended 31 December 2017. the Company incurred a loss of RON 964.569 (RON 10.827.484 for the year ended 31 December 2016). and as of that date its current liabilities exceed its current assets by RON 43.793.379 (RON 43.500.060 at 31 December 2016) and the Company has accumulated losses of RON 31.700.289 (RON 30.844.351 at 31 December 2016). Also. as at 31 December 2017 the net assets of the Company. determined as the difference between total assets and total liabilities are negative (RON 7.369.641) and therefore amount to less than half of its share capital.
In such circumstances. in accordance with the Companies' Law 31/1990 and related amendments. a shareholders' meeting should be organized to decide on the measures to be implemented as required by the legislation in force.

Management analyzed the events that caused the financial position and negative results and is presenting below the measures taken to overcome the situation:

Losses and negative equity

The reasons of losses have to do with the company going to new markets/new products. investment in technical capabilities. less favorable market conditions. Operationally. the Company is in a process of integration within the SGB group. aligning procedures and standards. including IT. Retrasib has been included in Group Frame contracts benefiting from savings applied at Group level

As a measure of correcting the negative equity of 2016. it was decided in 2017 to perform a capital increase of EUR 4 million (18 million RON) of which 12.15 million RON by converting an existing Group loan into share capital. The procedure is ongoing in 2018 due to pre-emption issues.

The results in 2017. are far better as compared to 2016. i.e. higher volume of sales. and optimization of costs. Budgets of 2018 show positive results. continuing the growing trend.

RETRASIB
Your dedicated partner
of the SGB-SMIT Group

Short term liabilities

The significant level of short term liabilities of RON 91.5 million. in excess of the current assets of RON 47.7 million at 31 December 2017. where the ability of the company to fulfil repayments under 1 year may represent a challenge. are handled as follows:

- The bank liabilities. i.e. the RON 31.1 million credit line. is in process of being extended in 2018.
- Besides credit line. withdrawals from Global Ceiling are correlated with company's receivables on a „borrowing base" system.
- From the Group loan of RON 23.9 million. an amount of 12.15 million is in process of being converted in share capital in 2018.

Based on these factors. management believes that the Company will be able to continue in the foreseeable future and therefore the application of the going concern assumption in the preparation of these financial statements.

President of the Board
Jan Ölscher

General manager
Reiner Thalacker

Finance manager
Andra Popianoș

RETRASIB
Your dedicated partner
of the SGB-SMIT Group

SC RETRASIB SA

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR END 31 DECEMBER 2017

Prepared according with the Order of the Minister of Public Finance no. 2844/2016 for Approval of Accounting Regulations in accordance with International Financial Reporting Standards

Contents:

General Information

RETRASIB SA (" Company ") is a joint stock company which operates in accordance with Romanian Law No. 31/1990 on trading companies.
The company is headquartered in Sibiu, Stefan cel Mare Street, no. 156, county of Sibiu.
The main activity of the company is producing and selling the following products:

- parts for and power transformers and autotransformers with powers up to 400 MVA and voltages up to 440 kV.
- Special transformers for:
  Mobile substation
  Rail- and subway substations
  Industrial sector
- Engineering, production, delivery, on-site erection, site acceptance tests, commissioning , after market services, trainings for operating staff
- Diagnostics, maintenance, repairing and refurbishments oftransformers at producers facility andon-site.

The average number of employees of company in 2017 was 182 employees (in 2016: 192 employees). At 31/12/2017 the company had 193 employees (at 31/12/2016: 200 employees)
The company shares are listed on the Bucharest Stock Exchange, indicative RTRA since June 2011.
On 31 December 2017, the Company is owned in proportion of:

Shareholder	Shares	Percentage
SGB SMIT INTERNATIONAL GMBH	67,459,613	67.4515%
SCANDO TRADING SRL BUCHAREST	24,335,659	24.3327%
Others	8.216.782	8.2158%
TOTAL	100 012 054	100%

Evidence of shares and shareholders is held according to the law by the Central Depository Bucharest.
The ultimate parent is an investment fund called One Equity Partners.
The financial statements were authorized for issue by the General Assembley of Shareholders on the April 17/18, 2018 Shareholders Meeting

STATEMENT OF FINANCIAL POSITION

		31/12/2017	31/12/2016
ASSETS	**Note**		
Tangible assets	3	25,592,101	27,028,918
Investment property	5	10,064,020	9,138,000
Intangible assets	4	1,049,786	1,303,090
Financial assets	7	1,307,138	81,634
Deferred tax asset	16	2,990,790	3,710,273
Total fixed assets		**41,003,835**	**41,261,915**
Inventories	6	7,447,283	18,462,499
Trade receivables	7	38,453,676	18,990,436
Hedge receivables	29	915,181	-
Prepaid expenses		327,761	95,267
Cash and cash equivalents	8	152,076	3,124,767
Other receivables	9	414,160	746,762
Total current assets		**47,710,137**	**41,419,731**
TOTAL ASSETS		**88,713,972**	**82,681,647**
EQUITY			
Share capital	10	10,001,205	10,001,205
Revaluation reserves	11	8,912,344	9,595,691
Reserves	11	5,417,099	4,730,542
Retained earnings		-31,700,289	-30,844,351
Equity		**-7,369,641**	**-6,516,913**
LIABILITIES			
Lease liability, long term	24	3,405,501	3,092,784
Long-term provisions	15	1,174,596	1,185,984
Total liabilities on long term		**4,580,097**	**4,278,768**
Short-term trade payables	12	28,515,851	19,575,379
Short term bank loans	14	31,126,987	33,488,868
Lease liability, short term	24	374,291	206,779
Hedge liabilities		113,803	-
Short-term intra-group loans	14	23,950,858	18,947,740
Provisions	15	3,114,267	5,039,202
Other liabilities	13	4,307,459	7,661,825
Total current liabilities		**91,503,516**	**84,919,792**
TOTAL LIABILITIES		**96,083,613**	**89,198,560**
TOTAL LIABILITIES AND EQUITY		**88,713,972**	**82,681,647**

CEO
Thalacker Reiner

CFO
Andra Popianos

The Financial Statements from pages 1 to 58 were approved by the Board of Administration and authorized for publishing according to the Shareholders' Decision on April 17/18, 2018

STATEMENT OF COMPREHENSIVE INCOME

	Note	2017	2016
Revenue	17	122.655.715	61.284.891
Other incomes	18	6.910	102.620
Changes in inventories of finished goods and work in progress		-9.523.836	-8.033.809
Raw material costs and consumables	19	-79.301.559	-42.118.862
Merchandise sold		-48.819	-
Expenditure on services provided by third parties	20	-14.566.329	-13.718.930
Personnel expenses	22	-12.062.690	-10.943.676
Depreciation and amortization and impairment of tangible assets	3,4	-2.765.059	-2.341.914
Net income (expense) from provisions	15	-1.458.865	6.905.466
Other expenses	21	-1.731.333	-2.317.117
Net gain from fair value adjustment on investment property		797.682	-
Operating result		2.001.817	-11.181.331
Financial income	23	503	1.296.697
Financial charges	23	-2.399.959	-3.411.672
Financial result		-2.399.456	-2.114.975
Profit (loss) before tax		-397.637	-13.296.305
Income tax, current and deferred	16	-566.932	2.468.821
Profit (loss) for the year		-964.569	-10.827.484
Other comprehensive income			
Increase (decrease) in tangible assets revaluation reserve		-574.717	266.712
revaluation reserve, realized		-108.631	-99.312
Hedge effect net of deferred tax		-686.557	-
Total comprehensive income for the Year		-2.334.474	-10.660.084
Result per share			
Profit (loss) attributable to ordinary shareholders		-964.569	-10.660.484
The weighted average number of ordinary shares		100.012.054	100.012.054
Loss per share		-0.010	-0.107

CEO
Thalacker Reiner

CFO
Andra Popianos

The Financial Statements from pages 1 to 58 were approved by the Board of Administration and authorized for publishing according to the Shareholders' Decision on on April 17/18, 2018

STATEMENT OF CHANGES IN EQUITIES

	Share capital	Legal reserve	Other reserves	Hedge reserves	Revaluation reserves	Retained earnings	**Total equity**
Balances 31/12/2015 restated	**10.001.205**	**584.728**	**4.145.814**	**-**	**9.428.291**	**-20.116.178**	**4.043.860**
Loss 2016		-	-	-	-	-10.827.484	-10.827.484
Revaluation buildings and land		-	-	-	298.598	-	298.598
Realized revaluation reserve		-	-	-	-99.312	99.312	-
Deferred tax on revaluation reserve		-	-	-	-31.886	-	-31.886
Balances 31/12/2016	**10.001.205**	**584.728**	**4.145.814**	**-**	**9.595.691**	**-30.844.351**	**-6.516.912**
Loss 2017		-	-	-	-	-964.569	-964.569
Revaluation buildings and land		-	-	-	-574.717	-	-574.717
Realized revaluation reserve		-	-	-	-108.631	108.631	
Hedge effect		-	-	686.557	-	-	686.557
Balances 31/12/2017	**10.001.205**	**584.728**	**4.145.814**	**686.557**	**8.912.344**	**-31.700.289**	**-7.369.641**

CEO
Thalacker Reiner

CFO
Andra Popianos

The Financial Statements from pages 1 to 58 were approved by the Board of Administration and authorized for publishing according to the Shareholders' Decision on on April 17/18, 2018

STATEMENT OF CASH FLOWS

	Note	2017	2016
Gross profit		**-397.637**	**-13.296.306**
Reclassifications and adjustments for non-cash			
Depreciation, amortization	3	2.765.059	2.341.914
The net effect of fixed asset outflows		-	4.117
Foreign exchange differences		1.042.240	606.336
Interest expense		1.784.058	1.494.554
Variation of provisions	15	-1.429.760	-8.317.313
Variation in provisions for receivables and construction contracts		1.376.607	-
Variation in provisions for inventories		-207.949	-
Income from fair value adjustment of investment properties and derivatives		-781.731	-
Variation in working capital			
Receivables and other assets		-21.810.136	13.778.218
Stocks		11.223.165	7.634.993
Suppliers and other liabilities		3.789.754	-1.090.119
Interest paid		-1.053.935	-
Cash flows from operating activities		**-3.700.265**	**3.156.394**
Acquisitions of intangible assets	4	-8.235	-143.835
Acquisitions of financial assets		-	-81.634
Acquisitions tangible and investment assets	3	-865.263	-2.685.798
Proceeds from sale of property		-	10.500
Cash flow from investments		**-873.498**	**-2.900.767**
Drawn Intercompany loans	14	4.718.013	7.015.538
Reimbursements Intercompany loan		-330.796	-
Financial lease payments	24	-424.264	-
Variation in bank credit lines	14	-2.305.044	-4.701.159
Interest paid		-	-1.494.554
Cash flows Financial		**1.657.909**	**819.825**
Net cash flow		**-2.915.855**	**1.075.451**
Cash and cash equivalents at beginning of period		**1.241.854**	**166.404**
Cash and cash equivalents at end of period		**-1.674.000**	**1.241.854**

CEO
Thalacker Reiner

CFO
Andra Popianos

The Financial Statements from pages 1 to 58 were approved by the Board of Administration and authorized for publishing according to the Shareholders' Decision on on April 17/18, 2018

1 Basis of preparation

The individual financial statements ("financial statements) of the Company are presented in RON ("Romanian Leu"), using going concern principles.
The financial statements have been prepared using the significant accounting policies and measurement bases that are in effect at 31 December 2017, as summarised below. These policies have been consistently applied in preparing the financial statements for the year ended 31 December 2017 and for the comparative information presented in these financial.
An overview of standards, amendments and interpretations to International Financial Reporting Standards ("IFRS") issued, but not yet effective, and which have not been early adopted by the Company are presented in note 2.4.
The financial statements have been prepared on a historical cost basis, except buildings and land which are evaluated using market revaluation model, and investment property held at fair value.
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.7.

