



# FINANCIAL STATEMENTS

CONSOLIDATED

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

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

---

<b>Table of contents</b>	<b>Page</b>
Consolidated statement of financial position	1
Consolidated statement of profit or loss and other comprehensive income	3
Consolidated statement of changes in equity	4
Consolidated statement on cash flows	6
 <b>Explanatory notes to the consolidated financial statements</b>	
1 Information about the Group	7
2 Application of the new and revised International Financial Reporting Standards	9
3 Significant accounting policies	14
4 Tangible assets	31
5 Investment property	33
6 Intangible assets	34
7 Other non-current assets	36
8 Inventories	36
9 Trade receivables	36
10 Other current assets	38
11 Financial assets measured at fair value through profit or loss	38
12 Cash and cash equivalents	38
13 Share capital	38
14 Reserves	39
15 Retained earnings	40
16 Investments subsidiaries	40
17 Provisions	40
18 Trade payables and other liabilities	41
19 Deferred tax	42
20 Revenue	42
21 Expenses	43
22 Financial expenses and income	44
23 Income tax	44
24 Average number of employees	45
25 Transactions with related parties	46
26 Information by operating segments	47
27 Risk management	51
28 Commitments and contingent liabilities	54
29 Subsequent events	55

---

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

	Note	31 December 2015	31 December 2014
<b>ASSETS</b>			
<b>Non-current assets</b>			
Tangible assets	4	228.738.080	216.201.059
Investment property	5	2.194.374	2.154.439
Intangible assets	6	1.378.645	1.728.797
Other long-term non-current assets	7	2.244.903	1.515.222
<b>Total non-current assets</b>		<b>234.556.002</b>	<b>221.599.517</b>
<b>Current assets</b>			
Inventories	8	13.730.817	16.354.495
Trade receivables	9	54.785.931	53.822.749
Cash and cash equivalents	12	17.009.936	31.449.749
Financial assets at fair value through profit or loss	11	1.100.280	224.000
Other current assets	10	2.480.715	6.354.272
Current tax asset	24	770.955	773.662
<b>Total current assets</b>		<b>89.878.634</b>	<b>108.978.927</b>
<b>Total assets</b>		<b>324.434.636</b>	<b>330.578.444</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capita	13	67.603.870	67.603.870
Reserves	14	212.905.986	187.873.270
Retained earnings	15	(13.250.454)	16.491.195
Other components of equity		(671.261)	(1.127.303)
<b>Total equity attributable to company shareholders</b>		<b>266.588.141</b>	<b>270.841.032</b>
<b>Non-controlling Interests</b>		<b>146.750</b>	<b>151.215</b>
<b>Non-current liabilities</b>			
Trade payables and other liabilities	19	2.956.025	3.276.605
Investment subsidies	17	5.063.180	5.226.532
Deferred tax liabilities	20	2.412.918	1.765.604
<b>Total non-current liabilities</b>		<b>10.432.123</b>	<b>10.268.741</b>

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

---

<b>Current liabilities</b>			
Trade payables and other liabilities	19	34.933.358	47.942.183
Investment subsidies	17	163.219	165.773
Provisions	18	12.171.045	1.209.500
<b>Total current liabilities</b>		<b>47.267.622</b>	<b>49.317.456</b>
<b>Total liabilities</b>		<b>57.699.745</b>	<b>59.586.197</b>
<b>Total equity and liabilities</b>		<b>324.434.636</b>	<b>330.578.444</b>

---

These consolidated 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.**  
**CONSOLIDATED 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)

	Nota	Year closed on 31 December 2015	Year closed on 31 December 2014
<b>Revenue</b>	21	<b>385.483.376</b>	<b>428.024.142</b>
Other income	21	2.819.856	4.570.713
Variation in stocks of finished goods and work in progress	21	10.608.436	9.261.518
Work performed by entity and capitalised	21	1.742.457	1.991.283
Raw material and consumables used	22	(315.091.430)	(339.202.438)
Expenses related to employee	22	(34.862.468)	(35.552.105)
Expenses related to depreciation and impairment	22	(25.379.016)	(10.557.463)
Other expenses	22	(48.488.347)	(51.114.476)
Other net financial gains/(losses)	23	760.926	1.808.365
<b>(Loss)/Profit before tax</b>		<b>(22.406.210)</b>	<b>9.129.539</b>
Current income tax expense	24	(96.961)	(1.342.245)
Deferred income tax expense	20	(79.635)	(205.689)
<b>(Loss)/Profit of the period</b>		<b>(22.582.806)</b>	<b>7.581.606</b>
		attributable to parent	7.564.368
		attributable to non-controlling interests	17.237
<b>Other components of comprehensive income</b>			
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	278.030
- deferred tax recognised in equity		84.919	(44.486)
<b>Comprehensive income for the period</b>		<b>(788.780)</b>	<b>7.815.149</b>

