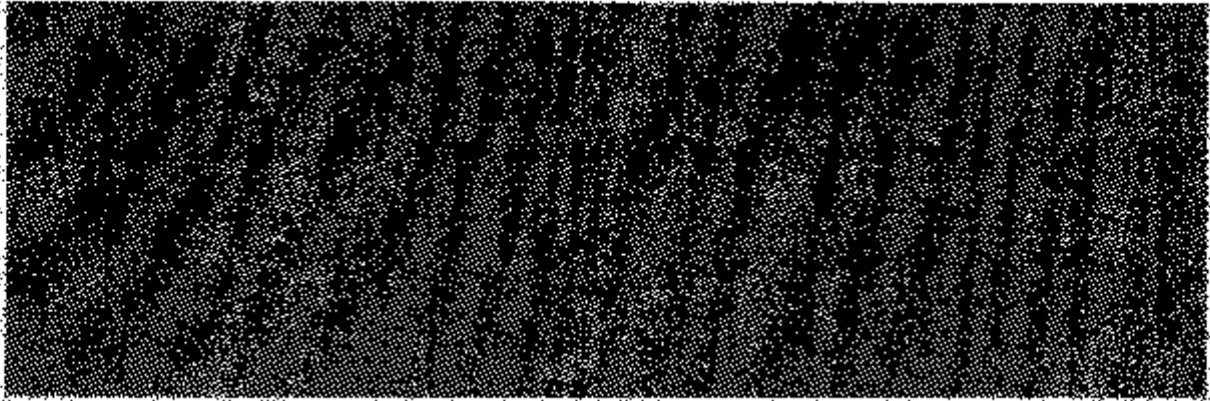




FINANCIAL STATEMENTS

SEPARATE

FOR THE YEAR CLOSED ON 31 DECEMBER 2015
PREPARED IN ACCORDANCE WITH IFRS

AVANCE ELECTROMAGNETICA SA

SC ELECTROMAGNETICA SA
SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR CLOSED ON 31 DECEMBER 2015
(all the amounts are expressed in RON, unless otherwise specified)

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S.C ELECTROMAGNETICA S.A.
SEPARATE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR CLOSED AT 31 DECEMBER 2015
(all the amounts are expressed in RON, unless otherwise specified)

	Note	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Tangible assets	4	223.013.409	210.298.840
Investment property	5	947.183	907.248
Intangible assets	6	1.378.057	1.728.797
Investments in related entities	7	3.967.606	3.967.606
Other long-term non-current assets	8	2.244.903	1.515.222
Total non-current assets		231.551.158	218.417.713
Current assets			
Inventories	9	13.252.615	15.936.948
Trade receivables	10	54.455.664	53.390.194
Cash and cash equivalents	13	13.890.488	28.226.288
Financial assets at fair value through profit or loss	12	487.080	44.800
Other current assets	11	2.466.017	6.360.202
Current tax assets		780.927	780.927
Total current assets		85.312.791	104.739.360
Total assets		316.863.949	323.157.073
EQUITY AND LIABILITIES			
Equity			
Share capital	14	67.603.870	67.603.870
Reserves	15	212.110.399	186.991.790
Retained earnings	16	(18.801.162)	10.457.093
Other components of equity		(670.842)	(1.126.674)
Total equity attributable to company shareholders		260.242.265	263.926.079
Non-current liabilities			
Trade payables and other liabilities	19	2.956.026	3.276.605
Investment subsidies	17	5.063.180	5.226.532
Deferred tax liabilities	20	1.759.901	1.764.975
Total non-current liabilities		9.779.106	10.268.112

S.C ELECTROMAGNETICA S.A.
SEPARATE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR CLOSED AT 31 DECEMBER 2015
(all the amounts are expressed in RON, unless otherwise specified)

Current liabilities			
Trade payables and other liabilities	19	34.508.314	47.587.609
Investment subsidies	17	163.219	165.773
Provisions	18	12.171.045	1.209.500
Total current liabilities		46.842.578	48.962.882
Total liabilities		56.621.684	59.230.994
Total equity and liabilities		316.863.949	323.157.073

These separate financial statements were approved for disclosure by the management on 18 March 2016.

Eugen Scheuşan
Chief Executive Officer

Ilie Frăsineanu
Chief Financial Officer

S.C ELECTROMAGNETICA S.A.
SEPARATE STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR CLOSED ON 31 DECEMBER 2015
(all the amounts are expressed in RON, unless otherwise specified)

	Note	Year closed on 31 December 2015	Year closed on 31 December 2014
Revenue	21	383.043.939	426.040.897
Other income	21	2.801.413	4.558.035
Variation in stocks of finished goods and work in progress	21	10.608.484	9.261.516
Work performed by entity and capitalised	21	1.742.457	1.991.283
Raw material and consumables used	22	(313.927.056)	(338.381.729)
Expenses related to employee	22	(32.562.136)	(33.295.483)
Expenses related to depreciation and impairment	22	(25.141.792)	(10.297.549)
Other expenses	22	(50.359.400)	(53.065.585)
Other net financial gains/(losses)	23	1.157.097	2.215.460
(Loss)/Profit before tax		(22.636.993)	9.026.845
Current income tax expense	24	-	(1.242.495)
Deferred income tax expense		(79.635)	(205.689)
(Loss)/Profit of the period		(22.716.628)	7.578.661
Other components of comprehensive income			
of which:			
other comprehensive income items that cannot be reclassified in the profit and loss account, of which:			
- revaluation surplus for tangible assets		21.709.107	274.096
- deferred tax recognised in equity		84.709	(43.855)
Comprehensive Income for the period		(922.812)	7.808.902
Basic/diluted earnings per share		(0,0014)	0,0116

These separate financial statements were approved for disclosure by the management on 18 March 2016.

Eugen Scheuşan
Chief Executive Officer

Ilie Frăsineanu
Chief Financial Officer

S.C ELECTROMAGNETICA S.A.
SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR CLOSED AT 31 DECEMBER 2015
(all the amounts are expressed in RON, unless otherwise specified)

	Share capital	Retained earnings	Revaluation reserve tangible assets	Other reserves	Legal reserve	Other equity items*	Total equity
Balance at 1 January 2014	67.603.870	15.918.588	79.297.662	40.149.566	56.477.958	(1.404.363)	269.043.281
Comprehensive income for the period							
Profit or loss of the period	-	7.578.661	-	-	-	-	7.578.661
Other components of comprehensive income							
The transfer of the revaluation reserve to retained earnings following the discard of revalued tangible assets	-	2.238.507	(2.238.507)	-	-	-	-
Tangible assets revaluation	-	-	274.096	-	-	(260.896)	13.100
Total comprehensive income for the period	-	9.817.168	(1.964.411)	-	-	(260.996)	7.591.761
Transactions with shareholders recognised directly in equity							
Transfer of the retained earnings to reserves	-	(13.569.700)	-	12.659.892	371.123	538.685	-
Dividends	-	(2.704.155)	-	-	-	-	(2.704.155)
Retained earnings from correction of errors	-	(4.808)	-	-	-	-	(4.808)
Balance at 31 December 2014	67.603.870	10.457.093	77.333.251	52.809.458	56.849.081	(1.126.674)	263.926.079

S.C ELECTROMAGNETICA S.A.
SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR CLOSED AT 31 DECEMBER 2015
(all the amounts are expressed in RON, unless otherwise specified)

	Share capital	Retained earnings	Revaluation reserve tangible assets	Other reserves	Legal reserve	Other equity items*	Total equity
Balance at 1 January 2015	67.603.870	10.457.093	77.333.251	52.889.458	56.849.081	(1.126.674)	263.926.079
Comprehensive income for the period							
Profit or loss of the period	-	(22.716.628)	-	-	-	-	(22.716.628)
Other components of comprehensive income							
The transfer of the revaluation reserve to retained earnings following the discard of revalued tangible assets	-	1.093.881	(1.093.881)	-	-	-	-
Tangible assets revaluation	-	-	21.709.107	-	-	84.709	21.793.818
Total comprehensive income for the period	-	(21.622.747)	(20.615.226)	-	-	84.709	(922.812)
Transactions with shareholders recognised directly in equity							
Transfer of the retained earnings to reserves	-	(4.874.506)	-	4.503.383	-	371.123	-
Dividends	-	(2.704.155)	-	-	-	-	(2.704.155)
Retained earnings from correction of errors	-	(56.847)	-	-	-	-	(56.847)
Balance at 31 December 2015	67.603.870	18.801.152	97.948.477	67.312.841	56.849.081	(670.842)	260.242.265

*Other equity items include tax deferred related to revaluation reserve and the legal reserve amounted quarterly under the legislation.