1.1 Statement of Compliance

Financial statements are prepared in accordance with the Order of the Minister of Public Finance no. 2844/2016 for Approval of Accounting Regulations in accordance with International Financial Reporting Standards, applicable to trading companies whose securities are admitted to trading in a market which is regulated, as amended subsequently. International Financial Reporting Standards represent standards adopted under the procedure laid down by Regulation (EC) No. 1606/2012 of the European Parliament and of the Council of 19 July 2002 on the application of International Accounting Standards.

1.2 Going concern

These financial statements have been prepared on a going concern basis which assumes that the Company will continue trading in the foreseeable future.

For the year ended 31 December 2017, the Company incurred a loss of RON 964.569 (RON 10.827.484 for the year ended 31 December 2016), and as of that date its current liabilities exceed its current assets by RON 43.793.379 (RON 43.500.060 at 31 December 2016) and the Company has accumulated losses of RON 31.700.289 (RON 30.844.351 at 31 December 2016). Also, as at 31 December 2017 the net assets of the Company, determined as the difference between total assets and total liabilities are negative (RON 7.369.641) and therefore amount to less than half of its share capital.
In such circumstances, in accordance with the Companies' Law 31/1990 and related amendments, a shareholders' meeting should be organized to decide on the measures to be implemented as required by the legislation in force.

Management analyzed the events that caused the financial position and negative results and is presenting below the measures taken to overcome the situation:

a) Losses and negative equity

The reasons of losses have to do with the company going to new markets/new products, investment in technical capabilities, less favorable market conditions. Operationally, the Company is in a process of integration within the SGB group, aligning procedures and standards, including IT. Retrasib has been included in Group Frame contracts benefiting from savings applied at Group level

As a measure of correcting the negative equity of 2016, it was decided in 2017 to perform a capital increase of EUR 4 million (18 million RON) of which 12.15 million RON by converting an existing Group loan into share capital. The procedure is ongoing in 2018 due to pre-emption issues.

The results in 2017, are far better as compared to 2016, i.e. higher volume of sales, and optimization of costs. Budgets of 2018 show positive results, continuing the growing trend.

b) Short term liabilities

The significant level of short term liabilities of RON 91.5 million, in excess of the current assets of RON 47.7 million at 31 December 2017, where the ability of the company to fulfil repayments under 1 year may represent a challenge, are handled as follows:

- The bank liabilities, i.e. the RON 31.1 million credit line, is in process of being extended in 2018.
- Besides credit line, withdrawals from Global Ceiling are correlated with company's receivables on a „borrowing base" system.
- From the Group loan of RON 23.9 million, an amount of 12.15 million is in process of being converted in share capital in 2018.

Based on these factors, management believes that the Company will be able to continue in the foreseeable future and therefore the application of the going concern assumption in the preparation of these financial statements.

1.3 New and amended Standards adopted by the Company

- IAS 11 - Construction contracts

The group has started in 2017 to apply IAS11 Construction Contracts. The new rules have been adopted retrospectively with the cumulative effect of initially applying the new standard recognized on 1 January 2017.
The effect of the new adoption of IAS11 is summarized in the note 28 as well as accounting policies note 3 q).
Comparatives for the 2016 financial year have not been restated.

The impact of the change in accounting policy measured at 1 January 2017 is immaterial, the impact is taken in the current year's result and no change in retained earnings was booked due to its level of not significant materiality.

- IAS 39 – Derivatives - Hedge accounting

The Group has started to apply hedge accounting in accordance with IFRS 39. The new rules have been adopted from 2017 only, without seeking retrospective measurement due to immateriality of open hedge contracts at 1 January 2017.
The effect of the new adoption of hedge accounting- is summarized in the note 29 as well as accounting policies note 3 r).
The adoption of these amendments did not have any impact on the amounts recognized in prior periods.

1.4 Standards amendments and interpretation of new standards

Many of the Standards changes are not expected to have a significant impact on the financial statements of the Company; therefore we include below a discussion of only those improvements that may be relevant to the Company's activity:

Standard/Interpretation [IAS 8.31 (a), 8.31(c)]	Nature of impending change in accounting policy [IAS 8.31 (b)]	The possible impact on financial statements [IAS 8.30 (b); 31 (e)]
IFRIC 22 Foreign Currency Transactions and Advance Consideration (Effective for annual periods beginning on or after 1 January 2018). This pronouncement is not yet endorsed by the EU.	The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.	The Entity does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Entity uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.
Amendments to IAS 40 Transfers of Investment Property (Effective for annual periods beginning on or after 1 January 2018; to	The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change	The Entity does not expect that the amendments will have a material impact on the financial statements because the entity has an investment property where no change in use is expected.

be applied prospectively.) This pronouncement is not yet endorsed by the EU.	in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.	
IFRS 16 Leases (Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.) This pronouncement is not yet endorsed by the EU.	IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases. Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals. The new Standard introduces a number of limited scope exceptions for lessees which include: • leases with a lease term of 12 months or less and containing no purchase options, and • leases where the underlying asset has a low value ('small-ticket' leases). Lessor accounting shall remain largely unaffected by the introduction of the new Standard and the distinction between operating and finance leases will be retained.	The Entity has not yet prepared an analysis of the impact this will have on the financial statement of the Entity The Company intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

IFRS 9 Financial Instruments (2014) (Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted.)	This Standard replaces IAS 39, Financial Instruments, introducing new requirements on clssification, mesurement, depreciation and accounting for hedging. This change was not yet adopted by the EU.	Must be applied for financial years commencing on or after 1 January 2018. The Company will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated, except in relation to changes in the fair value of foreign exchange forward contracts attributable to forward points, which will be recognised in the costs of hedging reserve
IFRS 15 Revenue from contracts with customers (Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.) Clarifications to IFRS 15 Revenue from Contracts with Customers is not yet endorsed by the EU but IFRS 15 Revenue from Contracts with Customers including Effective Date of IFRS 15 have been endorsed by the EU.	The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised: - over time, in a manner that depicts the entity's performance; or - at a point in time, when control of the goods or services is transferred to the customer. IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.	The company started to apply IAS11 in 2017 which had a significant impact on the financial statements 2017. The further impact from IAS11 to IFRS 15 will be adopted using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

1.5 Segmental reporting

The Company carries out two types of contracts:

- transformer production as a whole;
- production of parts for transformers for the mother company in Germany.

According to IFRS 8, both production lines meet the criteria for aggregation to report together with similar economic characteristics:
- the type of product: it is the same, both are transformers;
- the type of the production processes: it is the same, being made with the same employees, equipment, knowledge and resources;
- the customer type: it is similar, belong to the same market;
- the distribution method: it is not fundamentally different, both are based on orders;
- the regulatory environment it is absolutely similar.

As a result, segmental reporting is not applicable.

1.6 Hyperinflation

The company has not performed restatements of nonmonetary assets and liabilities for hyperinflation which represents a departure from the IAS29 Accounting for hyperinflation.
Romania has been under hyperinflation condition in the period before 2004.
The effect of hyperinflation over the share capital of 901 RON existing at 2004 is estimated to be 111 093 RON restatement surplus not booked in retained earnings, calculated as follows:

Currency	Share capital	Romanian Leu	Share capital increase	Inflation index	Restated amount	Restatement
		before restatement	before restatement	until 2004	as at 31/12/2004	
ROL	1993	1,776,966	1,776,966	283.35	503,504,210	501,727,244
ROL	1994	8,634,775	6,857,809	79.57	545,679,199	538,821,390
ROL	1995	9,015,575	2,157,766	33.62	72,536,751	70,378,985
ROL	Balance at 2004 in ROL	**9,015,575**				**1,110,927,620**
RON	Restatement difference in RON					111,093

According OMFP 2844/2016 art. 178 the remeasurement surplus from share capital hyperinflationary restatement can be used to cover the accounting loss. It is considered that non-booking of the surplus is equivalent to its utilization to cover the loss.

The effect of hyperinflation upon nonmonetary assets has been adjusted as follows:

- Land and buildings have been revalued every three years to market values, both in the hyperinflation period (until 2004) and afterwards until present.
- Equipment has been restated last time in December 2003. This revaluation is considered to have captured the general increase in value caused by hyperinflation.

1.7 Use of estimates and judgement

Use of estimates

The preparation of the financial statements requires the performance of estimates and judgments by the management, which affects the reported amounts of assets and liabilities and the presentation of potential assets and liabilities at the balance sheet date, as well as the reported amounts of revenues and expenses during the reporting period. Actual results may be different from these estimates.

Judgements

In the process of applying the Company accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements:

•The company has business judgments upon the company's ability to continue as going concern, based on budget projections, optimizations implemented and other criteria described in the Going Concern note.
•Further judgments linked to the company's future performance refer to:
- the judgment that the negative results obtained in the last two years are not related to equipment performance or building performance, and that the indication of impairment given by the past negative results does not lead to need for impairment allowances on equipment and buildings, based on the assumption that the forecasted EBITDA in the next years, will be sufficient as to sustain the value of equipment and buildings
- the assumption that future profits will be realized, based on budgets, as to be able to use the deferred tax asset from the tax loss. Further details are given in the Tax note (on tax loss and its deferred tax asset)

•The assumptions made by the management in relation with the past events and their potential future risks as described in the Contingent liabilities note
•The company has business judgments upon the adequacy of performance that will enable collection of performance guarantees

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

- Valuation of receivables: for the overdue receivables where the management believes there are indications of recoverability doubts, allowances are booked based on the assessed risk of no recoverability
- Valuation of land and buildings: the company uses external valuators reports for recurrent market valuations on land and buildings as described in the policies on Tangible assets and Revaluation Reserves
- Valuation of Investment Property: the company uses external valuators reports for recurrent fair value valuations on Investment Property based on capitalized rent as described in the policies on Investment Property
- The Company recorded accrued liabilities for estimated costs on untaken holiday, bonuses planned and overtime performed (including social contributions) as well as pension provision for estimated present value of contractual pension payments.

• It also records provisions for risks and costs anticipated for penalties for delay in delivery and/or other penalty types.
• The provision of warranty is determined based on sales of the last 4 years and a percentage determined based on the Group experience. The standard warranty is 24 months but there are contracts with warranty terms of 5 years, thus management determined a period of 4 years to be adequate for the warranty provision.
• The most significant allowances are the estimated losses on contracts in progress which are to be considered in correlation with the volume of work in progress.
The level of provisions for imminent loss on contracts is being evaluated particularly for each and every ongoing contract during the procedure of each month-end-closing while analyzing base budget the occurred/forecasted events which have/might generate(d) not foreseen costs. Provisions are booked based on the foreseeable margin at project closing.
•Estimates of percentage of completion of contracts based on the costs incurred are used to calculate the income recognized according to IAS11 (see accounting policy 3q)

1.8 Functional currency, presentation currency, transactions in foreign currency

Management considers that functional currency, as it is defined by the IAS 21 " Effects of the variation of exchange rate " , is the Romanian Leu (RON).
Presentation currency is the Romanian leu RON, rounded to the nearest Leu, unless otherwise specifically stated.