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

**Eugen Scheuşan**  
Chief Executive Officer

**Ilie Frăşineanu**  
Chief Financial Officer

**S.C ELECTROMAGNETICA S.A.**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR CLOSED ON 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*	Non-controlling interests	Total equity
<b>Balance at 1 January 2014</b>	<b>67.603.870</b>	<b>23.623.138</b>	<b>79.297.662</b>	<b>40.412.297</b>	<b>56.488.625</b>	<b>(1.404.363)</b>	<b>155.303</b>	<b>266.176.532</b>
<b>Comprehensive income for the period</b>								
Profit or loss of the period	-	7.564.368	-	-	-	-	17.237	7.581.605
<b>Other components of comprehensive income</b>								
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	-	-	278.030	-	-	(44.486)	-	233.544
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>9.802.875</b>	<b>(1.960.477)</b>	<b>-</b>	<b>-</b>	<b>(44.486)</b>	<b>17.237</b>	<b>7.815.149</b>
<b>Transactions with shareholders recognised directly in equity</b>								
Transfer of the retained earnings to reserves	-	(14.204.589)	-	13.261.267	373.906	321.546	(21.325)	(269.205)
Dividends	-	(2.725.421)	-	-	-	-	-	(2.725.421)
Retained earnings from correction of errors	-	(4.808)	-	-	-	-	-	(4.808)
<b>Balance at 31 December 2014</b>	<b>67.603.870</b>	<b>16.491.195</b>	<b>77.337.185</b>	<b>53.673.554</b>	<b>56.862.531</b>	<b>(1.127.303)</b>	<b>151.215</b>	<b>270.992.247</b>

**S.C. ELECTROMAGNETICA S.A.**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR CLOSED ON 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*	Non-controlling interests	Total equity
<b>Balance at 1 January 2015</b>	<b>67.603.870</b>	<b>16.491.195</b>	<b>77.337.185</b>	<b>53.673.554</b>	<b>56.862.531</b>	<b>(1.127.303)</b>	<b>151.215</b>	<b>270.892.247</b>
<b>Comprehensive income for the period</b>								
<b>Profit or loss of the period</b>	-	(22.598.960)	-	-	-	-	16.154	(22.582.806)
<b>Other components of comprehensive income</b>								
The transfer of the revaluation reserve to retained earnings following the discard of revalued tangible assets	-	1.095.192	(1.095.192)	-	-	-	-	-
Tangible assets revaluation	-	-	21.709.107	-	-	84.919	-	21.794.026
<b>Total comprehensive income for the period</b>	-	<b>(21.503.768)</b>	<b>20.613.915</b>	-	-	<b>84.919</b>	<b>16.154</b>	<b>(788.780)</b>
<b>Transactions with shareholders recognised directly in equity</b>								
Transfer of the retained earnings to reserves	-	(5.010.458)	-	4.415.497	3.304	371.123	(20.619)	(241.153)
Dividends	-	(3.170.576)	-	-	-	-	-	(3.170.576)
Retained earnings from correction of errors	-	(56.847)	-	-	-	-	-	(56.847)
<b>Balance at 31 December 2015</b>	<b>67.603.870</b>	<b>(13.250.454)</b>	<b>97.951.100</b>	<b>58.089.051</b>	<b>56.865.835</b>	<b>(671.261)</b>	<b>146.750</b>	<b>266.734.891</b>