These separate financial statements were approved for disclosure by the management on 18 March 2016.

Eugen Scheuşan
Chief Executive Officer

Ilie Frăsineanu
Chief Financial Officer

S.C ELECTROMAGNETICA S.A.
SEPARATE STATEMENT ON CASH FLOWS
FOR THE YEAR CLOSED ON 31 DECEMBER 2015
(all the amounts are expressed in RON, unless otherwise specified)

	<u>Note</u>	<u>Year 2015</u>	<u>Year 2014</u>
Cash flows from operating activities			
Cash receipts from customers		442.520.423	501.590.609
Payments to suppliers		(365.328.037)	(389.017.025)
Payments to employees		(31.032.168)	(35.765.260)
Other operating activities		(55.720.114)	(51.722.259)
Cash (used in)/from operating activities		(9.559.896)	25.086.065
Interest paid		(98.579)	(17.271)
Income tax paid		-	(2.482.933)
Net cash (used in)/from operating activities		(9.658.475)	22.585.861
Cash flows from investing activities			
Acquisition of tangible assets		(2.322.774)	(6.251.852)
Receipts from sale of non-current-assets		83.807	20.976
Interest received		54.277	265.078
Dividends received		465.493	646.643
Net cash from investing activities		(1.719.197)	(5.319.155)
Cash flows from financing activities			
Cash proceeds from loans		123.804.974	30.737.704
Cash repayments of amounts borrowed		(123.804.974)	(30.737.704)
Dividends paid		(2.958.128)	(2.478.185)
Net cash from financing activities		(2.958.128)	(2.478.185)
Cash and cash equivalents net (decrease)/increase		(14.335.800)	14.788.521
Cash and cash equivalents at beginning of period	13	28.226.288	13.437.767
Cash and cash equivalents at end of period	13	13.890.488	28.226.288

These separate financial statements were approved for disclosure by the managements on 18 March 2016.

Eugen Scheușan
Chief Executive Officer

Ilie Frăsineanu
Chief Financial Officer

S.C. ELECTROMAGNETICA S.A.
EXPLANATORY NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR CLOSED ON 31 DECEMBER 2015
(all the amounts are expressed in RON, unless otherwise specified)

1 OVERVIEW

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

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

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

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

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

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

	2015	2014
- minimum price	0,1850	0,1875
- maximum price	0,2599	0,2375
- average price	0,2118	0,2148

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

	2015	2014
Average number of employees	615	626

These financial statements are compliant with IAS 27 - Separate Financial Statements prepared on 31 December 2015. The Company also prepares consolidated financial statements as it has investments in subsidiaries.

The details of the Company's investments in subsidiaries at 31 December 2015 are:

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EXPLANATORY NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR CLOSED ON 31 DECEMBER 2015
(all the amounts are expressed in RON, unless otherwise specified)

Name of subsidiary	No. of securities	Ownership and voting right percentage (%)	Value
Electromagnetica Golstar SRL	2.650	100%	3.126.197
Electromagnetica Prestserv SRL	295	98.333%	29.500
Electromagnetica Fire SRL	799	99.875%	79.900
Procetel SA	42.483	96.548%	732.008
TOTAL			3.967.606

2 APPLICATION OF THE NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

- **Amendments to various standards – Improvements to IFRSs (cycle 2011-2013)** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 18 December 2014 (amendments are to be applied for annual periods beginning on or after 1 January 2015), issued by IASB on 12 December 2013. Amendments to various standards and interpretations resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording. The revisions clarify the required accounting recognition in cases where free interpretation used to be permitted. The most important changes include new or revised requirements regarding: (i) meaning of effective IFRSs in IFRS 1; (ii) scope of exception for joint ventures; (iii) scope of paragraph 52 of IFRS 13 (portfolio exception) and (iv) clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.
- **IFRIC 21 – Levies** adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014), issued by IASB on 20 May 2013. IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise

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to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

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

Amendments to the existing Standards Issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements the following amendments to the existing standards issued by IASB and adopted by the EU were in issue but not yet effective:

- **Amendments to IFRS 11 – Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations** - adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016), issued by IASB on 6 May 2014. The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.
- **Amendments to IAS 1 – Presentation of Financial Statements – Disclosure Initiative** - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016), issued by IASB on 18 December 2014. The amendments to IAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.
- **Amendments to IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation** - adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016), issued by IASB on 12 May 2014. Amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. Amendments also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

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- **Amendments to IAS 16 – Property, Plant and Equipment and IAS 41 – Agriculture - Agriculture: Bearer Plants** - adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016), issued by IASB on 30 June 2014. The amendments bring bearer plants, which are used solely to grow produce, into the scope of IAS 16 so that they are accounted for in the same way as property, plant and equipment.
- **Amendments to IAS 19 – Employee Benefits - Defined Benefit Plans: Employee Contributions** - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015), issued by IASB on 21 November 2013. The narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.
- **Amendments to IAS 27 – Separate Financial Statements - Equity Method in Separate Financial Statements** - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016), issued by IASB on 12 August 2014. The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.
- **Amendments to various standards – Improvements to IFRSs (cycle 2010-2012)** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015), issued by IASB on 12 December 2013. Amendments to various standards and interpretations resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording. The revisions clarify the required accounting recognition in cases where free interpretation used to be permitted. The most important changes include new or revised requirements regarding: (i) definition of 'vesting condition'; (ii) accounting for contingent consideration in a business combination; (iii) aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets; (iv) measuring short-term receivables and payables; (v) proportionate restatement of accumulated depreciation application in revaluation method and (vi) clarification on key management personnel.
- **Amendments to various standards – Improvements to IFRSs (cycle 2012-2014)** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016), issued by IASB

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on 25 September 2014. Amendments to various standards and interpretations resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording. The revisions clarify the required accounting recognition in cases where free interpretation used to be permitted. Changes include new or revised requirements regarding: (i) changes in methods of disposal; (ii) servicing contracts; (iii) applicability of the amendments to IFRS 7 to condensed interim financial statements; (iv) discount rate: regional market issue; (v) disclosure of information 'elsewhere in the interim financial report'.

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following new standards and amendments to the existing standards, which were not endorsed for use in EU as at [date of publication of financial statements] (the effective dates stated below is for IFRS in full):

- **IFRS 9 – Financial Instruments** (effective for annual periods beginning on or after 1 January 2018). Issued on 24 July 2014 is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

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

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

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

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

- **IFRS 14 – Regulatory Deferral Accounts** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this

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EXPLANATORY NOTES TO THE SEPARATE FINANCIAL STATEMENTS
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interim standard and to wait for the final standard. Issued by IASB on 30 January 2014. This Standard is intended to allow entities that are first-time adopters of IFRS, and that currently recognise regulatory deferral accounts in accordance with their previous GAAP, to continue to do so upon transition to IFRS.

- **IFRS 15 – Revenue from Contracts with Customers** and further amendments (effective for annual periods beginning on or after 1 January 2018), issued by IASB on 28 May 2014 (on 11 September 2015 IASB deferred effective date of IFRS 15 to 1 January 2018). IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 – Revenue, IAS 11 – Construction Contracts and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. The core principle of the new Standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new Standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

- **IFRS 16 – Leases** (effective for annual periods beginning on or after 1 January 2019), issued by IASB on 13 January 2016. Under IFRS 16 a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. As with IFRS 16's predecessor, IAS 17, lessors classify leases as operating or finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. For finance leases a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.