For the preparation of the Company's financial statements, transactions in other currencies (foreign currencies) than the functional one are registered at the exchange rate in force at the date of transaction. Each month, and at each balance sheet date, monetary items denominated in foreign currency are translated at the exchange rate in force at those dates.

Monetary assets and liabilities expressed in foreign currency at the end of the year are translated into RON at the exchange rate valid at the end of the year.

The RON exchange rate for 1 unit of the foreign currency:

	31 December 2017	31 December 2016
EUR 1	4.6597	4.5411
USD 1	3.8915	4.3033

Non-monetary items which are measured at historic cost in a foreign currency are not translated back.
Exchange rate differences are recognized in the profit and loss statement in the period in which they arise.

2 Significant accounting policies

The Company has consistently applied the following accounting policies to all periods presented in these financial statements.

a) Tangible assets

Tangible assets, less land and buildings, are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Company depreciates them separately based on their specific useful lives. Likewise, when a major repair is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognized at the date of revaluation. Accumulated depreciation as of the revaluation date is eliminated from the gross carrying amount of the asset and the net amount is restated at the revaluated value of the asset. Revaluations are only booked based on external valuers' report.

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in profit and loss. A revaluation deficit is recognized in the profit or loss of the period, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve.

Any revaluation reserve relating to the asset being sold is transferred to retained earnings in line with its depreciation , and entirely upon disposal.

A tangible asset item and any significant part recognized initially are derecognized upon disposal or when no economic benefits are expected from their use or disposal. Any gain or earning resulting from the derecognition of an asset (calculated as the difference between net disposal proceeds and the carrying amount of the asset) is included in profit and loss when the asset is derecognized.

Depreciation is registered so as to decrease the cost of the asset to its residual value other than the land, along their estimated useful life, using the straight line basis. The estimated useful lives, the residual values and the depreciation method are reviewed at the end of each year, having as effect changes in future accounting estimates.

Maintenance and repairs of tangible assets are included as expenses when they occur and significant improvements to tangible assets which increase their value or useful life or which significantly increase their capacity to generate economic benefits, are capitalized.

The following useful lives are used for the computation of depreciation:

Buildigs	10 - 54
Plant and machinery	3 - 40
Measurement and control devices	3 - 16
Vehicles	3 – 19
Other systems, equipment and furniture	3 - 10

Land is not depreciated.
Depreciation is recognized in the income statement.

b) Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on evaluations performed by accredited external independent valuator.

Investment properties are derecognized either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal.

The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

c) Intangible assets

Intangible assets purchased separately are reported at cost minus accumulated amortization losses. Amortization is computed through the straight-line basis over the useful life. The estimated useful lives, the residual values and the amortization method are reviewed at the end of each year, having as effect changes in future accounting estimates.

The following useful lives are used for the computation of amortization:
Licenses 2 – 10 years

d) Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If there is such an indication, the recoverable amount of the asset is estimated to determine the size of the impairment loss. When it is impossible to assess the

recoverable amount of an individual asset, the Company assesses the recoverable amount of the cash generating unit which the asset belongs to. Where a consistent distribution basis can be identified, the company's assets are also allocated to other separate cash generating units or to the smallest group of cash generating units for which a consistent allocation basis can be identified.

Intangible assets having indefinite useful lives and intangible assets which are not yet available to be used are tested for impairment annually and whenever there is an indication that it is possible for the asset to be impaired.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. When measuring the value in use, the future estimated cash flows are settled at the current value using a discount rate prior to taxation which reflects current market assessments of the temporary value of money and the specific risks of the asset, for which future cash flows have not been adjusted.

If the recoverable value of an asset (or of a cash generating unit) is estimated as being lower than its carrying amount, the carrying amount of the asset (of the cash generating unit) is reduced to the recoverable value. An impairment loss is recognized immediately in profit and loss.

If an impairment loss is subsequently reversed, the carrying amount of the asset (of the cash generating unit) is increased to the reviewed estimation of its recoverable value, but so as the reviewed carrying amount does not exceed the carrying amount which would have been determined had any impairment loss not been recognized for the respective asset (cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit and loss.

e) Inventories

Inventories are valued at minimum between cost and net realizable value.
The cost of inventories is based on weighted average price method and includes expenses incurred for the purchase of inventories, production and processing costs and other costs incurred in bringing the inventories to the form and present location.
Costs, including a portion related to fixed and variable indirect costs are allocated to inventories held through the method most appropriate for the respective class of inventories, the majority being assessed based on the weighted average cost.
Finished products, semi-finished goods and production in progress are measured at actual cost.

Allowance adjustments for inventories

Allowances are booked for raw materials and consumables where there is indication of economic value being depreciated due to their age and slow movement. The Company uses its judgement, based on raw materials prices in the market, manufacturing planning, movement days and quality of the inventories in order to estimate the level of the allowance

required. In this process, usually, the Company consider the following factors: development of the raw material prices in the market and sales planning, months in inventory and quality of the inventories
To finished goods inventory allowances are not likely because the company does not produce stock, all finished products are customized based customer requirements with firm delivery terms specified.
Production in progress booked at cost is analyzed by contracts performance, under the methodology of onerous contracts, and for those contracts where losses are anticipated, allowances are booked in conjunction with Construction Contracts receivables adjustments. (see note 3q) Construction contracts and note 28 Construction Contracts)

f) Financial assets and liabilities

The financial assets include cash and cash equivalents, trade receivables and other receivables. Receivables are measured at amortized cost using the effective interest method, less provision for impairment.

Financial liabilities include interest bearing bank loans, overdrafts, intercompany loans and trade and other payables. Liabilities are measured at amortized cost using the effective interest method
Construction contracts as well as hedge are recognized as financial assets and liabilities.
For each item, the accounting policies on recognition and measurement are presented below

g) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet. For the purpose of cash flow only, the overdrafts are deducted from cash and cash equivalents.

h) Trade and Other Receivables

Receivables are recognized at invoiced value less allowances calculated according the policies set in the Estimates paragraph above.
Receivables in foreign currency are revalued at the balance sheet date through the profit and loss.
Client retentions from receivables, based on performance warranty, are presented as long term receivables, not discounted. Also, the guarantee cash deposits are presented as long term receivables.

i) Borrowings

Loans are recognized at the values actually used from the loan facilities. The interest expense on long term borrowings is capitalized as cost of production of the long-term production cycle assets, and within the calculation of stage of completion as described on note q).
Loans in foreign currency are revalued at the balance sheet date through the profit and loss.

j) Trade payables

Trade and other Payables are recognized based on the accrual principle. These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 90 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value. Payables in foreign currency are revalued at the balance sheet date through the profit and loss

k) Impairment of financial assets

Financial assets are measured for impairment at each reporting date.

Financial assets are impaired when there is objective proof that one or several events occurring after initial recognition have had an impact on the future cash flow related to the investment.

Certain categories of financial assets, such as trade receivables, assets measured as not impaired individually, are measured subsequently for impairment on a collective basis. Objective proof concerning the impairment of a portfolio of receivables may include the Company's past experience concerning collective payments, an increase of payments postponed beyond the credit period, as well as visible changes of the national and local economic conditions correlated with payment incidents concerning receivables.

The carrying amount of the financial asset is decreased by the depreciation loss, directly for all financial assets, except for trade receivables, case in which the carrying amount is reduced by using an impairment adjustment account. If a receivable is considered non-recoverable, it is eliminated and deducted from the adjustment for impairment. Subsequent recoveries of the amounts eliminated previously are credited in the adjustment for impairment account. The changes of the carrying amount in the adjustment for impairment account are recognized in provision expenses, adjustments for impairment and depreciation.

l) Derecognition of assets and liabilities

The Company derecognizes financial assets only when the contractual rights over the cash flows related to the assets expire or it transfers to another entity the financial asset and, substantially, all risks and benefits related to the asset.

The Company derecognizes financial liabilities only if the Company's liabilities have been paid, canceled or they have expired.

m) Fair value measurement

An entity measures financial instruments and non-financial assets, such as investment property, land and buildings, at fair value at each balance sheet date.
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
In the principal market for the asset or liability, or
In the absence of a principal market, in the most advantageous market for the asset or liability

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

An entity uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of significant assets, such as land, buildings, and investment property.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

n) Lease

Lease is classified as finance lease when at least one of the following criteria is met:
- the lease transfers ownership of the asset to the lessee by the end of the lease term
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than fair value at the date the option becomes exercisable that, at the inception of the lease, it is reasonably certain that the option will be exercised
- the lease term is for the major part of the economic life of the asset, even if title is not transferred
- at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset
- the lease assets are of a specialized nature such that only the lessee can use them without major modifications being made

All other leases are classified as operating lease.

Assets held through financial lease are initially recognized as Company assets at the fair value from the initial lease phase or, if lower, at the value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as finance lease liability.

Lease payments are divided between finance costs and the reduction of the lease liability, so as to obtain a constant rate of the interest related to the remaining liability balance. Finance costs are registered directly into profit and loss.

Operating lease payments are recognized as expense through the straight line method, during the lease term. Potential operating leases are recognized as expense as incurred.

o) Legal reserves

Legal reserves are contained within 5% of gross profit from year end until the total legal reserves reach 20% of the nominal capital paid in accordance with the law. These reserves are deductible for income tax and are not shared until the liquidation of the Company.

p) Employee benefits

Short-term benefits
Short-term employee benefits are represented mainly salaries. Obligations Short-term employee benefits are accrued for and are recognized as expenses when services are rendered

Contribution plans
The company makes payments on behalf of their employees, to the Romanian State pension system, the health insurance and unemployment fund, over the lifetime of employment.
All employees of the Company are members and also have a legal obligation to contribute, through social contributions to the pension system of the Romanian state. All relevant contributions are recognized in profit or loss when incurred, the Company has no further obligations. Society is not engaged in any independent pension scheme and consequently, has

no other obligations in this regard. The Company is not engaged in any post-retirement benefits, besides the provisions set forth in the Collective Working Contract in force and has no obligation to provide further services to former employees.

The long-term benefits of employees
The company's net obligation in terms of long-term benefits related services is the amount of future benefit that employees have earned in return for services rendered by them in the current and prior periods.
Company must award bonuses to employees at maturity of a specific number of uninterrupted years in the company and at retirement, all depending on uninterrupted seniority in the company, according to the collective labor agreement. These are recognized as long term provisions

q) Provisions

A provision is recognized if, as a result of a past or a foreseeable event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits not considered will be required to settle the obligation.
The amount recognized as a provision is the best estimate of the amount necessary to settle the current obligation as of the balance sheet date, considering the risks and uncertainties related to the obligation. If a provision is measured using the estimated cash flows necessary for settling the present obligation, the carrying amount is the present value of the respective cash flows.
Particulars on provisions policy are presented in the note 1.7 Use of estimates and judgement.

o) Revenue

Revenue is the gross inflow of economic benefits during the period arising in the course of normal activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.
Revenue includes only the gross inflows of economic benefits received and receivable by the entity on its own.
Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from income.

Revenue refers goods sold and the services provided under contracts.
The company is producing mostly transformers with several months cycle of production, where revenue from the sale of goods is recognized based on the contractual payment milestones as invoiced. Further, the company applies IAS11 Construction contracts adjustments on revenue and receivables in order to recognize the revenue according to the actual stage of completion as a percentage of the total contractual revenue, as described at point w)

Revenues from rent is recognized based on on contractual rental fees invoiced monthly.