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

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

**Eugen Scheuşan**  
Chief Executive Officer

**Ilie Frăşineanu**  
Chief Financial Officer

**S.C ELECTROMAGNETICA S.A.**  
**CONSOLIDATED 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>
<b>Cash flows from operating activities</b>			
Cash receipts from customers		451.549.590	515.950.311
Payments to suppliers		(367.590.655)	(392.251.985)
Payments to employees		(33.883.003)	(38.736.248)
Other operating activities		(59.690.534)	(58.118.371)
<b>Cash (used in)/from operating activities</b>		<b><u>(9.614.602)</u></b>	<b><u>26.843.707</u></b>
Interest paid		(98.579)	(17.271)
Income tax paid		(94.254)	(2.603.623)
<b>Net cash (used in)/from operating activities</b>		<b><u>(9.807.435)</u></b>	<b><u>24.222.813</u></b>
<b>Cash flows from investing activities</b>			
Acquisition of tangible assets		(2.322.774)	(6.251.852)
Receipts from sale of non-current-assets		83.807	20.976
Interest received		77.307	312.975
Dividends received		39.666	51.881
<b>Net cash from investing activities</b>		<b><u>(2.121.994)</u></b>	<b><u>(5.866.020)</u></b>
<b>Cash flows from financing activities</b>			
Cash proceeds from loans		123.807.974	30.737.704
Cash repayments of amounts borrowed		(123.804.974)	(30.737.704)
Dividends paid		(2.510.384)	(2.725.421)
<b>Net cash from financing activities</b>		<b><u>(2.510.384)</u></b>	<b><u>(2.725.420)</u></b>
<b>Cash and cash equivalents net (decrease)/increase</b>		<b><u>(14.439.813)</u></b>	<b><u>15.631.372</u></b>
<b>Cash and cash equivalents at beginning of period</b>	12	<b><u>31.449.749</u></b>	<b><u>15.818.377</u></b>
<b>Cash and cash equivalents at end of period</b>	12	<b><u>17.009.936</u></b>	<b><u>31.449.749</u></b>

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

**Eugen Scheujan**  
Chief Executive Officer

**Ilie Frăsineanu**  
Chief Financial Officer

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

---

**1 INFORMATION ABOUT THE GROUP**

**Electromagnetica SA – parent company** – is a Romanian legal entity incorporated under the legal form of joint stock company for an unlimited duration, organised and operating under its articles of incorporation, Law no. 31/1991 republished in 2004 and amended by Law no. 441/2006, Government Emergency Ordinance (GEO) no. 82/2007 and GEO no. 52/2008, and Law no. 297/2004 on the capital market. The registered office of the company is in Bucharest, Calea Rahovei no. 266-268, sector 5, Bucharest, Romania, postal code 64021, telephone 021.404.21.31, 021.404.21.02, fax 021.404.21.95, website [www.electromagnetica.ro](http://www.electromagnetica.ro), Tax ID Code RO 414118, registration number with the Trade Register J40/19/1991. The company share capital is 67.603.870,40 lei divided into 676,038,704 ordinary shares, registered and dematerialised, recorded in electronic account in the shareholder register held by Depozitarul Central SA. According to the company's articles of incorporation, its main object of activity is the manufacture of instruments and appliances for measuring, testing and navigation (NACE code 2651).

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

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

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

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

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

---

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

**Statement of interest in subsidiaries**

	Share capital total		Of which: Electromagnetica		
	Value	No. of securities	Value	No. of securities	Ownership and voting right percentage
<b>Procetel</b>	110.005	44.002	732.008*)	42.483	96,548
<b>Electromagnetica Goldstar</b>	295.080	2.650	3.126.197*)	2.650	100
<b>Electromagnetica Prestserv</b>	30.000	300	29.500	295	98,333
<b>Electromagnetica Fire</b>	80.000	800	79.782	799	99,875

\*) *Negotiated purchase value*

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

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

**a) Electromagnetica Goldstar SRL**

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

Executive management: Viorel Stroică – Executive Director

**b) Electromagnetica Fire SRL**

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

Executive management: Maria Rogoz – Managing Director

**c) Electromagnetica Prestserv SRL**

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

Executive management: Gheorghe Ciobanu – Managing Director

**d) Procetel SA**

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

Executive management: Mihai Sanda – Accounting Officer

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

---

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

**Initial application of new amendments to the existing standards 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 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 Group'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:

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

---

- **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.
- **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 – Consolidated financial Statements - Equity Method in Consolidated 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

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

---

reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's consolidated 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 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

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

---

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 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 Group 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

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

---

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

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

---

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

According to the Group'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.

### **3 SIGNIFICANT ACCOUNTING POLICIES**

#### **Statement of compliance**

The consolidated financial statements of the Group were prepared in compliance with the International Financial Reporting Standards adopted by the European Union ("IFRS") effective on the date of the Group 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 Group applies IFRS as of 1 January 2011 and the first year for which the consolidated financial statements were prepared in compliance with IFRS was 2012.