- **Amendments to IFRS 10 – Consolidated Financial Statements, IFRS 12 – Disclosure of Interests in Other Entities and IAS 28 – Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception** (effective for annual periods beginning on or after 1 January 2016), issued by IASB on 18 December 2014. The narrow-scope amendments to IFRS

S.C ELECTROMAGNETICA S.A.
EXPLANATORY NOTES TO THE SEPARATE FINANCIAL STATEMENTS
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(all the amounts are expressed in RON, unless otherwise specified)

10. IFRS 12 and IAS 28 introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances.

- **Amendments to IFRS 10 – Consolidated Financial Statements and IAS 28 – Investments in Associates and Joint Ventures** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded), issued by IASB on 11 September 2014 (on 17 December 2015 IASB deferred indefinitely effective date). The amendments address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business.

- **Amendments to IAS 7 – Statement of Cash Flows - Disclosure Initiative** (effective for annual periods beginning on or after 1 January 2017), issued by IASB on 29 January 2016. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

- **Amendments to IAS 12 – Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses** (effective for annual periods beginning on or after 1 January 2017), issued by IASB on 19 January 2016. The amendments to IAS 12 clarify how to account for deferred tax assets related to debt instruments measured at fair value.

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

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

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

S.C ELECTROMAGNETICA S.A.
EXPLANATORY NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR CLOSED ON 31 DECEMBER 2015
(all the amounts are expressed in RON, unless otherwise specified)

3 SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The separate financial statements of the Company were prepared in compliance with the International Financial Reporting Standards adopted by the European Union ("IFRS") effective on the date of the Company annual report, i.e. 31 December 2015, and in compliance with the Order of the Minister of Public Finance no. 1286/2012 approving the Accounting Regulations compliant with the International Financial Reporting Standards applicable to the trading companies the shares of which are admitted to trading on a regulated market, as further amended and clarified. These provisions are consistent with the requirements of the International Financial Reporting Standards adopted by the European Union (EU). The Company applies IFRS as of 1 January 2011 and the first year for which the separate financial statements were prepared in compliance with IFRS was 2012.

Operating and presentation currency

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

Basis of preparation

The separate financial statements were prepared on the basis of the historical cost, except for certain financial instruments that are measured at fair value, as explained in the accounting policies. The historical cost is generally based on the fair value of the consideration in exchange of the assets.

The tangible assets are presented at reevaluation value (IAS 16: revaluation) and investment property are presented at fair value (IAS 40: fair value).

For inventories without moving or slow moving inventories adjustments are made based on the management's estimates. The set up and reversal of allowances for inventories impairment is made usually at the end of the year in the profit and loss account (for inventories without moving 50% of the total value and for the slow moving ones 25%).

In the first series of financial statements prepared in compliance with IFRS the Company applied IAS 29 – Financial Reporting in Hyperinflationary Economies and corrected the historical cost of share capital, legal reserves and other reserves set up from the net profit by the effect of inflation until 31 December 2003. These adjustments were recorded in separate analytical accounts.

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

Going concern principle

The separate financial statements were prepared based on the going concern principle, which implies that the Company will be able to realise its assets and pay its liabilities in the ordinary course of business in the next period.

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Comparative statements

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

Foreign currency

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

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

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

	Exchange rate at 31 December 2015	Exchange rate at 31 December 2014
EUR	4,5245	4,4821
USD	4,1477	3,6868

Use of estimates and professional judgement

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

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

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

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

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

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

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

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

Accounting principles, policies and methods

According to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, the accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

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

The Company changes an accounting policy only if the change:

- is required by a standard or interpretation; or

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

We present below a summary of the significant accounting policies applied to all the periods presented in the financial statements, except for the changes deriving from the new standards and amendments to standards with the date of initial application 1 January 2015 and presented in section 2.

Intangible assets

Initial measurement

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

Measurement subsequent to initial recognition

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

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

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

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

Tangible assets

Initial measurement

Tangible assets are initially recognised at the purchase cost or the production cost (if self-created) and are carried at the amount net of accumulated depreciation.

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

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

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Measurement subsequent to initial recognition

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

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

The fair value of land and building is generally determined based on market samples, through a measurement made by professional and qualified assessors.

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

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

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

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

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

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

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

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

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

The land owned is not depreciated.

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

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The depreciation method used reflects the anticipated rate of consumption by the entity of the future economic benefits of the asset.

For all assets acquired starting of 1 January 2015 the company uses the straight-line method as the depreciation method.

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

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

Tangible assets	Duration (years)
Buildings	20 - 40
Technological equipment	5 - 12
Measurement, control and adjustment devices	3 - 8
Motor vehicles	4 - 8
Furniture, office equipment, human and material protection equipment	8 - 15

Impairment policy applied by the company

The revaluation surplus of a tangible asset accumulated in equity should be directly transferred each month to the retained earnings as it is depreciated, if the asset is used, and upon derecognition, when the asset is disposed of or withdrawn from use.

If an asset is revaluated a loss resulting from this operation is recognised directly by reducing the revaluation surplus, but the loss should not exceed it.

The gain or loss resulting from the derecognition of a tangible asset should be recognised in profit or loss at the date of the asset derecognition.

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

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

Maintenance and major repairs

Capitalised costs for major repair activities are separate components of the corresponding assets or groups of assets. Capitalised costs for major repairs are amortised using the amortisation method used for the underlying asset. The expenditure for major repair works includes the cost of replacement of the assets or parts thereof, the costs of inspection and the costs of major repairs. The expenditure is capitalised if an asset or a part of an asset which was amortised separately is replaced and is expected to generate future economic benefits. If a part of the replaced asset was not considered a separate

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component and, therefore, was not amortised separately, the replacement value is used to estimate the net carrying amount of the replaced asset(s) which is/are immediately removed. All the other costs incurred for current repairs and ordinary maintenance are directly recognised as expenses.

Investment property

Initial measurement

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

Measurement subsequent to recognition

The Company selected the fair value model for the presentation of investment property in its financial statements. The depreciation is no longer accounted for; instead, the impairment/appreciation according to the annual measurement at fair value is accounted for.

Financial assets

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

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

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

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

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

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

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- **available-for-sale financial assets** – any financial assets not classified in one of the above categories.

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

Investments in related entities

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

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

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

None of the companies in which SC Electromagnetica holds interests is quoted on a stock exchange. The corresponding assets are measured at the acquisition cost, are annually tested for impairment and the impairment, if any, is recognised at the date of finding.

Interest on loans

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

Government grants

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

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

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Inventories

According to IAS 2 – Inventories, these assets are:

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

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

The Company uses the First In First Out (FIFO) method to determine the inventory outflow cost of supplied materials.

The standard cost is used for inventory inflow and outflow of finished products. Based on the management accounting, the actual cost of the obtained products is determined at the end of each month.

Receivables and other like assets

Receivables and other like assets are stated at amortized cost reduced by adjustments value.

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

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

Cash and cash equivalents

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

Liabilities

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

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

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

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

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

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

Liabilities are presented at amortised cost.

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

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

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

The amounts representing dividends attributed from the net profit for the reporting period are recorded in the following year within the retained earnings, to be carried as dividends payable following the approval of this destination by the general meeting of shareholders.

Current income tax

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

Deferred tax

The deferred tax is created by analysing the temporary differences of assets and liabilities. The tax loss carried forward is included in the calculation of the deferred tax asset. A deferred tax asset is recognised only if it is considered probable that there would be sufficient future taxable profit after the offset with the tax loss carry forward and the recoverable income tax.

Deferred tax assets and deferred tax liabilities can only be offset if the entity has this legal right and they relate to the income tax levied by the same taxing authority.

Revenue recognition

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

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Sale of goods

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

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

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

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

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

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

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

The Company chose to use the interest rate determined under an internal procedure to discount the amounts receivable in the future.

Rendering of services

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

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

The Company uses the "percentage of completion method" to recognise the revenue depending on the transaction stage of completion. According to this method, revenue is recognised in the accounting

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periods of the rendering of services. The recognition of revenue on this base provides useful information on the shares of the rendering of services and its results during a period.

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

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

The revenue from renting activities is recognised on a straight-line basis in the profit and loss account over the duration of the rental agreement.

Dividends and Interest

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

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

Provisions

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

Provisions are grouped by categories and are recognised for:

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

When the review by the management together with the legal advisors of the chances for the Company to lose a lawsuit leads to the conclusion that the estimated probability for loss is higher than 51%, a provision is recognised at the reliably estimated amount.

Provisions for guarantees to customers are recognised depending on the estimates of the management and the sales, technical and quality departments on the level of expenses incurred for repairs during the

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warranty period. The level of expenses incurred for repairs during the warranty period is determined as a percentage of the turnover for the reporting year.