Interest income is recognized periodically, proportionally, the respective revenue is generated on an accrual basis.

In these financial statements, income and expenses are presented on a gross basis. In the balance sheet, liabilities and claims the same partners are presented on a net basis when there is a right to compensation.

Revenues are measured at fair value sums received or receivable net of VAT. Revenues are reduced by returns, trade discounts and other similar costs.

p) Financial income and expenses

Financial income comprises interest income on funds invested and other financial income. Interest income is recognized in profit or loss under accounting them the friendly approach, using the effective interest method.

Financial expenses comprise interest expense for the loans and other financial expenses.

All borrowing costs that are not directly attributable to the acquisition, production construction or production of qualifying assets are recognized in profit or loss using the effective interest method.

Gains and losses on exchange differences on loans are reported on a net basis as either finance income or as financial expenditure by currency fluctuations: the net gain or net loss.
Gains or losses from foreign exchange attributable to commercial transactions are reported as other operating expense/income on a net basis.

q) Taxation

Income tax expense represents the single sum of current tax and deferred tax.

Current tax
Current tax is based on taxable profit for the year. Taxable profit differs to the profit reported in the income statement because it excludes items of income and expenses that are never taxable or deductible or where the tax deductiblity is deferred. Company's debt on current tax is calculated using tax rates in force or under substantially role in force at the balance sheet date .

Deferred tax
Deferred tax is recognized over the difference between the carrying amount of assets and liabilities in the financial statements and the corresponding fiscal bases used in the computation of taxable income and it is determined by using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, while deferred tax assets are recognized in the extent in which it is likely to have taxable income over which to use those temporary deductible differences. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from initial recognition

(other than from a business combination) of other assets and liabilities in a transaction that affects neither the taxable income, nor the accounting income.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and it is decreased to the extent in which it is not likely for sufficient taxable income to exist to allow the full or partial recovery of the asset.

Deferred tax assets and liabilities are measured at the taxation rates estimated to be applied during the period when the liability is settled or the asset realized, based on the taxation rates (and tax laws) in force or entering into force substantially until the balance sheet date. The measurement of deferred tax assets and liabilities reflects the tax consequences of the manner in which the Company estimates, as of the balance sheet date, that it will recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority and the Company intends to offset its deferred tax assets with its deferred tax liabilities on a net basis.

Current tax and deferred tax related to the period

Current tax and deferred tax is recognized as revenue or expense in profit and loss, except for the cases which refer to items credited or debited directly in other comprehensive income

r) Earnings per share

The Group presents earnings per share basic and diluted common shares. Basic earnings per share is determined by dividing the profit or loss of the Group artibuibile ordinary shareholders Weighted average number of ordinary shares over the reporting period. Diluted earnings per share is determined by adjusting the profit or loss artibuibile ordinary shareholders and the weighted average number of ordinary shares with dilution effects arising from potential ordinary shares.

s) Related parties

Parties are considered related if one party has the ability to control directly or indirectly or significantly influence the other, by holding or under contractual rights, family relationship or otherwise, as defined by IAS 24 "Related party affiliate".

t) Subsequent events

The financial statements reflect subsequent events year-end events that provide additional information about the Group's position at the reporting date or those that indicate a possible violation of a going concern (events that cause adjustments). Events after the end of the year does not constitute events that determine adjustments are disclosed when they are considered significant.

o) Comparatives

Statement of financial position for the year ended December 31, 2017 shows the comparability with the statement of financial position for the period ended 31 December 2016.
Statement of Comprehensive Income for the year ended December 31, 2017 shows the comparability with the statement of comprehensive income at December 31, 2017.

p) Changes of accounting policies and changes in presentation

Except the changes mentioned in note 1.3 affecting the current period, the accounting policies adopted are consistent with the previous financial year.

Without qualifying as changes in accounting policies, there have been presentation repositionings of several items between lines, described also in the specific notes, as follows.

Financial position:

- reclassification of advance payments to suppliers from trade receivables to trade payables;
- reclassification of advance payments from clients from trade payables to trade receivables;
- reclassification of guarantee deposits from retricted cash to long term receivables
- reclassification of provisions for staff bonuses, untaken holiday , to Personnel liabilities
- reclassification of provisions for risks and charges related to audit fees and technical services, into Accrued payables
- reclassification of provision for cost to come and for making loss contract, from the Provisions line to Allowances to receivables, under the framework of changes induced by applying the Construction Contracts standard
  reclassification of interest due, from Group liabilities within Trade payables, to Other liabilities

Financial performance:

- reclassification of provisions for staff bonuses, untaken holiday , and move of Contractors expenses, to Personnel expenses
- reclassification of provision for cost to come and for making loss contract, from the Provisions line to Other expenses
- reclassification of foreign exchange effects other than generated by loans, from financial expenses/income, to operating expenses/income, within the line Other expenses (gains)
- reclassification of Bank charges from Service expenses to Other expenses

Cash flow

- reclassification of overdraft effect from Financing cashflows to net variance of cash and cash equivalents by substracting overdrafts from the cash position
- reclassification of interest paid from financing cashflows to operating cashflows

For these presentation repositionings in 2017, the comparatives have not been modified.

q) Construction contracts

On the balance sheet, the group reports the net contract position for each contract as either an asset or a liability. A contract represents an asset where costs incurred plus recognised profits (less recognised losses) exceed progress billings; a contract represents a liability where the opposite is the case

The Company uses the 'percentage-of-completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion

Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured

r) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges)

The Company documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 29. Movements in the hedging reserve in shareholders' equity are shown in the statement in changes of equity. The full fair value of a hedging derivative is classified as a a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expense

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within 'finance costs'. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in profit or loss within 'sales'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss

3 Tangible assets

	Land	Buildings	Equipment and vehicles	Furniture and other	Fixed assets in progress	Total
	RON	RON	RON	RON	RON	RON
At 1 January 2016						
Cost	5.018.050	10.614.253	18.017.163	192.754	80.007	33.922.227
Accumulated depreciation	-	-406.080	-7.238.001	-87.832	-	-7.731.913
Net book value	**5.018.050**	**10.208.173**	**10.779.162**	**104.922**	**80.007**	**26.190.314**
Increase	-	809.036	4.311.849	72.605	825.142	6.018.632
Transfers	-	-	-2.409.268	-	-905.149	-3.314.417
Revaluation	-1.980.550	1.394.358	-	-	-	-586.192
Disposals	-	-	-	-2.484	-	-2.484
Depreciation charge	-	-621.274	-1.577.748	-31.710	-	-2.230.732
Elimination of accumulated depreciation of revalued assets	-	685.320	-	-	-	685.320
Disposals	-	-	-	2.484	-	2.484
Transfers	-	-	265.993	-	-	265.993
At 31 December 2016						
Cost	3.037.500	12.817.647	19.919.744	262.875	-	36.037.766
Accumulated depreciation	-	-342.034	-8.549.756	-117.058	-	-9.008.848
Net book value	**3.037.500**	**12.475.613**	**11.369.988**	**145.817**	**-**	**27.028.918**
Increase	-	225.496	1.411.223	4.700	-	1.641.419
Transfers	-	-	-	-	-	-
Revaluation	-	-1.433.562	-	-	-	-1.433.562
Disposals	-	-	-34.102	-	-	-34.102
Depreciation charge	-	-516.811	-1.947.246	-39.462	-	-2.503.519
Elimination of accumulated depreciation of revalued assets	-	858.845	-	-	-	858.845
Disposals	-	-	34.102	-	-	34.102
At 31 December 2017						
Cost	3.037.500	11.609.581	21.296.865	267.575	-	36.211.521
Accumulated depreciation	-	-	-10.462.900	-156.520	-	-10.619.420
Net book value	**3.037.500**	**11.609.581**	**10.833.965**	**111.055**	**-**	**25.592.101**

Tangible assets
As at 31 December 2017, in accordance with the accounting policy, land and buildings measured at revalued cost were revalued based on the valuation report prepared by external valuer, member of the Romanian Association of Valuers. The valuation method used for land was market value while for buildings the income approach was applicable. The revaluation performed at 31 December 2017 resulted in a decrease of the value of buildings against the revaluation reserve.

The revaluation booking was made including an elimination of the accumulated depreciation. The revaluation booking was made including an elimination of the accumulated depreciation. Valuations were made on the basis of recent market transactions on arm's length terms. The revaluation surplus net of applicable deferred income taxes was credited to other comprehensive income and shown as revaluation reserves in shareholders' equity. Decreases that offset previous increases of the same asset were charged in other comprehensive income and debited against revaluation reserves directly in equity.
All tangible assets are pledged for the loans disclosed in the note 14 Loan.

The gross value and accumulated depreciation of equipment held in financial lease are disclosed on note 24 Leases.

4 Intangible assets

	RON
At 1 January 2016	
Cost	397.326
Accumulated depreciation	-79.090
Net book value	**318.236**
Additions	1.210.447
Depreciation charge	-225.593
At 31 December 2016	
Cost	1.607.773
Accumulated depreciation	-304.683
Net book value 31 December 2016	**1.303.090**
Additions	8.235
Depreciation charge	-261.539
At 31 December 2017	
Cost	1.616.008
Accumulated depreciation	-566.222
Net book value 31 December 2017	**1.049.786**

Included in the intangible assets as of 31 December 2017 is an amount of 1,070,313 RON at cost value (31 December 2016: 1.070.313 RON) that represents the SAP accounting program acquired by the Company during 2016.

5 Investment property

	2017 RON	2016 RON
Balance at 1 january	**9.138.000**	**9.138.000**
Additions	128.338	-
Revaluation surplus	797.682	-
Disposals or revaluation deficit	-	-
Balance at 31 december	**10.064.020**	**9.138.000**

Amounts recognized in profit or loss for investment properties:

	2017	2016
Operating expenses	-92.515	-281.709
Rent income	889.915	346.910

The Company owns one building located in Cluj from which the Company earns rent income. As at 31 December 2017 and 31 December 2016, the fair value of the investment property is based on the valuation report prepared by an independent valuator. The impact of this valuation was charged to the current result as change in the fair value. The valuation method used is compliant with the International Valuation Standards.
The investment property is pledged for the loans disclosed in the note 14 Loan.

6 Inventories

	31.dec.17	31.dec.16
Raw materials	3.685.863	1.495.157
Consumables	226.605	391.681
Work in progress	3.504.594	16.395.002
Merchandise	54.092	-
Downpayment for stocks	184.078	180.659
Adjustments for raw materials	-207.949	-
Total	**7.447.283**	**18.462.499**

The main category, work in progress, represents transformers components which are in various manufacturing stages. Starting 2017, the company applies the IAS11, and measures the turnover and the related receivables and payables based on the long term contracts percentage of completion. As of 31 December 2016 thouse amounts were booked in work in progress, 16.216.676 RON. The adjustment for raw materials is related to inventories with slow movement rate or for which there is uncertainty in future use.
The inventories are set as pledge for the bank loans disclosed in the note 14 Loans.