#### **Operating and presentation currency**

These consolidated financial statements are presented in RON, the operating currency of the Group.

#### **Basis of preparation**

The consolidated 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 Group 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.

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

---

The consolidated financial statements include the separate financial statements of SC Electromagnetica SA (the parent company) and its subsidiaries, (the "Group") at 31 December 2015, prepared based on uniform accounting and measurement principles. The financial statements of the subsidiaries are prepared at 31 December 2015, the same reporting date as for the parent company.

**Consolidation of subsidiaries**

The assets and liabilities of the subsidiaries are evaluated at fair value on the date of acquisition. If the interest of the Group in the net fair value of the assets, liabilities and contingent liabilities identifiable and recognised exceeds the cost related to the business combination, the surplus is recognised in the profit and loss account. Non-controlling interests, which entitle the holders to a proportionate share of the net asset in case of the company liquidation, can be initially measured either at fair value or at a value that reflects the share of the minority in the fair value of the identifiable and recognised net assets. The recognition method is selected for each transaction separately. The goodwill is recognised as an asset and is assessed for impairment at least annually. The loss from goodwill impairment is immediately recognised in the profit or loss for the period and is not carried forward in the next periods.

The non-controlling interest is the share of the profit or loss and net assets of a subsidiary that is not owned by the parent company and is presented in the consolidated statement of comprehensive income and in the equity presented in the consolidated statement of the financial position, separately from the equity of the parent's shareholders.

The returns of the subsidiaries acquired or disposed of during the year are included in the consolidated statement of the profit and loss and other components of comprehensive income on the effective date of the acquisition, or until the effective date of the disposal, respectively. Where applicable, the financial statements of the subsidiaries are adjusted in order to align their accounting policies to those of the parent company. All the transactions, balances, revenues and expenses within the Group are fully eliminated upon consolidation.

The Group does not own securities in associated entities and interests in joint ventures.

**Going concern principle**

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

**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 (note 14, note 15, note 16 and note 18).

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

---

**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:

	<b>Exchange rate at 31 December 2015</b>	<b>Exchange rate at 31 December 2014</b>
<b>EUR</b>	<u>4,5245</u>	<u>4,4821</u>
<b>USD</b>	<u>4,1477</u>	<u>3,6868</u>

**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.

The Group 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.

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

---

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

The Group changes an accounting policy only if the change:

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

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

---

---

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

The Group 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 Group applies IAS 36 to determine whether an intangible asset measured at cost is impaired. At the end of each reporting period, the Group assesses the indicators of impairment of these assets and, if such indicators are identified, the recoverable amount of the asset is estimated and the related impairment is recorded. The impairment loss must be 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 Group established a value threshold for the recognition of a tangible asset item.

#### ***Measurement subsequent to initial recognition***

The Group selected the revaluation model for the measurement subsequent to the initial recognition of tangible assets. According to the revaluation model, a tangible asset the fair value of which can be

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

---

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.

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 Group uses the straight-line method as the depreciation method.

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

---

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

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

<b>Tangible assets</b>	<b>Duration (years)</b>
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 Group***

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 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.

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

---

### **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 Group 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**

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

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

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

### **Investments in related entities**

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

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

- a) power over the investee;

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

---

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

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

#### **Consolidation procedures used**

To consolidate the financial statements, Electromagnetica Group

- a) combines like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries
- b) offsets (eliminates) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary
- c) eliminates in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, or eliminated in full). Intragroup losses may indicate an impairment requiring recognition in the consolidated financial statements. IAS 12 – Income Taxes is applied to the temporary differences occurring from the elimination of profits and losses deriving from transactions inside the group.

The non-controlling interests in subsidiaries are presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent.

#### **Uniform accounting policies**

Electromagnetica Group prepares consolidated financial statements using uniform accounting policies for similar transactions and events in similar circumstances.

If a subsidiary part of Electromagnetica Group uses accounting policies other than those adopted in the consolidated financial statements for similar transactions and events in similar circumstances (different methods of depreciation, different methods of measurement, etc.), the financial statements shall be adjusted to enable the use of the financial statements of that subsidiary in the preparation of the consolidated financial statements and ensure compliance with the Group's accounting policies.