Provisions for restructuring

The implicit restructuring obligation occurs where an entity:

- has in place an official detailed restructuring plan that presents: the activity or part of activity it refers to, the main locations affected, the location, position and approximate number of employees to receive compensation for the termination of their activity, the expenses involved, the date of implementation of the restructuring plan.

- has generated the reasonable expectation of the affected parties that the restructuring will be performed by starting the implementation of the restructuring plan or the communication of its main features to those affected by the restructuring process

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

Provisions for employee benefits

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

Other provisions

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

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

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

Employee benefits

The obligations representing short-term employee benefits are not discounted and are recognised in the statement of profit or loss and other comprehensive income as the related service is rendered.

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

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

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

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The Company is not involved in any independent pension scheme, therefore it does not have any obligations in this regard. The Company is not involved in any post-employment benefit scheme. The Company does not have any obligation to provide subsequent services to former or present employees. At present, the Company does not grant employee benefits in the form of profit sharing. Currently, there is no plan providing for the Company to grant benefits in the form of entity shares (or other equity instruments).

Profit or loss for the period

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

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

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

The profit is distributed under the laws in force. The amounts representing reserves set up from the profit of the current financial period, under applicable legal provisions, such as the legal reserve established under Law no. 31/1990, are recorded at the end of the current period. The accounting profit remaining after this distribution is carried forward at the beginning of the financial period following the period for which the annual accounts are prepared, in the account 1171 – Profit/Loss carried forward, and is distributed to the other destinations decided by the general meeting of shareholders, in compliance with applicable legislation. The destinations of the accounting profit are accounted for after the general meeting of shareholders has approved the profit distribution, by the recording of the amounts representing dividends due to shareholders, reserves, and other destinations, under the law.

Earnings per share

IAS 33 – Earnings Per Share stipulates that the entities which present both the consolidated financial statements and the separate financial statements are required to present the earnings per share only on the basis of the consolidated information. If the entity chooses to present the earnings per share based on its separate financial statements, it is required to present the information about the earnings per share only in the statement of comprehensive income. In this case, it is not necessary to present the earnings per share in the consolidated financial statements.

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

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

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

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

Legal reserve

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

Reporting by operating segments

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

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

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

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

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

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

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4 TANGIBLE ASSETS

Value	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
At 31 December 2014	102.739.779	77.152.467	31.586.690	4.073.154	1.848.439	217.400.529
Inflows of which:	21.709.106	587.084	4.084.935	784.950	2.293.976	28.460.051
from revaluation	21.709.106	-	-	-	-	21.709.106
Out flows of which:	(6.083.637)	(11.105)	(425.832)	(48.426)	(2.447.823)	(9.016.823)
from the determination of the net amount for revaluation	-	-	-	-	-	-
revaluation decrease	(5.490.996)	-	-	-	-	(5.490.996)
At 31 December 2015	118.365.248	77.728.446	35.245.793	4.809.678	1.694.592	237.843.757
Accumulated amortisation						
At 31 December 2014	225.545	-	4.521.326	1.277.621	-	6.024.492
Amortisation for the year	25.834	3.200.597	4.516.302	1.023.964	-	8.766.697
Accumulated depreciation for outflows of which:	-	(2.579)	(50.254)	(6.375)	-	(59.208)
from the determination of the net amount for revaluation	-	-	-	-	-	-
At 31 December 2015	251.379	3.198.018	8.987.374	2.295.210	-	14.731.981

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4 TANGIBLE ASSETS (continued)					
Allowances for impairment	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress
Total					
At 31 December 2014	1,077,197	-	-	-	1,077,197
Allowances for impairment recognised in profit or loss	-	-	-	-	98,367
Reversal of allowances for impairment recognised in profit or loss	(1,077,197)	-	-	-	(1,077,197)
At 31 December 2015	-	-	-	-	98,367
Net carrying amount					
At 31 December 2014	101,437,037	77,152,467	27,065,364	2,795,533	1,848,439
At 31 December 2015	118,113,868	74,530,428	26,258,419	2,514,469	1,596,225
					210,298,840
					223,013,409

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4 TANGIBLE ASSETS

At 31 December 2015, the Company revalued all lands.

The revaluation was performed by a company authorised by the National Association of Romanian Valuers (ANEVAR).

According to the revaluation report, tangible assets increased by a total of 16.218.110 lei.

At 31 December 2015, the tangible assets raised by 1,7% compared to 31 December 2014, which is mainly due to the recorded revaluation of lands.

The inflows of tangible assets consist of modernisation of the company's premises and purchases of plant and machinery and revaluation of lands.

The outflows of tangible assets consist of sales, discards, revaluation decreases.

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

Name of the asset	Guarantee contract	Financing bank
1. Land com. Domnesti, Ilfov County = 67.713,56 m2	Loan and agreement	BCR
2. Land com. Moara Vlasiei, Ilfov County = 70.469 m2	Loan and agreement	BCR
3. Land str. Mitropolit Filaret 35-37 sect. 4 Bucharest = 1.595 m2	Loan and agreement	BCR
4. Land str. Veseliei nr. 19 sect. 5 Bucharest = 16.095 m2	Loan and agreement	BCR
5. Buildings (cadastral parcels no.13,15,16) Calea Rahovei 266-268 Sector 5 Bucharest	Loan	BRD

The tangible assets also include assets acquired by government grant and used in licensed activity in one of the small hydropower plants located in Brodina Suceava County . The net carrying amount of the investment at 31 December 2015 of 16.427.078 lei, of which 5.226.399 lei subsidized amount. For 2014 the net carrying amount of the investment at 31 December 2014 was 17.035.927 lei of which 5.392.305 lei subsidized lei.

The company is involved in lawsuits for the recovery of possession of land and has set up a provision for litigation in the amount of 955.808 lei (note 18).

During 2015, the amount of 592.629 lei was transferred to revenue following the court order by which some of the ground in street Petre Ispirescu was lost.

5 INVESTMENT PROPERTY

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

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

At 31 December 2015 the investment property is structured as follows:

	<u>Year 2014</u>	<u>Year 2013</u>
Balance at 1 January	907.248	907.248
Inflows, of which:	39.935	-
from revaluation	-	-
Outflows, of which:	-	-
from revaluation	-	-
Balance at 31 December	947.183	907.248

The increases of value are the result of some upgrades made.

The revenue arising from the investment property in 2015 amounts to 1.381.075 lei and covers the expenses incurred by the owner.

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

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

6 INTANGIBLE ASSETS

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

In the statement of financial position, they are presented at historical cost, less amortisation and impairment. In 2015 was recorded the cessation of the old information system and other licenses in value of 85.547 lei.

The increase of intangible assets is mainly due to the purchase and putting into operation of the new integrated information system.

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

The situation of intangible assets at 31 December 2015 was:

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Cost	Concessions patents licences	Other intangible assets	Intangible assets in progress	Total
At 31 December 2014	324.025	2.035.832	128.228	2.488.085
Inflows	73.654	171.460	431.625	676.739
Outflows	(85.547)	-	(547.152)	(632.699)
Transfers	-	-	-	-
At 31 December 2015	312.132	2.207.292	12.701	2.532.125
Accumulated amortisation	Concessions patents licences	Other intangible assets	Intangible assets in progress	Total
At 31 December 2014	224.928	444.360	-	669.288
Amortisation for the year	48.860	521.467	-	570.327
Accumulated amortisation for outflows	(85.547)	-	-	(85.547)
At 31 December 2015	188.241	965.827	-	1.154.068
Allowances for impairment	Concessions patents licences	Other intangible assets	Intangible assets in progress	Total
At 31 December 2014	-	90.000	-	90.000
Allowances for impairment recognised in profit or loss	-	-	-	-
Reversals of allowances for impairment recognised in profit or loss	-	(90.000)	-	(90.000)
At 31 December 2015	-	-	-	-
Net carrying amount				
At 31 December 2014	99.097	1.501.472	128.228	1.728.797
At 31 December 2015	123.891	1.241.465	12.701	1.378.057

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7 INVESTMENTS IN RELATED ENTITIES

At 31 December 2015, the company classified its investments in related entities amounting to 3.967.606 lei as financial assets available for sale, according to IAS 39.