7 Trade receivables

	31.dec.17	31.dec.16
Trade receivables Non-group	21.446.512	17.590.207
Trade receivables Group	2.597.539	1.710.310
Allowances of trade receivables	-140.627	-310.081
	23.903.424	**18.990.436**
Amounts due from customers for construction contracts	17.146.913	-
Prepayments from customers	-2.596.661	-
Total current Accounts recievable	**38.453.676**	**18.990.436**
Noncurrent receivables		
Deposits for performance warranty	137.173	-
Retentions	1.169.965	81.634
Total current Accounts recievable	**1.307.138**	**81.634**

As at 31 December 2017 the company is applying IAS 11 and records receivables based on the „percentage-of-completion method" to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. On the balance sheet, the Company reports the net contract position for each contract as either an asset or a liability. A contract represents an asset where costs incurred plus recognized profits (less recognized losses) exceed progress billings; a contract represents a liability where the opposite is the case.

As at 31 December 2017, trade receivables of RON 19.586.935 (2016: RON 10.709.838) were fully performing.

As of 31 December 2017, trade receivables of RON 4.316.488 (2016: RON 8.280.598) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	31.dec.17	31.dec.16
0-30 days	2.721.577	6.322.884
31-60 days	582.511	1.240.159
61-90 days	693.885	572.351
> 90 days	318.515	145.204
	4.316.488	**8.280.598**

As of 31 December 2017, trade receivables were impaired with RON 140,627 (2016: RON 310,081), the mainly part is related to one client who went to bankruptcy.

The movement in allowance for impairment in respect of trade receivables in 2017 and 2016 was as follows:

	2017	2016
Balance at the beginning of the year	-310.081	-140.627
Receivables transferred to expenses during the year	178.809	-
Impairment adjustment charged to profit and loss for trade receivables	-	- 169.454
Balance at the end of year	**-131.272**	**-310.081**

Noncurrent receivables represent retentions related to construction contracts and will be cashed by the company according to the contractual terms agreed with the clients.

As at 31 December 2017 prepayment are presented in Trade receivables as well as long term retentions in relation to performance guarantees for construction contracts .
As of 31 December 2016 the advance payments from customers were presented in the trade payables section and retentions receivables from performance guarantees in respect of receivables.

The receivables open at 31/12/2017 as well as future receivables are set as pledge to the loans as described in note 14 Loans.

8 Cash, cash equivalents and restricted cash

	31.dec.17	31.dec.16
Cash in bank	150.574	3.097.597
Restricted cash	-	24.500
Petty cash	1.502	2.670
Total cash and cash equivalents	**152.076**	**3.124.767**

The cash accounts are set as pledge to the loans as described in note 14 loans.
In 2017, the restricted cash represents deposits set as collateral for customers and was reclassified accordingly as non-current receivables.

Reconciliation to cash flow statement

	31.dec.17	31.dec.16
Balances as above	152.076	3.124.767
Bank overdraft	-1.826.076	-1.882.913
Balances per statement of cash flows	**-1.674.000**	**1.241.854**

9 Other receivables

	31.dec.17	31.dec.16
Other receivables related to personnel	24.631	56.345
VAT under settlement	46.168	152.258
Advances paid to suppliers	-	210.596
Income tax recoverable	327.563	327.563
Other receivables	15.798	-
Total other receivables	**414.160**	**746.762**

As at 31 December 2017, advance payments to suppliers were reclassified to trade payables.

10 Share capital

Shareholders structure at 31/12/2016 and 31/12/2017 is as follows:

No.	Shareholders	No. of shares	%
1.	SGB SMIT International GMBH	67.459.613	67,46
2.	SC Scando Trading SRL Bucureşti	24.335.659	24,33
3.	Other shareholders	8.216.782	8,21
	TOTAL	**100.012.054**	**100**

During the Extraordinary Shareholder's Assembly from January 30th 2017 it was decided a capital increase up to a maximum of 18,013,343.20 Ron from 10,001,205.40 Ron to 28,014,548.60 for correcting company's net assets.

11 Reserves and revaluation reserves

Related to the reserves disclosed in the Statement of Changes in Equities, the following notes are relevant:

	31.dec.17	31.dec.16
Revaluation reserves	8.912.344	9.595.691
Reserves	4.145.814	4.145.814
Hedge reserves	686.557	-
Legal reserves	584.728	584.728
Total reserves	**14.329.443**	**14.326.234**

Revaluation reserves : comprise the cumulative net changes in fair value of land, buildings. The revaluation reserves are shown net of the related deferred tax (16%). The company

revalued its land and buildings as of 31/12/2016 and 31/12/2017 generating the following changes in revaluation reserves:

	31.dec.17	31.dec.16
Revaluation reserve at the beginning of the year	**9.595.691**	**9.428.291**
Increase (decrease) from revaluation of building	-574.716	2.279.148
Decrease from revaluation of land	-	-1.980.550
Realized reserve through retained earnings	-108.631	-99.312
Effects of changes in deferred tax for fixed assets revaluation	-	-31.886
Revaluation reserve at the end of the year	**8.912.344**	**9.595.691**

Other reserves: The Company's reserves are represented by the reinvested profit obtained in prior years. There were no changes in Reserves during 2016 and 2017.

Hedge reserves: the company books in 2017 the effects in equity of the hedge contracts on copper and foreign exchange, disclosed in note 29.

Legal reserves: As required by law, the Company creates legal reserves in the amount of 5% of the profit recorded untp to the level of 20% of the share capital. Legal reserves are not distributable to shareholders.

12 Trade payables

The company's trade payables are as follows:

Trade payables	**31.dec.17**	**31.dec.16**
Trade payables Nongroup	24.398.465	14.339.145
Trade payables Group	1.925.986	3.171.788
Amounts due from customers for construction contracts	1.378.607	-
Prepayments to suppliers	-166.192	-
Fixed assets suppliers Group	-	1.070.525
Fixed assets suppliers	40.539	3.884
Accrued payables	938.446	990.037
Total trade payables	**28.515.851**	**19.575.379**

Trade payables are unsecured and are usually paid within 90 days of recognition. The carrying amount of trade and other payables are considered to be the same as their fair values, due to their short-term nature.
As at 31 December 2017 the company is applying IAS 11 and records receivables based on the 'percentage-of-completion method' to determine the appropriate amount to recognise in a given period. On the balance sheet, the Company reports the net contract position for each contract as either an asset or a liability. A contract represents an asset where costs incurred

plus recognized profits (less recognized losses) exceed progress billings; a contract represents a liability where the opposite is the case.
Starting 2017 the advance payments to suppliers are presented in the note Suppliers.
More details on related parties payables are presented in note 27.

13 Other payables

	31.dec.16	31.dec.16
Social contributions	352.897	336.176
Income tax wages	119.527	121.994
VAT	678.350	122.919
Dividends to be paid	13.924	13.924
Liabilities to employees	2.003.435	914.545
Advance payments from related parties	-	1.791.572
Advance payments from others	-	4.360.695
Interest payable to Group	1.139.326	-
Total other payables	**4.307.459**	**7.661.824**

In 2017, the advance payments received from clients are repositioned in Trade Receivables.
In 2017, interest payable is repositioned in Other payables, whereas in 2016 it was presented within the total of related parties trade payables above (note14).
The Company's liabilities to employees includes salaries for December 2017 that will to be paid in January 2018 (RON 264.289), wages for delegate staff from other companies, not invoiced at 31st of December 2017 (RON 749.032), employees overtime performed until 31 December 2017 (RON 182.707), costs for untaken holiday by December 2017 (RON 413.580), bonuses planned to be paid according to the key performance indicators preestablished (RON 369.043) and other debts related to personnel.
These debts are not due.

14 Loans

	31.dec.17	31.dec.16
Short term Intercompany loans	23.950.858	18.947.740
Short term bank loans	31.126.987	33.488.868
Long term bank loans	-	-
Total	**55.077.845**	**52.436.607**

a) Bank loans

The company is financed by Banca Transilvania through short term loan facilities of ceiling type, for current activity (working capital), with the interest rate of ROBOR 6 M+1.45%, concluded on 6 may 2010. The ceiling can be used as:
• overdraft credit line limited to RON 2 million, of which RON 1,826,077 was used at December 31, 2017;
• term credits, from which the Company used at 31 December 2017 an amount of RON 29,300,910, representing draws from the ceiling;

• issuance of bank guarantee letters, in the amount of RON 21,835,892, held off balance sheet - Note 26 Contingent assets and liabilities - Bank commitments.

At 31 December 2017 the Company has an amount of RON 4,037,121 un-drawn from the ceiling, RON 3.000.000 from the ceiling are being held for the currency risk associated with guarantee letters.
The exposure of the Company's borrowings to interest rate changes and the contractual reprising dates at the end of the reporting period are as follows:

	2017	2016
6 months or less	31.126.987	33.488.868
12 months or less	23.950.858	18.947.740

The fair value of the borrowings equals their carrying amount. The impact of discounting is not significant, as all borrowings bear variable interest rates.

The due date of utilizing new draws from the credit line is 28 April 2018. The contract is in process of being renewed in April 2018. As at 31 December 2017, the Company has met all the covenants stipulated in the agreement concluded with Transilvania Bank.

For securing bank loans, the company has set in favour of banks the following guarantees:

- inventories of raw materials and semi-finished products;
- the balances held at banks;
- rights arising from present and future contracts;
- rights arising from insurance policies covering the assets pledged as collateral;
- mortgage on all tangible assets and investment property.

For finance lease liabilities disclosures please refer to note 24.

b) Related party loans

Breakdown of loans obtained from SGB SMIT International GMBH (majority shareholder) into structure and details on tranches, interest rates, maturities and ceilings:

Approved ceiling amount	Currency	Balance used at 31/12/2017 in RON	Interest rate	Date of contract	Date of maturity	Lender
2.440.000	EUR	11.369.668	3%	29/11/2016	indefinite	SGB SMIT
500.000	EUR	2.329.850	3.50%	25/11/2015	Pending share capital conversion	SGB SMIT
2.000.000	EUR	9.319.400	3.50%	27/01/2016	Pending share capital conversion	SGB SMIT
200.000	EUR	931.940	3%	20/04/2016	Pending share capital conversion	SGB SMIT
5.140.000	**EUR**	**23.950.858**	**Total**			

The indefinite related party loan can be terminated in 12 months from receiving a notification from the lender SGB-SMIT. Additionally, interest related balance with SGB-SMIT amounting to RON 1,139,326 (31 December 2016: RON 409,203), were classified in the Statement of Financial Position as Other payables.
For the related party loans there is 2nd level pledge upon the equipment, vehicles, furniture, inventory, present and future receivables.

15 Provisions

	31.dec.16	Built	Revers	Transfer	31.dec.17
Short term provisions					
Staff overtime/bonus provisions	506.562	-	-	-506.562	-
Making loss contract provisions	2.850.131	-	-	-2.850.131	-
Commercial penalties	1.371.600	1.742.667	-	-	3.114.267
Total short-term provisions	**4.728.293**	**1.742.667**	**-**	**-3.356.693**	**3.114.267**
Long term provisions					
Warranty provision	1.185.984	-	-435.185	-	750.797
Pensions and other provision	310.909	112.890	-	-	423.799
Total long-term provisions	**1.496.893**	**112.890**	**-435.186**	**-**	**1.174.596**

As at 31 December 2016, the Company registered a provision for employee's overtime. The provision is reversed when overtime is compensated with free time, paid or when employees leave the Company.
As at 31 December 2017, the untaken holiday, bonuses and overtime are presented as Other payables and their effect in the income statement is presented as personnel expenses.
Also, as at 31 December 2017, together with the first-time implementation of the IAS11 Construction Contracts, the imminent losses and costs to come are no longer presented as provisions but together with the receivables, as part of amounts due from customers for construction contracts.