Electromagnetica Group includes in its consolidated financial statements the income and expenses of a subsidiary from the date it gains control until the date when the entity ceases to control the subsidiary.

Non-controlling interests – the profit or loss and each component of other comprehensive income is attributed to the owners of the parent and to the non-controlling interests.

#### **Reporting date**

The financial statements of the parent and its subsidiary use the same reporting date in the preparation of the consolidated financial statements, namely 31 December 2014 for these statements.

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

---

Electromagnetica does not have joint arrangements, as regulated by IFRS 11 – Joint Arrangements, or interests in other entities, unconsolidated subsidiaries or unconsolidated structured entities

The application of IFRS 10, 11 and 12 as of 1 January 2014 required a significant judgement by the management in determining the controlled entities that must be consolidated by the parent company according to the requirements included in IAS 27 prior to this date. The management assessed the power over its investees, derived from the voting rights attributed based on equity instruments (shares). The parent has rights to variable returns from its involvement in the subsidiaries in which it invested, which rights correspond to the performance of the investee. The management concluded that it not only has power over the group entities, but it also has the ability to use its power to affect its returns from its involvement with the investees.

The management of Electromagnetica reviewed the level of control on investments in other entities in accordance with IFRS 10 and concluded that there is no effect on the classification of any of the investments held during the reporting period or the comparative periods covered by these financial statements.

#### **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.

#### **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
-

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

---

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

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

**Receivables and other 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 Group 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 Group arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

A liability is 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.

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;

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

---

- d) the Group does not have the unconditional right to postpone the settlement of the liability for at least 12 months from the balance sheet date.

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 Group's own procedures.

The Group 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.

#### **Sale of goods**

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

- the Group has transferred to the buyers the significant risks and rewards of ownership:

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

---

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

Revenue from the current activities is recognised when it is probable that any future economic benefits will flow to the Group 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 Group can offer to the buyer an interest-free credit or can accept from the latter trade instruments with a below-market rate of interest as consideration for the sale of goods.

For the commercial contracts concluded as deferred payment supplier, the difference between the fair value and the nominal amount of the consideration is 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 Group 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 Group 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 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.

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

---

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 Group 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 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*

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

---

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

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

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

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

---

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

---

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

**Profit or loss 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 consolidated 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 consolidated 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 Group chose to present the earnings per share in the separate financial statements.

**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 Group, which is engaged in activities that could generate revenues and expenses, including revenues and expenses related to the transactions with any of the other components of the Group, and is exposed to risks and benefits that are different from those

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

---

of the other segments. The main format for the Group's reporting by operating segments is represented by the segmentation by activities.

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

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

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

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

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

**4 TANGIBLE ASSETS**

Value	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
<b>At 31 December 2014</b>	<b>104.172.467</b>	<b>80.952.468</b>	<b>32.920.204</b>	<b>4.538.021</b>	<b>1.848.438</b>	<b>224.431.598</b>
Inflows of which:	21.709.106	587.084	4.084.935	855.226	2.293.977	29.530.328
from revaluation	21.709.106	-	-	-	-	21.709.106
Outflows of which:	(6.083.638)	(11.105)	(430.300)	(48.426)	(2.447.823)	(9.021.292)
from the determination of the net amount for revaluation	-	-	-	-	-	-
revaluation decrease	(5.490.996)	-	-	-	-	(5.490.996)
<b>At 31 December 2015</b>	<b>118.797.935</b>	<b>81.528.447</b>	<b>36.574.829</b>	<b>5.344.821</b>	<b>1.694.592</b>	<b>244.940.634</b>
<b>Accumulated amortisation</b>	<b>Land and land improvement</b>	<b>Buildings</b>	<b>Plant and machinery</b>	<b>Other tangible assets</b>	<b>Tangible assets in progress</b>	<b>Total</b>
<b>At 31 December 2014</b>	<b>225.545</b>	<b>111.766</b>	<b>5.400.540</b>	<b>1.415.491</b>	<b>-</b>	<b>7.153.342</b>
Amortisation for the year	25.834	3.312.361	4.628.985	1.042.873	-	9.010.053
Accumulated depreciation for outflows of which:	-	(2.579)	(50.254)	(6.375)	-	(59.208)
from the determination of the net amount for revaluation	-	-	-	-	-	-
<b>At 31 December 2015</b>	<b>251.379</b>	<b>3.421.548</b>	<b>9.979.271</b>	<b>2.451.989</b>	<b>-</b>	<b>16.104.187</b>