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

At 31 December 2015, the management of the company assessed the financial investments for impairment. Following the analysis, the recoverable amount of the investments is higher than their carrying amount and no impairment expenses were recorded.

The details of the Company's investments in subsidiaries at 31 December 2015 are:

Name of subsidiary	No. of securities	Ownership and voting right percentage (%)	Value
Electromagnetica Golstar SRL	2.650	100%	3.126.198
Electromagnetica Prestserv SRL	295	98.333%	29.500
Electromagnetica Fire SRL	799	99.875%	79.900
Procetel SA	42.463	96.548%	732.008
TOTAL			3.967.606

These companies will be included in the consolidated financial statements.

8 OTHER NON-CURRENT ASSETS

This category mainly includes the performance guarantees granted to customers, which were classified as non-current according to the respective contracts. These amount to 1.111.417 lei. The same category includes the green certificates that were delayed under GEO no. 57/2013, amounting to 1.133.486 lei.

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

At 31 December 2015, the performance guarantees are divided into current and non-current, as follows:

	Total	Under one year	Over one year
Performance guarantees	2.125.021	1.013.604	1.111.417

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9 INVENTORIES

	<u>31 December 2015</u>	<u>31 December 2014</u>
Raw materials	6.003.020	5.573.723
Consumables	1.200.689	1.137.727
Finished goods	3.303.782	4.312.976
Work in progress	2.537.295	3.243.754
Other inventories	1.377.909	2.465.405
Allowances for the impairment of inventories	(1.170.080)	(796.636)
Total	<u>13.252.615</u>	<u>15.936.949</u>

In other stocks are found objects and materials inventory and finished goods in custody from third parties.

The movement of allowances for the impairment of inventories is as follows:

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	796.636	351.477
Allowances during the current year	373.444	445.159
Balance at end of year	<u>1.170.080</u>	<u>796.636</u>

Allowances were recorded in the amount of 391.925 lei for raw materials with no moving or slow moving ones, and 778.155 lei for finished goods.

The company did not pledge inventory items to secure liabilities.

10 TRADE RECEIVABLES

Receivables are recorded at nominal value and are accounted for in the cost accounting for each natural or legal person. The receivables denominated in foreign currency were measured based on the exchange rate applicable at the end of the period and the exchange rate difference was recognised as income or expense for the period.

	<u>31 December 2015</u>	<u>Liquidity period under 1 year</u>	<u>over 1 year</u>
Internal trade receivables	46.459.210	43.017.039	3.442.171
External trade receivables	4.542.562	4.542.562	-
Estimated trade receivables	4.951.790	4.951.790	-
Allowances for the impairment of trade receivables	(1.497.898)	(1.497.898)	-
Net trade receivables	<u>54.455.664</u>	<u>51.013.493</u>	<u>3.442.171</u>

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	Liquidity period		
	31 December 2014	under 1 year	over 1 year
Internal trade receivables	50.341.822	37.011.338	13.330.484
External trade receivables	3.959.642	3.959.642	-
Estimated trade receivables	540.017	540.017	-
Allowances for the impairment of trade receivables	(1.451.287)	(1.451.287)	-
Net trade receivables	53.390.194	40.059.710	13.330.484

The movement of allowances for the impairment of trade receivables is as follows:

	2015	2014
Balance at beginning of year	1.451.287	1.422.973
Impairment allowance recording-reversal	59.096	48.057
Impairment allowance write-down	(12.485)	(19.743)
Balance at end of year	1.497.898	1.451.287

The Company presents in the category of receivables with liquidity period over 1 year the amounts arising from the purchase or service contracts concluded with customers under a supplier credit facility.

The balance of trade receivables from customers at 31 December 2015 was 6.642.971lei and represents promissory notes issued by customers in favour of the company under the contracts concluded.

At 31 December 2015, the doubtful accounts and disputes amount to 1.501.900 lei (at 31 December 2014 they were 1.514.385 lei).

The Company did not record significant amounts related to receivables uncollected within the period provided for in the contracts with customers. The impairment recorded refers to amounts not collected from doubtful accounts or disputes for which a risk of failure to collect was estimated according to the policy adopted by the company.

The accounts receivable collection period has raised in 2015 to 52 days, compared to 46 days in 2014.

11 OTHER CURRENT ASSETS

	31 December 2015	31 December 2014
Debtors	348.635	692.508
Accrued expenses	1.385.572	1.946.402
Suppliers debtors	421.748	2.321.197
Other assets	310.062	1.400.095
Total	2.466.017	6.360.202

The accrued expenses of 1.385.572 lei mainly consist of rent paid in advance, insurance premiums for the civil liability of directors and various subscriptions.

Other assets also include the value of the VAT not due from invoices of suppliers who apply VAT collection system.

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12 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

In the group of financial assets measured at fair value through profit or loss the company includes shares traded (Level 1 inputs - determining fair value)

	Year 2015	Year 2014
Initial balance at 1 January	44.800	407.478
Inflows quoted shares	1.931.628	2.235.146
Outflows quoted shares	1.509.348	2.687.424
Final balance at 31 December	467.080	44.800

13 CASH AND CASH EQUIVALENTS

Year 2015	Initial balance	Final balance
potty cash	42.618	14.963
current accounts with banks	28.181.936	13.868.974
cash equivalents	1.734	6.551
Total	28.226.288	13.890.488

14 SHARE CAPITAL

The share capital subscribed and paid up is 67.603.870 lei, divided into 676.038.704 shares at nominal value 0,10 lei/share, fully paid-up.

The structure of the shareholders that own over 10% of the share capital at 31 December 2015 is:

SHAREHOLDER	31 December 2015		31 December 2014	
	NO. OF SHARES	%	NO. OF SHARES	%
PAS Electromagnetica Association	200.302.763	29,6289	200.302.763	29,6289
SIF Oltenia SA	170.646.321	25,2421	168.510.083	24,9261
Natural persons	195.457.639	28,9122	196.184.794	29,0198
Legal persons	109.631.981	16,2168	111.041.064	16,4253
Total	676.038.704	100	676.038.704	100

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

15 RESERVES

There have not been changes during 2015 in the legal reserves due to the loss recorded by the company.

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The allowance for inflation following the application of IAS 29 to this reserves amounts to 46.736.837 lei, which is retained at 31 December 2015.

Revaluation reserves amount to 97.948.477 lei at 31 December 2015. They increased compared to the balance at the beginning of the year because of the revaluation of lands.

	2015	2014
Balance at beginning of year	77.333.251	79.297.662
Increase	21.709.107	274.096
Decrease	(1.093.881)	(2.238.507)
Balance at end of year	97.948.477	77.333.251

The decrease was due to the transfer of the revaluation reserve to retained earnings following the discard of assets or as these were depreciated.

At the end of 2015 the company has other reserves amounting to 57.312.841 lei of which reserves for own sources of founding represent 98%.

The increase is due to the distribution of the profit for the year 2014.

	2015	2014
Balance at beginning of year	52.809.458	40.149.566
Increase	4.503.383	12.659.892
Decrease	-	-
Balance at end of year	57.312.841	52.809.458

16 RETAINED EARNINGS

At 31 December 2015 the profit/loss carried forward arising from the transfer of reserves from revaluation related to the depreciated or discarded assets represents accounting profit of 3.977.121 lei. Of this, 569.280 lei represent the revaluation reserve from the lost land from Petre Ispirescu street.

Of the **net profit for the year 2014** of 7.578.661 lei, the following amounts were distributed in 2015 according to the decision of the general meeting of shareholders of 30.04.2015:

- 371.123 lei legal reserve
- 4.503.383 lei own sources of funding
- 2.704.155 lei dividends (0,004 lei/share)

The loss of the year 2015 of 22.716.628 lei had resulted from the licensed activities (note 28).

17 INVESTMENT SUBSIDIES

	Total	under one year	over one year
investment subsidies	5.226.399	183.219	5.063.180

In 2012, the Company benefited from an investment subsidy of 5.997.788 lei granted for the modernisation of the micro-hydroelectric plant in Brodina (Suceava), which will be transferred to revenue

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concomitantly with the recording of the amortisation of the non-current assets purchased under this project.