Provision for contracts making losses are recognized when an expected loss is identified by management.
Commercial penalties for late delivery are recognized when the Company has a present obligation based on contracts concluded with its customers, as a result of not delivering the transformers at the delivery date mentioned in the contract.
The warranty provision is registered to cover the expenses in the warranty period for transformers sold. The Company generally offers 24 months warranties for its transformer products but there are contracts with warranty terms of 5 years, thus management determined a period of 4 years to be adequate for the warranty provision. Management

estimates the related provision for future warranty claims based on historical warranty claim information.
As at 31 December 2017 the Company recorded a provision for pension in line with the provisions of the Company's Collective Labor agreement, art 64, which stands that the Company will award a price at the employee's retirement of one gross salary for 5 years seniority in the company, two gross salary for 10 years seniority in the company, three gross salary for 15 years seniority in the company, four gross salary for 20 years seniority in the company and five gross salary for 25 years seniority in the company. The amount is built together with provision for other risks that was built since 2016. Company's assumptions taken into account for pension provision are: discount rate of 3%, inflation rate of 2%, the annual resignation rate of employees in the Company of 21.94% and the standard retirement age.

The income statement effect with provisions are presented as follows

Provisions effects	**2017**	**2016**
Net income from provisions	-	6,905,466
Net expense of provisions and allowances	1,458,865	-

16 Current and deferred Income tax

A. Amounts recognized in profit and loss	**2017**	**2016**
Income tax expense	**-**	**-**
Current year	-	-
Deferred tax income (expense)	**-566.932**	**2.468.821**
Derived from temporary differences	-566.932	2.468.821
Recognition of initially unrecognized temporary differences	-	-
Total deferred tax income (expense)	**-566.932**	**2.468.821**

There is no current tax expense due to the losses incurred in the last two years.
Changes in the componence of deferred tax are presented below

B. Deferred tax	Restated Balance as at 31.dec.2015	Recorded in the income statement	Recorded in the revaluation reserve	Balance as at 31.dec.2016
Balance sheet position				
Noncurrent assets	-1.795.865	-	-31.886	-1.827.751
Inventories	-	-	-	-
Trade and other receivables	73.613	-	-	73.613
Trade and other payables	-	-	-	-
Provisions	1.763.351	-535.266	-	1.228.085
Tax loss	1.232.238	3.004.087	-	4.236.326
Total deferred tax asset (liability)	**1.273.337**	**2.468.822**	**-31.886**	**3.710.273**

	Balance as at 31.dec.16	Recorded in the income statement	Recorded in the equities	Balance as at 31.dec.17
Balance sheet position				
Noncurrent assets	-1.827.751	-	-21.778	-1.849.529
Inventories	-	-	-	-
Trade and other receivables	73.613	-52.609	-	21.004
Trade and other payables	-	-	-	-
Provisions	1.228.085	137.558	-	1.365.643
Tax loss	4.236.326	-649.328	-	3.586.998
Hedging	-	-2.553	-130.773	-133.326
Total deferred tax asset (liability)	**3.710.273**	**-566.932**	**-152.551**	**2.990.790**

According to the Romanian tax laws, the tax loss may be carried forward for seven years for the tax losses recorded after 1 january 2009 starting with the year when they occurred.
The age of tax loss is as follows:

Year of origin of tax loss	**RON**
2013	-
2014	-
2015 restated	3.643.189
2016	18.775.545
2017	-
Total deferred tax asset (liability)	**22.418.734**

17 Revenue

	2017	2016
Sales of finished goods	46.374.558	58.301.841
Revenue from construction contracts	74.012.862	-
Sale of goods purchased for resale	124.325	1.386
Services	625.317	2.345.680
Rent income	889.915	468.416
Revenue from other activities	628.738	167.569
Total	**122.655.715**	**61.284.892**

A regional breakdown of revenues is as follows:

Country	**2017**	**2016**
Related parties (note 27):	**47.124.016**	**10.848.268**
Germany	46.851.193	10.848.268
Netherlands	272.823	
Third party customers:	**75.531.699**	**50.436.623**
Romania	48.516.654	25.800.652
Hungary	11.830.158	21.841.574
Denmark	7.358.875	2.250.000
Poland	5.043.819	-
Czech Republic	2.499.838	-
Sweden	121.797	-
Italy	120.203	-
Azerbaijan	40.355	-
Switzerland	-	544.397
Total revenues	**122.655.715**	**61.284.891**

The main customers in 2017 are: Starkstrom Geratebau Regensburg, CNTEE Transelectrica Bucureşti, MAVIR Ungaria, Innogy Stoen Operator SP, Enel Distribuție Muntenia, Elpro-Energo S.R.o., Romelectro Romania.

For 2016 the main customers were: MAVIR Ungaria, CNTEE Transelectrica Bucureşti, Starkstrom Geratebau Regensburg, Enel Distribuție Muntenia, Enertech Ungaria, EnergiMidt Danemarca, EFACEC.

18 Other income

	2017	2016
Other income		
Other operating revenues	6.910	102.620
Total other income	**6.910**	**102.620**

19 Raw materials and consumables expenses

Raw materials and consumables expenses	**2017**	**2016**
Raw materials expens	77.066.438	38.933.151
Consumables expense	1.080.682	2.018.185
Electricity, water , gas expense	1.068.282	1.039.045
Other expense	86.155	128.482
Total	**79.301.559**	**42.118.863**

The main raw materials used in transformers production are copper, steel, isolation kits, radiators.

20 Services provided by third parties

Services expenses	**2017**	**2016**
Repairs	146.732	85.925
Rents	432.871	619.992
Bank services	-	602.617
Insurance	312.054	424.247
Transport	3.476.023	2.864.720
Travel	587.207	1.005.654
Communication	206.419	142.323
Protocol and advertising	71.901	92.319
Design and technical services	4.264.611	2.380.080
Customs	1.566.353	1.086.182
Other service expenses	3.502.158	4.414.871
Total	**14.566.329**	**13.718.930**

Bank commissions and fees were reclassified as at 31 December 2017 in Other Expenses line.

21 Other expenses/income

	2017	2016
Other expenses		
Bank services	786.446	-
Expense/(income) from foreign exchange	-46.435	-
Hedging	15.951	-
Taxes	701.825	489.371
Expenses/(income) from charge/(release) allowances for inventories and trade receivables	-1.207.153	-
Other expenses	1.480.699	1.827.745
Total Other expenses	**1.731.333**	**2.317.117**

As at 31 December 2017 the foreign exchange effects related to the commercial activity are presented as Other expenses in the operating expenses part of the income statement.
The main part of the other expenses represent penalties for late delivery from customers, RON 1,264,381.
As at 31 December 2017 the bank commissions and fees were reclassified to Other expenses/income line.

22 Personnel expenses

	2017	2016
Salaries	8.029.624	8.491.058
Staff accruals	1.207.800	-
Contractors	334.824	-
Social security contributions	2.057.429	2.053.970
Meal tickets	433.013	398.648
Total	**12.062.690**	**10.943.676**

The average number of employees of company in 2017 was 182 employees (in 2016: 192 employees). As a 31 December2017 the company had 193 employees (at 31/12/2016: 200 employees)
The Company's staff accruals includes cost for delegate staff from other companies, not invoiced at 31st of December 2017 (RON 749.032), costs for untaken holiday by December 2017 (RON 413.580), employees overtime performed until 31 December 2017 (RON 182.707) and a reduction for performance bonuses (RON -137,519).

23 Financial expenses and income

	2017	2016
Interest income	503	531
Finance income	503	531
Interest expense	-1.784.058	-1.494.554
Net foreign exchange losses	-615.901	-620.952
Finance costs	-2.399.959	-2.115.506
Net finance costs	**-2.399.456**	**-2.114.976**

In 2017, the foreign exchange effect reported under Financial expenses and income are only those related to the loans. All other foreign exchange effects from commercial transactions are repositioned under operating expenses, in the position Other expenses and income, netto, see note 21.

24 Lease obligations

The Company has two long term leases with the Group company Starkstrom, for winding machines, started in november 2016 and february 2017. One contract will be completed in 2022 and the other in 2029.
Because the conditions are met for a financial lease following the analysis of the financial lease criteria as per IAS17.

As of **31 December 2016**

	Below 1 year	between 1-5 years	Over 5 years	Total
Contractual rent payments, EUR	68.923	275.694	552.879	**897.496**
Contractual rent payments, RON	312.988	1.251.953	2.510.677	**4.075.618**
Present value of the lease payments:				
Lease liability, EUR	45.535	198.161	482.904	**726.600**
Lease liability, RON	206.779	899.868	2.192.916	**3.299.563**
Value of equipment held in financial lease, RON				**3.299.563**
Accumulated depreciation of the equipment held in financial lease				**-**
Carrying value of the equipment held in financial lease, RON				**3.299.563**

As of **31 December 2017**

	Below 1 year	between 1-5 years	Over 5 years	Total
Contractual rent payments, EUR	110.264	423.818	472.468	**1.006.550**
Contractual rent payments, RON	507.215	1.949.563	2.173.353	**4.630.130**
Present value of the lease payments :				
Lease liability, EUR	82.502	343.287	407.349	**833.138**
Lease liability, RON	374.291	1.557.408	1.848.091	**3.779.791**
Value of equipment held in financial lease, RON				**4.204.056**
Accumulated depreciation of the equipment held in financial lease				**424.264**
Carrying value of the equipment held in financial lease, RON				**3.779.792**

The contract does not have a prepayment, a residual value or a final option to purchase the equipment. The duration of 13 years of contract covers the full economic life of the assets.

25 Loss per share

Basic loss per share calculation was performed based on the result attributable to ordinary shareholders and the weighted average number of ordinary shares:

	2017	2016
Loss attributable to ordinary shareholders	-964.569	-10.660.084
Weighted average number of ordinary shares	100.012.054	100.012.054
Total loss per share	-0.010	-0.107

Diluted loss per share equals basic earnings per share as the Company has not issued shares in the period.

26 Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources representing economic benefits is removed.
A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is possible and will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the entity.

Contingent Risks

There were internal briefings followed by internal investigations, in 2015 and 2016, with the legal consultant Stalfort and with internal resources regarding allegations of misconduct regarding the quality testing process of the power transformers and petty cash improper handling and the investigations did not identify any definitive misconduct.
Statements of investigations were published on the website and on the Stock Exchange.

With reference to quality testing process, our company made technical investigations with internal resources, both on technical perspective and involving the technical design contractor as well as commercially in relation with its customers.
There are no solid evidence to reveal irregularities and, untill the end of 2017 no client of the company has made any claims in this respect.
The chance of a malfunction in service is very limited based on our in service experience and reasons of a malfunction during a transformer life time can be multiple, as transformers undergo an aging process, which is enhanced by factors beyond manufacturer's control.
The company has improved quality assurance procedures and management believes that there is no technical or commercial risk quantifiable based on which to post warranty provisions beyond the level already recorded base Company's policies and effective complaints.