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

**4 TANGIBLE ASSETS**

(continued)

Allowances for impairment	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
<b>At 31 December 2014</b>	<u>1.077.197</u>	-	-	-	-	<u>1.077.197</u>
Allowances for impairment recognised in profit or loss	-	-	-	-	98.367	98.367
Reversal of allowances for impairment recognised in profit or loss	<u>(1.077.197)</u>	-	-	-	-	<u>(1.077.197)</u>
<b>At 31 December 2015</b>	-	-	-	-	<u>98.367</u>	<u>98.367</u>
<b>Net carrying amount</b>						
<b>At 31 December 2014</b>	<u>102.869.725</u>	<u>80.840.702</u>	<u>27.519.664</u>	<u>3.122.530</u>	<u>1.848.438</u>	<u>216.201.059</u>
<b>At 31 December 2015</b>	<u>119.546.556</u>	<u>78.106.899</u>	<u>26.595.568</u>	<u>2.892.832</u>	<u>1.596.225</u>	<u>228.738.080</u>

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

**4 TANGIBLE ASSETS**

At 31 December 2015, the Group revalued the land of parent-company..

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 16.676.831 lei.

At 31 December 2015, the tangible assets raised by 6% 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 Group'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 Group 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 268-268 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 parent 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 17).

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

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

According to IAS 40, this category of property is recognised as investment property. The Group 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:

	<b>Year 2015</b>	<b>Year 2014</b>
<b>Balance at 1 January</b>	<b>2.154.439</b>	<b>904.248</b>
Inflows, of which:	39.935	1.247.191
from fair value valuation	-	-
Outflows, of which:	-	-
from fair value valuation	-	-
<b>Balance at 31 December</b>	<b>2.194.374</b>	<b>2.154.439</b>

For the purpose of consolidation, the accounting depreciation calculated and recorded by SC Procetel SA for the investment properties was removed.

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

The revenue arising from the investment property in 2015 amounts to 1.444.137 lei and covers the expenses incurred by the owner.

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

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

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

At 31 December 2015, the share of the parent's intangible assets in the total intangible assets of the Group was 99,96%.

The situation of intangible assets at 31 December 2015 was:

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

<b>Cost</b>	<b>Concessions patents licences</b>	<b>Other intangible assets</b>	<b>Intangible assets in progress</b>	<b>Total</b>
<b>At 31 December 2014</b>	<b>367.872</b>	<b>2.131.032</b>	<b>128.228</b>	<b>2.627.132</b>
Inflows	74.501	171.460	431.825	677.586
Outflows	(85.547)	-	(547.152)	(632.699)
Transfers	-	-	-	-
<b>At 31 December 2015</b>	<b>356.826</b>	<b>2.302.492</b>	<b>12.701</b>	<b>2.672.019</b>
<b>Accumulated amortisation</b>	<b>Concessions patents licences</b>	<b>Other intangible assets</b>	<b>Intangible assets in progress</b>	<b>Total</b>
<b>At 31 December 2014</b>	<b>268.775</b>	<b>539.560</b>	<b>-</b>	<b>808.335</b>
Amortisation for the year	49.119	521.467	-	570.586
Accumulated amortisation for outflows	(85.547)	-	-	(85.547)
<b>At 31 December 2015</b>	<b>232.347</b>	<b>1.061.027</b>	<b>-</b>	<b>1.293.374</b>
<b>Allowances for impairment</b>	<b>Concessions patents licences</b>	<b>Other intangible assets</b>	<b>Intangible assets in progress</b>	<b>Total</b>
<b>At 31 December 2014</b>	<b>-</b>	<b>90.000</b>	<b>-</b>	<b>90.000</b>
Allowances for impairment recognised in profit or loss	-	-	-	-
Reversals of allowances for impairment recognised in profit or loss	-	(90.000)	-	(90.000)
<b>At 31 December 2015</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net carrying amount</b>				
<b>At 31 December 2014</b>	<b>99.097</b>	<b>1.501.472</b>	<b>128.228</b>	<b>1.728.797</b>
<b>At 31 December 2015</b>	<b>124.479</b>	<b>1.241.465</b>	<b>12.701</b>	<b>1.378.645</b>

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

**7 OTHER NON-CURRENT ASSETS**

This category mainly includes the performance guarantees granted to customers, which were classified as non-current according to the respective contracts. 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:

	<u>Total</u>	<u>Under one year</u>	<u>Over one year</u>
<b>Performance guarantees</b>	2.160.417	1.049.000	1.111.417

**8 INVENTORIES**

	<u>31 December 2015</u>	<u>31 December 2014</u>
Raw materials	8.327.699	7.985.739
Finished goods	4.131.739	6.017.474
Work in progress	2.537.295	3.243.754
Allowances for the impairment of inventories	(1.265.916)	(892.472)
<b>Total</b>	<b>13.730.817</b>	<b>16.354.495</b>

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

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	892.472	447.313
Allowances during the current year	373.444	445.159
<b>Balance at end of year</b>	<b>1.265.916</b>	<b>892.472</b>

Allowances were recorded in the amount of 487.761 lei for raw materials with no moving or slow moving ones and 778.155 lei for finished goods

The Group did not pledge inventory items to secure liabilities.

Of the total inventory at 31 December 2015 96,52% is owned by the parent.

**9 TRADE RECEIVABLES**

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

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

	Liquidity period		
	31 December 2015	under 1 year	over 1 year
Internal trade receivables	46.823.995	43.381.824	3.442.171
External trade receivables	4.542.562	4.542.562	-
Estimated trade receivables	4.953.257	4.953.257	-
Allowances for the impairment of trade receivables	(1.533.883)	(1.533.883)	-
<b>Net trade receivables</b>	<b>54.785.931</b>	<b>51.343.760</b>	<b>3.442.171</b>

	Liquidity period		
	31 December 2014	under 1 year	over 1 year
Internal trade receivables	50.790.889	37.460.185	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	(1.467.579)	(1.467.579)	-
<b>Net trade receivables</b>	<b>53.822.749</b>	<b>40.492.265</b>	<b>13.330.484</b>

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

	2015	2014
Balance at beginning of year	1.467.579	1.440.094
Impairment allowance recording-reversal	78.789	48.057
Impairment allowance write-down	(12.485)	(20.572)
<b>Balance at end of year</b>	<b>1.533.883</b>	<b>1.467.579</b>

The Group 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 parent under the contracts concluded.

At 31 December 2015, the doubtful accounts and disputes amount to 1.537.885 lei (at 31 December 2014 they were 1.530.030 lei).

The Group 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 Group.

For the purpose of consolidation, mutual payables and receivables were offset.

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

**10 OTHER CURRENT ASSETS**

	<b>31 December 2015</b>	<b>31 December 2014</b>
Debtors	359.659	698.169
Accrued expenses	1.395.374	1.957.550
Suppliers debtors	423.327	2.329.161
Other assets	302.355	1.369.392
<b>Total</b>	<b>2.480.715</b>	<b>6.354.272</b>

The accrued expenses of 1 395.374 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.

**11 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 Group includes shares traded (Level 1 inputs - determining fair value)

	<b>Year 2015</b>	<b>Year 2014</b>
<b>Initial balance at 1 January</b>	<b>224.000</b>	<b>1.250.953</b>
Inflows quoted shares	5.004.292	10.410.082
Outflows quoted shares	4.128.012	11.437.035
<b>Final balance at 31 December</b>		<b>224.000</b>

**12 CASH AND CASH EQUIVALENTS**

<b>Year 2015</b>	<b>Initial balance</b>	<b>Final balance</b>
Petty cash	47.217	21.882
Current account with banks	31.400.321	16.981.503
Cash equivalents	2.211	6.551
<b>Total</b>	<b>31.449.749</b>	<b>17.009.936</b>

**13 SHARE CAPITAL**

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

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

<b>Shareholder</b>	<b>31 December 2015</b>		<b>31 December 2014</b>	
	<b>No. of shares</b>	<b>%</b>	<b>No. of shares</b>	<b>%</b>
PAS Association Electromagnetica	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
<b>Total</b>	<b>676.038.704</b>	<b>100</b>	<b>676.038.704</b>	<b>100</b>

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

#### **14 RESERVES**

The legal reserves increased in 2015 by 3.304 lei because of the profit obtained by the subsidiaries.

**Revaluation reserves** amount to 97.951.100 lei at 31 December 2015. They increased compared to the balance at the beginning of the year because of the revaluation of lands.