18 PROVISIONS

Name	Balance 01.01.2014	Inflows (setup)	Outflows (cancellation)	Balance 31.12.2014
Provisions for lawsuits	-	1.548.437	(592.629)	955.808
Provisions for performance guarantees to customers	1.090.000	1.532.038	(994.008)	1.628.030
Provisions for liabilities and charges	4.500	9.021.308	-	9.025.808
Provision for annual leave not taken	115.000	561.399	(115.000)	561.399
TOTAL	1.209.500	12.663.182	(1.701.637)	12.171.045

The Company has concluded contracts for the supply of lighting units with warranty, for long periods, i.e. 2 - 4 years. The contracts do not provide for a percentage or amount of the performance guarantee, therefore it cannot be quantified. At the end of each year, the costs incurred for the products within warranty are analysed and the provision is made according to the estimates.

The company is in litigation to claim some land and it has recorded provision for lawsuits amounting to 955.808 lei.

During 2015 it was recorded a revenue of 592.629 lei, due to decisioni court by which some of the ground on Petre Ispirescu Street was lost.

In January 2016 on the website of the Competition Council it was published a statement announcing the conclusion of the investigation about the alleged cartel in the production and sale of electricity and the company was fined 9.021.308 lei. Until the completion of these financial statements the company has not received a formal decision in this regard, and the management has applied the principle of prudence and recorded a provision at this value.

19 TRADE PAYABLES AND OTHER LIABILITIES

	31 December 2015	31 December 2014
Internal trade payables	10.881.570	12.824.861
External trade payables	4.471.777	1.645.599
Estimated trade payables	8.644.309	11.318.300
Total	23.997.656	25.788.660
	31 December 2015	31 December 2014
Advances received from customers	1.589.679	10.449.801
Salaries and social security contributions	2.903.503	2.648.037
Deferred income	2.787.366	2.455.105
Other liabilities	6.186.135	9.522.711
Total	13.466.683	25.075.654

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

The liability settlement period decreased to 35 days in 2015 compared to 44 days in 2014.

The Company does not have significant outstanding trade payables.

The Company does not have outstanding liabilities to employees and the state budget; the amounts presented represent liabilities for December 2015, which are paid on the due date in January 2016.

The Company did not have long-term loans at 31 December 2015.

The Company has several loan contracts approved at 31 December 2015. Their situation is presented in Note 30 to these financial statements. There were no outstanding liabilities related to repayable loans at 31 December 2015.

Long-term loans only include guarantees received from tenants, VAT to be paid and other taxes.

The guarantees received at 31 December 2015 amount to 2.708.773 lei and will be regularised under the contract terms.

	<u>Total</u>	<u>Under one year</u>	<u>Over one year</u>
Guarantees received	2.708.773	1.691.153	1.017.620

20 DEFERRED TAX

Year 2015	Deferred tax assets at 01.01.2015	Deferred tax assets at 31.12.2015	Deferred tax liabilities at 01.01.2015	Deferred tax liabilities at 31.12.2015
Tangible assets	-	-	1.267.548	1.313.439
Receivables and other assets	258.124	224.380	-	-
Tax-exempt reserves	-	-	755.551	670.842
TOTAL	258.124	224.380	2.023.099	1.984.281

The deferred income tax resulted from different accounting and tax depreciation methods, from the revaluation of tangible assets recorded after 1 January 2004, which are taxed concomitantly with the deduction of the tax depreciation, as well as from interest income collected under the supplier credit contracts.

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21 REVENUE

	31 December 2015	31 December 2014
Revenue	383.043.939	426.040.897
- Revenue from sold production	99.872.509	94.821.382
- Revenue from sale of goods	283.171.430	331.219.515
Variation in stocks of finished goods and work in progress	10.608.484	9.261.516
Work performed by entity and capitalised	1.742.457	1.991.283
Other income	2.801.413	4.558.035
- Revenue from subsidies	2.496.527	3.545.191
- Other income	304.886	1.012.844
Total revenue	398.196.293	441.851.731

The revenue from sale of goods decreased in 2015 by 14,5% due to reduced customer portfolio in the licensed activity.

22 EXPENSES

	31 December 2015	31 December 2014
Expenses related to materials	313.927.055	338.381.729
- Raw materials and consumables	47.949.331	45.949.268
- Goods purchased for resale	263.514.578	289.960.353
- Electricity, heating and water	2.463.146	2.472.108
Expenses related to employee	32.562.136	33.295.483
- Salaries	26.633.903	26.439.930
- Other personnel expenses	5.928.233	6.855.553
Other expenses	50.359.400	53.065.585
Postage	377.097	456.087
Rental	1.463.614	1.416.020
Advertisement and entertainment	955.887	1.198.585
Insurance	539.663	584.392
Transport and travel	1.950.197	2.034.475
Other operating expenses	45.072.942	47.376.026
Expenses related to depreciation and impairment	25.141.792	10.297.549
- Depreciation	9.338.026	9.339.076
- Net impairment	15.803.766	958.473
Total expenses	421.990.383	435.040.346

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The raw materials and consumables expenses increased due to changes in production structure, increasing turnover for unlicensed activity and increase exchange rate

Expenses related to merchandise decreased because the volume of energy transactions decreased as well.

The expenses related to employee decreased because of the decrease of the social insurance contribution from 20,8% to 15,8%.

Operating expenses decreased by 4 % due to lower annual quota of green certificates. The expenses related to green certificates to fulfill annual legal quota are worth 24.994.610 lei.

Depreciation expense includes net provisioning mentioned in note 18 and impairment expense of land that had been revalued (Note 4).

23 FINANCIAL EXPENSES AND INCOME

	31 December 2015	31 December 2014
Foreign exchange losses	(522.660)	(1.878.318)
Foreign exchange gains	769.710	1.927.253
Net foreign exchange difference	247.050	48.935
Interest expense	(97.678)	(12.529)
Interest income	54.277	266.704
Net interest difference	(43.401)	254.175
Dividends received	465.494	646.643
Losses from short-term investments	(7.941)	-
Gains from short-term investments	67.393	221.987
Net difference from short-term investments	59.452	221.987
Other financial expenses	99.503	31.030
Other financial income	528.005	1.074.750
Net difference other financial income and expenses	428.502	1.043.720
Financial result	1.157.097	2.215.460

24 INCOME TAX

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

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Indicator	31 December 2015	31 December 2014
Net accounting (loss)/profit	(22.716.629)	7.578.661
Deductions	(8.795.149)	(10.345.373)
Non-taxable income	(3.985.333)	(14.396.593)
Non-deductible expenses	32.483.872	25.001.462
(Tax Loss)/Taxable profit	(3.013.239)	7.847.147
Tax loss from previous years	-	-
Current income tax	-	1.255.544
Income tax reduction	-	(13.049)
Income tax due at end of period	-	1.242.495
Income tax paid during the year	-	(1.927.363)
Income tax payable/recoverable	-	(684.868)

25 AVERAGE NUMBER OF EMPLOYEES

Evolution of the average number of employees:

	31 December 2015	31 December 2014
Management	56	58
Administrative	264	264
Production	295	304
Total	615	626

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

	31 December 2015	31 December 2014
Higher education	37%	34%
Secondary education	36%	36%
Technical education	3%	3%
Vocational and qualification	24%	27%
Average number of employees	615	626

The expenses incurred for salaries and related taxed in 2015 and 2014 are:

	31 December 2015	31 December 2014
Expenses related to salaries	26.633.903	26.439.930
Expenses related to social security contributions	5.928.233	6.855.553
Total	32.562.136	33.295.483

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

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26 TRANSACTIONS WITH RELATED PARTIES

	<u>31 December 2015</u>	<u>31 December 2014</u>
Sales of goods and services		
Electromagnetica Goldstar	71.354	66.775
Electromagnetica Fire	12.874	16.454
Electromagnetica Prestserv	18.546	20.485
Procetel	26.103	32.574
Total	<u>128.877</u>	<u>136.288</u>
	<u>31 December 2015</u>	<u>31 December 2014</u>
Purchases of goods and services		
Electromagnetica Goldstar	202.345	208.816
Electromagnetica Fire	659.170	559.353
Electromagnetica Prestserv	620.225	602.255
Procetel	972.286	1.000.277
Total	<u>2.454.026</u>	<u>2.370.701</u>
	<u>31 December 2015</u>	<u>31 December 2014</u>
Trade payables and other liabilities		
Electromagnetica Goldstar	14.545	28.584
Electromagnetica Fire	75.406	55.714
Electromagnetica Prestserv	68.853	63.479
Procetel	1.182	-
Total	<u>159.986</u>	<u>148.047</u>

At 31 December 2015, the company did not have outstanding receivables in relation to the related companies.