Bank commitments

Transilvania Bank has issued letters of guarantee for ~~suppliers~~ clients, in favor of the company within the agreed loan ceiling as presented in the note Loans. On 31 December 2017, the Company had issued letters of guarantees in favor of its customers amounting to RON 21,835,892 (31 December 2016: RON 20,428,588), which become Company's obligations in case of non-conformity for services rendered to its customer. As at 31 December 2017 the list of open guarantee letters is as follows:

Type of SGB	Amount	Currency	Beneficiary	Maturity
Performance guarantee	15,500	EUR	SMART SA	02.05.2018
Performance guarantee	3,950	RON	SOC PT SERV DE MENTENANTA SM/	15.01.2018
Performance guarantee	58,700	RON	COMPANIA NATIONALA DE TRANSP	13.04.2018
Performance counter-guara	62,100	CHF	UBS AG	30.04.2019
Performance guarantee	13,995	EUR	ROMELECTRO SA	31.01.2019
Performance counter-guara	62,050	CHF	UBS AG, Bahnhofstrasse, Zurich	30.04.2020
Performance guarantee	143,200	EUR	COMPANIA NATIONALA DE TRANSP	29.01.2020
Performance guarantee	759,800	EUR	COMPANIA NATIONALA DE TRANSP	11.01.2021
advance payment -quarant	700,300	EUR	Compania Nationala de Transport a	29.10.2018
advance payment -quarant	116,775	EUR	Compania Nationala de Transport a	29.03.2018
Performance guarantee	78,149	EUR	MAVIR	25.02.2019
Performance guarantee	78,149	EUR	MAVIR	06.02.2019
Performance guarantee	73,593	EUR	MAVIR UNGARIA	22.07.2019
Performance guarantee	71,363	EUR	Mavir Ungaria	14.10.2019
Performance guarantee	71,363	EUR	Mavir Ungaria	18.10.2019
Performance guarantee	371,413	DKK	Energimidt	31.01.2019
Performance guarantee	390,700	EUR	ROMELECTRO SA	30.04.2021
advance payment -quarant	468,840	EUR	ROMELECTRO SA	31.03.2020
Performance counter-guara	42,850	CHF	Kraftwerke Sarganserland AG	19.01.2018
Performance counter-guara	147,980	EUR	BT SUCURSALA CLUJ	02.12.2019
Performance guarantee	83,750	RON	E-DISTRIBUTIE BANAT SA	28.02.2018
Performance guarantee	251,249	RON	E-DISTRIBUTIE MUNTENIA SA	31.01.2018
Performance guarantee	83,750	RON	E-DISTRIBUTIE BANAT SA	02.07.2018
advance payment -quarant	282,553	DKK	(SE) SYD ENERGI Service A/S	15.02.2018
advance payment -quarant	257,780	DKK	(SE) SYD ENERGI Service A/S	16.04.2018
advance payment -quarant	257,780	DKK	(SE) SYD ENERGI Service A/S	12.02.2018
advance payment -quarant	258,651	DKK	(SE) SYD ENERGI Service A/S	13.04.2018
Performance guarantee	187,563	PLN	Innogy Stoen Operator Sp. z.o.o.	03.01.2018
Performance counter-guara	350,000	EUR	BAYERISCHE LANDESBANK - GZ NUI	15.12.2017
Performance guarantee	449,200	EUR	BT SUCURSALA CLUJ	22.05.2020
advance payment -quarant	198,500	EUR	BT SUCURSALA CLUJ	17.06.2019
Performance guarantee	251,249	RON	E-DISTRIBUTIE DOBROGEA	31.12.2018
Performance guarantee	3,717	EUR	E-DISTRIBUTIE DOBROGEA	30.08.2018
Performance guarantee	83,750	RON	E-DISTRIBUTIE BANAT	31.12.2018
Total EUR	**4,131,124**	**EUR**		
Total RON	**816,397**	**RON**		
Total CHF	**167,000**	**CHF**		
Total PLN	**187,563**	**PLN**		
Total DKK	**1,428,177**	**DKK**		

Guarantees received

The Company received, in order to guarantee payment to suppliers, parental guarantee from SGB-SMIT Management GmbH worth EUR 1,200,000 and from STARKSTROM-GERÄTEBAU GMBH worth EUR 46,780.

Environmental matters

The environmental effects of the Company's activities are monitored by the Company's management. As a result, no provisions were set for any kind of potential obligations in relation to environmental matters.

Transfer pricing

The Romanian fiscal legislation includes the "arm's length" principle, according to which inter-company transactions should be performed at market value. Local taxpayers that perform inter-company transactions should prepare and submit the transfer pricing file with the Romanian tax authorities, upon written request of the latter. Failure to submit the transfer pricing documentation file or submission of an incomplete file may lead to penalties for non-compliance; in addition to the contents of the transfer pricing documentation file, the tax authorities may interpret the transactions and circumstances in a manner different than that of the company and, as a result, they may determine additional fiscal obligations resulting from transfer pricing adjustments. The Company management considers they will not record losses in the case of a fiscal review of transfer pricing. However, the impact of a different interpretation from the tax authorities cannot be reliably measured. It could be significant for the Company's financial position and/or operations.
The company has contracted a specialized company to prepare the transfer pricing documentation for the years 2015-2016, a contract that runs on December 31, 2017. The Company's management expects the file to be completed in the year 2018.

Potential tax liabilities

All amounts owed to the State for taxes have been paid or recorded at the balance sheet date. The Romanian tax system is in the process of consolidation and constantly changing, with different interpretations of the authorities in relation to tax legislation, which may give rise to additional taxes, fees and penalties. If state authorities discover violations of legal provisions in Romania, they may, as the case may be: confiscate the amounts in question, calculate additional tax obligations and fines, application of late payment increases (applied to the actual payment amounts). Therefore, the fiscal sanctions resulting from breaches of the legal provisions may reach significant amounts to be paid to the State.
The Company believes that it has paid in full and in full all taxes, penalties, penalties and penalties, as the case may be.
The Romanian tax authorities have not carried out controls regarding the calculation of the corporate tax until the date.

Committments
There are no committments for fixed assets acquisitions.
Based on existing open contracts with client companies, the open orders can be considered as committments to deliver products. To these, there are no open committments for expenses for production.

Guarantees received
The Company received, in order to guarantee payment to suppliers, parental guarantee from SGB-SMIT Management GmbH worth EUR 1.2mil and from STARKSTROM-GERÄTEBAU GMBH worth EUR 46.780

27 Related parties

During 2017, the Board of Directors was composed of:

1. Ölscher Jan - President
2. Uekermann Heinrich - Member
3. Amon Michael Georg – Member
4. Franz Schatzl – Member
5. Stancu Iulian – Member

Starting with September 13, 2017, the membership of the Board of Directors changed, taking note of the resignation as Administrator, member of BoD of Mr. Amon Michael Georg, who was replaced by Mr. Tilo Dorn, interim member.

As of 31 December 2017, the Board of Directors was composed of:

1. Ölscher Jan - President
2. Uekermann Heinrich - Member
3. Tilo Dorn – Interim Member
4. Franz Schatzl – Member
5. Stancu Iulian – Member

Board members do not hold shares within Retrasib S.A. and are not remunerated and there were no loans or treasury advances to directors.

Transactions and intragroup balances

Intragroup financing is described in Note Loans.
Below is the breakdown of trade balances and transactions:

Transactions type:

Related parties	Description	Relationship
STARKSTROM SGB	Sales transformers, sales services, purchasing materials, purchasing services	Belongs to the SGB Group (major shareholder)
SGB - Smit Management GmbH	Fees, other costs	Belongs to the SGB Group (major shareholder)
SGB-Smit International GmbH	Loans and interest	Immediate parent entity
Royal TRANSFORMATOREN Smit BV	services provided - cut core	Belongs to the SGB Group (major shareholder)
Trafo Project	design services, rent, office	Non-controlling shareholder
SCANDO Trading	rent, utilities, materials	Non-controlling shareholder

Balances 31.dec.2016

Related parties		
From sales/purchases of goods and services	**Supplier (RON)**	**Client (RON)**
STARKSTROM SGB	4.888.120	1.696.031
SGB – SMIT GmbH	-	-
SGB - Smit Management GmbH	29.847	-
Royal TRANSFORMATOREN Smit BV	179.778	-
TrafoProject	518.654	-
SCANDO Trading	17.594	2.740
Total from sales/purchases of goods and services	**5.633.993**	**1.698.771**
From loans		
SGB-Smit International GmbH - loan	18.947.740	-
SGB-Smit International GmbH - interest	409,203	-
Total from loans	**19.356.943**	**-**

Transactions 2016
Related parties

From sales/purchases of goods and services	Purchase before VAT (RON)	Sales. excluding VAT (RON)
STARKSTROM SGB	2.907.269	10.675.288
SGB - Smit Management GmbH	29.847	-
Royal TRANSFORMATOREN Smit BV	-	-
Trafo Project	1.177.212	-
SCANDO Trading	1.064.045	-
Total from sales/purchases of goods and services	**5.178.373**	**10.675.288**
From loans		
SGB-Smit International GmbH - interest	409.203	-
Total from loans	**409.203**	

Balances 31/12/2017
Related parties

From sales/purchases of goods and services	Supplier (RON)	Client (RON)
STARKSTROM SGB	3.001	2.324.716
SGB- Smit GmbH	1.238.420	-
SGB - Smit Management GmbH	-	-
Royal TRANSFORMATOREN Smit BV	179.779	272.823
TrafoProject	504.786	-
SCANDO Trading	-	-
Total from sales/purchases of goods and services	**1.925.986**	**2.597.539**
From loans		
SGB- SMIT INTERNATIONAL - Loan	23.950.858	-
SGB- SMIT INTERNATIONAL - Interest	1.139.326	-
Total from loan	**25.090.184**	**-**

Transactions 2017 **Related parties** From sales/purchases of goods and services	**Purchase before VAT (RON)**	**Sales. excluding VAT (RON)**
STARKSTROM SGB	1.279.696	46.851.193
SGB - Smit Management GmbH	812.619	-
SGB – Smit GmbH	526.430	-
Royal TRANSFORMATOREN Smit BV	-	272.822.50
TrafoProject	-	-
SCANDO Trading	2.700	-
Total from sales/purchases of goods and services	**2.621.445**	**47.124.015**
From loans		
STRAKSTROM - Interest	48.128	-
SGB- SMIT INTERNATIONAL - Interest	730.106	-
Total from loan	**778.234**	**-**

Key management personnel

For 2017 key management personnel are:
Mrs. Gherghel-Diaconeasa Claudia Adela - General Manager
Mrs. Popianos Andra-Minerva – Financial Manager
Mr. Draghici Emilian – Operational Manager

In addition to their salaries and bonuses, the Company does not provide other non-cash benefits or share based payments to directors and executive officers and does not contribute to any post-employment defined benefits plan on their behalf. The Company paid to the management personnel during 2017 a total remuneration of RON 387.572.

28 Construction contracts

Starting 2017, the company applies the IAS11, and measures the turnover and the related receivables and payables based on the long term contracts percentage of completion.

The net balance sheet position for ongoing construction contracts is as follows:

	31.dec.2017
Balance sheet disclosures	
Gross amount due from customers (asset) (+)	17.146.913
Gross amount due to customers (liability) (-)	-1.378.607
Net	**15.768.306**

The net position relates to:

Aggregate costs incurred and recognized profits (less recognized losses)	56.542.365
Less: progress billings	-40.774.059
Net	**15.768.306**

The Company uses the 'percentage-of-completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

29 Financial instruments

Hedging contracts at 31 December 2017	Market values	Nominal values
Commodity Hedging - Copper	879.958	8.628.471
Foreign exchange contracts	Market values	Nominal values
DKK	-110.800	6.841.564
SEK	32.220	3.365.748
Total	**-78.580**	**10.207.312**

Gains and losses on hedged items	**2017**
Gains (-) and losses (+) on the hedged copper	-528.894
Gains (-) and losses (+) on the hedged foreign currencies	-94.363
Hedge effects in equity, net of deferred tax	686.557
Hedge expense in the income statement	-15.951

Breakdown of positive and negative market values of derivates recognized in BS in cash flow and fair value hedges	**31.dec.2017**
Positive market values from hedge accounting	**915.181**
thereof cash flow hedges	880.636
thereof fair value hedges	34.545
Negative market values from hedge accounting	**-113.802**
thereof cash flow hedges	-97.173
thereof fair value hedges	-16.629

To avoid price fluctuations that have a negative effect, the Company uses hedging instruments to minimize the risk. As of 31 December 2017, the Company had 16 active hedging contracts for commodity, copper, and 14 contracts against foreign exchange, DKK and SEK.

Trade receivables neither past due nor impaired	**2017**	**2016**
Group 1	1.440.965	-
Group 2	21.795.399	14.026.549
Group 3	667.061	4.963.886
Total unimpaired trade receivables	**23.903.425**	**18.990.435**

Group 1 – new customers/related parties
Group 2 – existing customers/related parties with no defaults in the past.
Group 3 – existing customers/related parties with some defaults in the past.

All balances were fully recovered. None of the financial assets that are fully performing has been renegotiated in the last year. Details on trade receivables impaired and past due but not impaired can be seen in Note 7.

The risk management activity within the Company is performed in relation to financial risks, operating risks and legal risks. The main objectives of the financial risk management activity are to determine the risk limits and then to ensure that the exposure to risks is maintained between these limits. The management of operating and legal risks is aimed at guaranteeing the good functioning of the internal policies and procedures for minimizing operating and legal risks.

Risks identified by the company are:

a) Currency risk
b) Liquidity risk
c) Credit risk
d) Interest risk
e) Capital risk management

a) Currency risk

The Company performs transactions expressed in different currencies, mainly in EUR. Hence, there is the risk of fluctuations in the exchange rates. The exposures to the exchange rate are managed according to the approved policies.

Exposure to currency risk 31/12/2016

Currency	**RON**	**CHF**	**USD**	**PLZ**	**EUR**	**TOTAL**
Trade receivables	10.319.099	525.435	-	-	8.145.902	18.990.436
Cash in the bank	238.897	-	355	37.726	2.847.789	3.124.767
Total assets	**10.557.995**	**525.435**	**355**	**37.726**	**10.993.691**	**22.115.203**
Liabilities	-5.527.621	-169.390	-	-	-13.878.368	-19.575.379
Bank loans	-33.488.868	-	-	-	-	-33.488.868
Intercompany loans	-	-	-	-	-18.947.740	-18.947.740
Total liabilities	**-39.016.489**	**-169.390**	**-**	**-**	**-32.826.107**	**-72.011.986**
Net currency exposure	**-28.458.494**	**356.045**	**355**	**37.726**	**-21.832.416**	**-49.896.783**

Exposure to currency risk 31/12/2017

Currency	RON	CHF	USD	PLZ	EUR	DKK	TOTAL
Trade receivables	21.953.348	40.000	-	-147.379	6.810.315	9.797.392	38.453.676
Cash in the bank	78.275	-	221	462	73.118	-	152.076
Total assets	**22.031.623**	**40.000**	**221**	**-146.917**	**6.883.433**	**9.797.392**	**38.605.752**
Trade payables	-5.934.466	-218.114	-2.569	-102.956	-22.207.484	-50.262	-28.515.851
Hedge liabilities	-	-	-	-	-	-113.803	-113.803
Bank loans	-31.126.987	-	-	-	-	-	-31.126.987
Intercompany loans	-	-	-	-	-23.950.858	-	-23.950.858
Total liabilities	**-37.061.453**	**-218.114**	**-2.569**	**-102.956**	**-46.158.342**	**-164.065**	**-83.707.499**
Net currency exposure	**-15.029.830**	**-178.114**	**-2.348**	**-249.873**	**-39.274.909**	**9.633.327**	**-45.101.747**

The company's indebtedness in euros represents a balance sheet exposure to the risk of exchange rate RON / EUR.
An increase in the exchange rate would generate foreign exchange losses on balance sheet exposure but would have positive operational effect because a major part of the sale prices are set in EUR while most costs are in RON. The main costs are represented by raw materials where the acquisition prices are denominated in EUR.

Sensitivity analysis
10% is the sensitivity rate used when the internal reporting on the foreign currency risk to the Company is done and it represents the management estimate on the reasonably possible changes in exchange rates. The sensitivity analysis only includes the remaining foreign currency expressed in monetary items and adjusts the conversion at the end of the period for a 10% change in exchange rates.
A strengthening of RON against the above currencies with 10% will have positive foreign exchange effect of 3.007.192 RON (2016: 2.183.242RON). A 10% depreciation of the RON against the above currencies will have an equal opposite impact on loss for the year. The changes will be attributable to the exposure related to the intercompany loans, cash and cash equivalents and trade receivables and payables with foreign partners at the end of the year. This analysis assumes that all other variables, in particular interest rates, remain constant.

b) Liquidity risk
Liquidity risk is the ability of the Company to finance asset growth and / or meet its obligations when they become due and liquidity management is an integral part of the management of assets and liabilities.
This risk of loss, can lead to inability to meet payment on short term without expensive bank loans.
Liquidity analysis is carried out according to weekly payments and receipts and is correlated with cash needs. Management decided to use short term loans to finance the working capital because the products are made with long manufacturing cycle and between the time when an order is released and the one that collects production financing is needed.

Liabilities 31.dec.2016	Below one year	1-5 years	Over 5 years
Interest bearing			
Bank loans	33.488.868	-	-
Financial lease from Group	206.779	899.868	2.192.916
Short-term intra-group loans	18.947.740	-	-
Non-interest bearing			
Short-term trade payables	19.575.379	-	-
Other liabilities	7.661.825	-	-
Total	**79.880.589**	**899.868**	**2.192.916**

Liabilities 31.dec.2017	Below one year	1-5 years	Over 5 years
Interest bearing			
Bank loans	31.126.987	-	-
Financial lease from Group	374.291	1.557.408	1.848.091
Short-term intra-group loans	23.950.858	-	-
Future interest	1.652.707	-	-
Non-interest bearing			
Short-term trade payables	28.515.851	-	-
Other liabilities	4.307.459	-	-
Total	**89.928.153**	**1.557.408**	**1.848.091**

The company has disclosed in note 14a the credit limits and the portion yet undrawn from them, which represents available funding to cover liquidity needs.

c) Credit risk

Credit risk relates to the risk that a counterparty will not meet its obligations causing financial losses to the Company. The Company has adopted a policy of performing transactions only with trustworthy parties and of obtaining sufficient guarantees, if applicable, as a means of decreasing the financial losses caused by breaches of contracts. The Company's exposure and the credit ratings of third parties to contracts are monitored by the management.

Trade receivables consist in a number of clients from energy industry and different geographical areas. The permanent credit assessment is performed in relation to the clients' financial condition and, when appropriate, a credit insurance is concluded.

The cash is held in financial institutions which, at the date when it is deposited, are considered to have the lowest reimbursement risk.

The carrying amount of receivables, net of the provision for receivables, plus the cash and cash equivalents, are the maximum amount exposed to the credit risk. Although the receivable collection could be influenced by economic factors, the management considers there is no significant loss risk for the Company, beyond the provisions already recorded

The company has signed contracts with law firms to assist in collecting debts in due time. Currently there is no trial pending with regards to the colleaction of accounts receivables.

Our company's customers are companies of national interest or companies investing in industry with capital and financial strength, thus it is considered that cashing risk is low and

has little chance to influence the activity of the company, although there are occasionally notices on delays in collection.

Receivables by age	**2017**	**2016**
not due	19.586.936	10.709.838
0-30 days	2.687.468	6.322.884
31-60 days	263.131	1.240.159
61-90 days	1.047.373	572.351
> 90 days	318.516	145.204
Grand Total	**23.903.424**	**18.990.436**

d) Interest risk

Accessed loans are due to insufficient liquidity and the specificity of manufacturing segment - long manufacturing cycle, whereas accounts receivables are booked and collected at the latter stage of contract performance.

Accessed loans are aimed mainly to cover the purchase of raw materials and cover liquidity up to the collection of receivables.

The company has access to a Global Exploitation Ceiling contracted with the financing bank. The Global Exploitation Ceiling includes both credit line for the current activity and letters of bank guarantee.

This ceiling is guaranteed by a pledge on the buildings and inventories.

Exposure to interest rate risk	RON		Sensitivity to interest rate variation 1p%
Intercompany loan with fixed interest	23,950,858		239.508
Financial lease with fixed interest	3,779,792		
Bank loans with variable interest	31,126,987	ROBOR plus 1.45%	311.270

The company is meeting the financial convenants set by the Bank financing agreements.

e) Capital risk is analyzed based on the gearing ratio. This ratio is calculated as net debt divided by equity. The net debt is represented by the total loans less the cash and cash equivalents.

	2017	**2016**
Equity as at 31 December	**-7.369.641**	**-6.516.912**
Bank loans	31.126.987	33.488.868
Intercompany loans	23.950.858	18.947.740
Financial lease	3.779.792	3.299.563
Less cash and cash equivalents	-152.076	-3.124.767
Total debt	**58.705.561**	**52.611.403**
Level of indebtedness (gearing ratio)	**-7.97**	**-8.07**

In order to improve the Company's capital risk position in 2017, the Company's Shareholders decided to increase the share capital with a value of 18.013.343 RON, partly through conversion of existing group loans for an amount of 12.150.000 RON and the rest through cash contribution.
The gearing ratio considering the above-mentioned change would be:

Optimized gearing after share capital increase	**2017**
Equity on 31.dec.2017	-7.369.641
Increase of the share capital (ongoing 2018)	18.013.343
Equity optimized	**10.643.702**
Bank loans	31.126.987
Intercompany loans	23.950.858
Financial lease	3.779.792
Convert the loan into equity (ongoing 2017)	-12.150.000
Less cash and cash equivalents	-152.076
Total debt optimized	**46.555.561**
Level of indebtedness (gearing ratio)	**4.37**

Gearing above 4.37 is high but not excessive and is manageable considering the company is in course of developing its production volume.

30 Subsequent events

Until the date of the financial statements the Company doesn't have any significant events.

The financial statements were approved by the Board of Administrators and authorized for issue on April 17/18, 2018.

CEO
Thalacker Reiner

CFO
Andra Popianos

S.C. RETRASIB S.A.
Headquarters: Sibiu, str. Stefan cel Mare, no. 156, jud. Sibiu CUI: 3906360
J32/16/1993

DECLARATION OF RESPONSIBLE PERSONS

The undersigned, Thalacker Reiner as CEO and Popianos Andra-Minerva as CFO, declare under our sole responsibility that, to our knowledge, the Financial Statements at 31.12.2017 were prepared in accordance with the accounting regulations and accounting standards applicable to the Company We offer a fair and consistent view of the reality of the assets, liabilities, financial position, profit and loss account of RETRASIB SA Sibiu.

At the same time, we further declare on our own responsibility that the Company operates in continuity and that the annual report for the financial year 2017 accurately and completely presents the information about RETRASIB S.A. Sibiu.

CEO,

Thalacker Reiner (The company's stamp)
Signature……

CFO,

Popianos Andra-Minerva
Signature……..