The remuneration of the members of the Board of Directors in the financial year 2015 was 423.261 lei.

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

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

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

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

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

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

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

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

27 EARNINGS PER SHARE

Basic earnings per share

In 2015, there were no changes in the share capital structure. The basic earnings per share are presented in the profit and loss account and other components of comprehensive income. It was calculated as the ratio of the net profit related to ordinary shares and the weighted average of outstanding ordinary shares.

	<u>31 December 2015</u>	<u>31 December 2014</u>
Net (loss)/profit attributable to the shareholders of the Company	(922.812)	7.808.902
Average weighted number of ordinary shares	676.038.704	676.038.704
Earnings per share	(0,0014)	0 0116

Loss attributable to shareholders is significantly influenced in its downward by the revaluation amount recorded as reserves of land (Note 4).

Diluted earnings per share

To calculate the diluted earnings per share, the company adjusts the profit attributable to the ordinary shareholders of the parent and the weighted average of outstanding shares by the effects of all the potentially diluting ordinary shares. For the years 2015 and 2014, the company records the basic earnings per share as equal to the diluted earnings per share as there are no certain securities that could be converted into ordinary shares in the future.

28 INFORMATION BY OPERATING SEGMENTS

The Company used as the aggregation criterion for the reporting by operating segments the nature of the regulatory framework and identified the following operating segments for which it presents separate information:

- Licensed activity – electricity supply and production

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• **Unlicensed activity**

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

Year 2015	Unlicensed activity	% Total Company	Licensed activity	% Total Company	Total Company
Net profit	4.572.184	100,0	(27.288.812)	-	(22.716.628)
Total assets	224.792.644	70,9	92.071.305	29,0	316.863.949
Total liabilities	20.294.196	35,8	36.327.488	64,2	56.621.684
Customer revenue	98.188.623	25,6	284.855.316	74,4	383.043.939
Interest income	54.277	100	-	n/a	54.277
Impairment and depreciation	7.770.293	30,9	17.371.499	69,1	25.141.792
Year 2014	Unlicensed activity	% Total Company	Licensed activity	% Total Company	Total Company
Net profit	5.150.301	68,0	2.428.360	32,0	7.578.661
Total assets	139.410.791	43,1	184.004.406	56,9	323.415.197
Total liabilities	24.621.657	41,4	34.867.461	58,6	59.489.118
Customer revenue	92.717.164	21,8	333.223.733	78,2	426.040.897
Interest income	266.704	100,0	-	n/a	266.704
Impairment and depreciation	7.317.967	71,1	2.979.582	28,9	10.297.549

Licensed activities

Electricity supply services

The supply of electricity is regulated by ANRE. The company has been licensed as a supplier since 2001; the licence was renewed in 2013 under the provisions of the new energy law (Law no. 123/2012) for another 10 years.

Supply of electricity was conducted in a difficult environment marked by changes of regulation and of behavior of producers and consumers of electricity. In the first half of 2015, on the background of falling prices on the Next Day Market (PZU) under pressure of high energy production from renewable sources, the Company was faced with customers willing to renegotiate prices of supply.

Therefore, in the first half of the year, the trend of the selling price has been one of decline, which has not been accompanied by a similar trend in the purchase price, as the contracts for this period were concluded earlier, which caused the loss. In the second part of the year, market combination in Romania, Hungary, Slovakia and the Czech Republic and especially the elimination of tariff injection for energy exported led to maintaining high levels of exports to neighboring countries and also bringing prices of PZU Opcom market similar in Hungary (Hupex), most of the time. Therefore, the costs of the Acquisition

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of PZU , PCCB and OTC rose after 1 July 2015 by aligning to the regional market prices, decreasing domestic producers supply (higher exports) and increased consumption for air conditioning in summer.

We also mention high variable costs in the balancing market caused by the large component of renewables in the production structure at the national level but also highly opportunistic behavior of producers who have access to the balancing market .

In this risky environment, the Company pursued customer portfolio restructuring, giving up those producing imbalances and those who had late payment of invoices.

At the same time, the Company pursued the optimization of expenses occasioned by balancing cost by transferring these costs, in some cases, to a third Balancing Responsible Party .

Another aggregate risk control measure was diminishing exposure on green certificates through the termination of long-term purchase contracts from renewable energy sources, taking into account the uncertainty in valuing green certificates (CV postponed; the exemption of large consumers from paying CV) .

In 2015, about 11% of the green certificates necessary for the entire portfolio of supply customers were covered by the certificates obtained for the production of energy by means of the company's own micro-hydroelectric plants.

The turnover related to the energy supply activity decreased by 14,5% due to the restructuring customer portfolio, a trend that will continue in the next period.

Production of electricity from renewable sources

Energy production is regulated by ANRE; the company has been a licensed producer since 2007.

In 2015 no investments were needed in the ten small hydropower plants in Suceava River basin , because of these were modernized recently, through an investment program completed in 2014.

Because of the less good hydrological conditions, the electricity production in 2015 was of 10.387 MWh, 27% less than the production in 2014.

In 2015, revenues decreased by 27,3% compared to 2014 due to the decrease in electricity production.

We also mention that in 2015 the GEO no. 57/2013, which stipulates the trading delay of one green certificate for each MWh produced in new micro-hydroelectric plants has been applied.

For the year 2016, we estimate a production of 12.000 MWh and 22.000 green certificates.

Unlicensed activity. Main products and production structure

LED lighting units, systems and solutions

The production of LED lighting units occupies the largest share in the production of the company (42,7% of total sales). In 2015 a declined by 14% was recorded in sales occasioned by the termination of several modernization projects undertaken by large retail chains lighting. The trend of growth continues especially on public lighting. Export sales have now a less significant share. The main sectors in which LED lighting solutions were applied are:

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

The competitive advantage of LED lighting equipment is due to energy savings, long service life (over 50,000 hours) and minimum maintenance costs. LED lighting bodies provide quality lighting, are environmentally friendly and generate low heat emissions. The domestic market is increasingly considering LED lighting solutions and it's becoming a highly competitive market.

The new range of lighting equipment for street is containing since 2015 optics manufacturing systems and it provides the prerequisites for a competitive presence in the marketplace .

Electricity distribution and metering equipment

The entire production of energy meters and metering and distribution equipment (EnerSys systems) is addressed to the domestic market. The EnerSys system is a well-established product on this market, currently over 30 projects of installation were completed in 2005-2015. The ones initiated in 2015, already completed or under completion at the end of the year, are amounting to more than 58.500 of customers served. In 2015 the production of EnerSys 3, which is addressing both the household and non-household consumers, was launched. The enhanced version of the system takes account of the latest news in the international smart networks and the requirements of energy market regulator (ANRE). The new system allows the increasing of the quality of services, operational safety and prompt information to consumers through its ability to monitor, measure and transmit to the energy distributor a series of complex information.

The Increase of 324 % from 2015 revenue from the sale of meters and measuring of energy systems is actually a return to the previous level of production profile, after which in 2014 it had been drastically reduced in the absence of orders from energy distributors who haven't invested in upgrading networks for a period. Market return was helped by the successful launch of version EnerSys3 .

Injection mould plastic subassemblies

The expansion of the customer base, both domestic and external, led to a good level in the production of Injection mould plastic subassemblies, recording however slight decrease in sales of 6,2% compared to 2014. We notice a slightly positive export trend. Production of plastic injected parts benefit from investments in equipment in recent years and the domestic manufacture of molds.

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Moulds

The production of tool and mold is covering both received orders from third parties and the necessary internal production of plastic injected parts . Production capacity has grown from investments made in 2013 and 2014, the expansion is necessary for diversification of production of LED lighting and the introduction of new manufacturing technologies. In this context, the related sales were virtually stable, with a slight decrease of 1,5 % from the previous year.

Low voltage electrical switchgear

The production of low voltage electrical switchgear (support for ABB fuses) was an element of continuity in the production intended for export. This group of products represents 10,1% of the production related turnover and it has recorded sales growth of 17 % compared to 2014 .

Railway traffic safety components

As the Romanian railway network is not extending and there are no modernisation projects, the sales of these products are limited to the demand of spare parts for the maintenance of the existing railway transport infrastructure. Railway traffic safety components are among the oldest products of the company and only account for 3,7% of the company production.

Other industrial products

This category includes the production of subassemblies for motor vehicles, electrical and electronic subassemblies, metal works, etc.; their total share in 2015 was 1,8% of the sales of production activity.

Renting and utilities supply services

The company administers approximately 31.000 sq.m of rentable premises in Bucharest, as well as 3.500 sq.m in Varteju commune, Ilfov county. The average occupation level for the headquarters in Calea Rahovei 266-268 was 97% at the end of 2015 and the average rental price was 6,66 euro/sq.m . For the premises in Varteju commune (Magurele), the level of occupation was 82,09% and the average rental price was 1,89 euro/sq.m.

The turnover has been maintained compared to the previous year; actually it recorded an insignificant growth of 0,4%. given that the average rental rate dropped from 6,76 euro/sq.m to 6,66 euro/sq.m. by the adjustment of rates to the market price under the circumstances of a better occupation level. The decreasing trend of revenues will be maintained in the following period due to the renegotiation of expired rental agreements and the reduced activities of certain tenants or their migration to premises with a lower price/sq.m given the increase in the offer of premises for rent on the market. Given that the company has to follow the trends of the real estate market, i.e. the decrease in rental rates, additional efforts must be undertaken by the company in order to mitigate the effects and maintain itself on the market by reconsidering the facilities granted.

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29 RISK MANAGEMENT

The Company is exposed to the following risks:

Equity risk

The goals of the Company with respect to capital management aim to ensure the continuity of the company's business to create value for its shareholders and benefits for the other stakeholders and maintain an optimal capital structure to reduce the related costs.

The capital structure within Electromagnetica consists of equity attributable to shareholders (including the share capital, reserves and retained earnings) and liabilities (including the loans).

The Company management reviews regularly the capital structure. As part of this process, the management analyses the cost of capital and the risks related to each category of capital. In order to maintain or adjust the capital structure, the Company can adjust the dividends paid to shareholders, issue new shares or sell assets.

The main goal of the Company with regard to capital management is to secure and maintain a favourable credit rating and high-performance capital indicators.

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

The debt ratio at 31 December 2015 was:

	31 December 2015	31 December 2014
Total loans	-	-
Suppliers and other liabilities	34.508.314	47.587.609
Less: Cash and cash equivalents	(13.890.488)	(28.226.288)
Net Liabilities/(Assets)	20.617.826	19.361.321
 Equity	 260.242.265	 263.926.079
 TOTAL CAPITAL EMPLOYED	 280.860.091	 283.287.400
Debt ratio	7,34%	6,83%

Credit risk

Credit risk is the possibility that contracting parties breach their contractual obligations resulting in financial loss for the company. When possible and allowed by market practices, the company requests guarantees. Trade receivables derive from a wide range of customers operating in various fields of activity and different geographical areas. To counteract this risk factor, the company applied restrictive policies to the delivery of products to doubtful customers. The commercial policy aims to reduce the

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number of days agreed under contract for the payment of receivables by the customers of the company. Insurance policies were contracted for foreign market receivables. Due to the increase of insolvency cases in the economy, there is a concrete risk related to the recovery of the equivalent value of products and/or services supplied prior to the declaration of insolvency; therefore, the company is paying more attention to the creditworthiness and financial discipline of its customers. It should be mentioned that the currently established practice on the electricity supply market is to pay for the energy after the month of consumption, without advance payments and letters of guarantee. The supply customers of Electromagnetica follow this trend.

	<u>2015</u>	<u>2014</u>
Trade receivables	54.455.664	53.390.194
Other receivables	7.922.056	7.141.129
Financial assets at fair value through profit or loss	467.080	44.800
Cash and cash equivalents	13.890.488	28.226.288
	<u>72.060.176</u>	<u>88.802.411</u>

Market risk

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

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

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

The foreign currencies most frequently used in transactions are EUR and USD. The assets denominated in foreign currencies are represented by customers and available cash in foreign currency. The liabilities denominated in foreign currency are represented by suppliers. At 31 December 2015, their situation is as follows:

	<u>Assets</u>	<u>Deferred</u>
EUR	3.082.862	343.638
USD	<u>412.726</u>	<u>73.218</u>

The analysis of the foreign exchange risk sensitivity for a +/- 10% variation in the exchange rate shows and impact on the gross result of the period of +/- 1.380.180 lei.

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

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The risk of **price increase** is determined by the changes in the prices of raw materials and production supplies which required a permanent review of cost prices. To maintain the profitability of certain products, action was taken at the level of suppliers in order to control prices and the related technological processes were improved.

Liquidity and cash flow risk

The Company cash flow department prepares forecasts on the liquidity reserve and maintains the appropriate level of credit facilities in order to be able to prudently manage the liquidity and cash flow risks. To this effect, the mortgage agreements in favour of the banks with which the company has open credit lines and letters of bank guarantee were extended to ensure that we are able to perform our obligations in case of short-term cash deficit. Although these credit lines were seldom accessed and at a low rate, their ceiling was maintained as high as possible. At the same time, investments were limited to those with direct impact on the turnover. If the optimal conditions in terms of liquidities and cash flow were not met, the investments were postponed or limited to the own sources of funding.

Political and regulatory risk

Political decisions on the energy policy that are made in the absence of an assessment of their impact on local industry represent an actual risk for the smooth running of the company. For instance, if the state transfers the control of the electricity distributors to multinational companies, the result will be a purchase policy for energy metering and distribution equipment that benefits the suppliers on the domestic market. At the same time, its activity on regulated markets such as the energy market exposes the Company to regulatory risk. The possible amendments to Law no. 220/2008 promoting the production of energy from renewable sources (green certificates) or its implementing rules may lead to uncertainty with regard to the period of return on the investments made, in progress or future.

Calamity risk

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

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

General framework for risk management

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

The activity is governed by the following principles::

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

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f) the principle of the active role.

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

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

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

30 COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

At 31 December 2015, the Company had the following commitments for bank loans and guarantee agreements/loan contracts concluded with the financing banks (BCR, BRD):

- revocable credit line, BCR of 9.000.000 lei, uncommitted at 31 December 2015.

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

- non-cash guarantee agreement with BCR of 5.370.000 lei, of which 332.070 lei committed at 31 December 2015;

Guarantees: 2nd ranking mortgage on the accounts opened with BCR

- non-cash guarantee agreement with BCR of 30.000.000 lei, of which 14.412.216 lei committed at 31 December 2015;

Guarantees: 3rd ranking mortgage on the accounts opened with BCR, 1st and 4th ranking mortgages on property.

- multiproduct credit facility with BRD (cash and non-cash) of 20.000.000 lei, of which 14.160.036 lei non-cash committed at 31 December 2015.

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

- guarantee agreement authorised overdraft of 15.000 lei.

Guarantees: collateral cash deposit of 15.000 lei

- guarantee agreement authorised overdraft of 75.000 lei.

Guarantees: collateral cash deposit of 75.000 lei

The commitments from customers and tenants as letters of guarantee at 31 December 2015 amount to 4.519.834 lei according to contract terms.

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Contingent liabilities

Litigation

The Group is involved in lawsuits deriving from its ordinary course of business. The Company management considers that, except for the amounts already accounted for in these financial statements as provisions or allowances for asset impairment and described in the notes to these financial statements, other lawsuits will not have significant negative effects on the Company's economic results and financial standing.

During the reporting period the company Hidroelectrica SA opened a court action on the contract for electricity supply concluded between it and the Company for the period January 2011 - June 2012. The Company's management believes that it is not possible to estimate the appropriate outcome. Therefore there has not been made any provision regarding this case.

European Commission Investigation

In 2012, the European Commission started an investigation on the contract for electricity supply concluded between the Company and energy producer Hidroelectrica SA. As announced on the website of the European Commission , on 31 December 2015 the investigation was completed with a favorable outcome for the Company .

31 SUBSEQUENT EVENTS

There were no subsequent events.