	<b>2015</b>	<b>2014</b>
Balance at beginning of year	77.337.185	79.297.662
Increase	21.709.107	278.030
Decrease	(1.095.192)	(2.238.507)
<b>Balance at end of year</b>	<b>97.951.100</b>	<b>77.337.185</b>

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 Group has other reserves amounting to 58.089.051 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.

	<b>2015</b>	<b>2014</b>
Balance at beginning of year	53.673.554	40.412.297
Increase	4.415.497	13.261.257
Decrease	-	-
<b>Balance at end of year</b>	<b>58.089.051</b>	<b>53.673.554</b>

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

**15 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 3.978.432 lei. Of this, 569.280 lei represent the revaluation reserve from the lost land from Petre Ispirescu street.

At 31 December 2015 the Group records a net income of (22.582.806) lei, of which:

- loss attributable to parent-company: (22.598.960)
- profit attributable to non-controlling interests: 16.154

The loss of the year 2015 had resulted from the licensed activities (note 26).

**16 INVESTMENT SUBSIDIES**

	Total	sub un an	peste un an
Investment subsidies	5.228.399	163.219	5.063.180

In 2012, the parent 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 concomitantly with the recording of the amortisation of the non-current assets purchased under this project.

**17 PROVISIONS**

	Initial balance	Inflows	Outflows	Final balance
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
<b>TOTAL</b>	<b>1.209.500</b>	<b>12.663.182</b>	<b>(1.701.637)</b>	<b>12.171.045</b>

The Group 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.

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

The parent 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 decision 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 parent company was fined 9.021.308 lei. Until the completion of these financial statements the Group 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.

**18 TRADE PAYABLES AND OTHER LIABILITIES**

	<b>31 December 2015</b>	<b>31 December 2014</b>
Internal trade payables	11.114.695	12.720.536
External trade payables	4.471.777	1.780.276
Estimated trade payables	8.644.309	11.320.545
<b>Total</b>	<b>24.230.781</b>	<b>25.821.357</b>

  

	<b>31 December 2015</b>	<b>31 December 2014</b>
Advances received from customers	1.589.689	10.449.801
Salaries and social security contributions	3.041.098	2.810.525
Deferred income	2.787.366	2.456.914
Other liabilities	6.240.449	9.680.191
<b>Total</b>	<b>13.658.602</b>	<b>25.397.431</b>

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 Group does not have significant outstanding trade payables.

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

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

The Group 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.

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

The guarantees received at 31 December 2015 amount to 2.772.008 lei and will be regularised under the contract terms.

	<b>Total</b>	<b>Sub un an</b>	<b>Peste un an</b>
Guarantees received	2.772.008	1.754.388	1.017.620

For the purpose of consolidation, mutual transactions were offset.

**19 DEFERRED TAX**

	Deferred tax assets		Deferred tax liabilities	
	At 01.01.2015	At 31.12.2015	At 01.01.2015	At 31.12.2015
Tangible assets	-	-	1.267.548	1.313.439
Receivables and other assets	258.124	224.380	-	-
Tax-exempt reserves	-	-	756.181	1.323.859
<b>TOTAL</b>	<b>258.124</b>	<b>224.380</b>	<b>2.023.729</b>	<b>2.637.298</b>

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.

**20 REVENUE**

	31 December 2015	31 December 2014
<b>Venturi</b>	<b>385.483.378</b>	<b>428.024.142</b>
- Revenue from sold production	100.909.455	96.147.639
- Revenue from sale of goods	284.573.921	331.876.503
Variation in stocks of finished goods and work in progress	10.608.436	9.261.516
Work performed by entity and capitalised	1.742.457	1.991.283
Other income	2.819.856	4.570.713
- Revenue from subsidies	2.496.527	3.545.191
- Other income	323.329	1.025.522
<b>Total revenue</b>	<b>400.654.125</b>	<b>443.847.656</b>

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

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

For the purpose of consolidation, mutual transactions were offset.

**21 EXPENSES**

	<b>31 December 2015</b>	<b>31 December 2014</b>
<b>Expenses related to materials</b>	<b>315.091.430</b>	<b>339.202.438</b>
- Raw materials and consumables	48.235.314	46.166.600
- Goods purchased for resale	264.379.663	290.446.448
- Electricity, heating and water	2.476.453	2.589.390
<b>Expenses related to employee</b>	<b>34.862.468</b>	<b>35.652.105</b>
- Salaries	28.508.585	28.301.958
- Other personnel expenses	6.353.883	7.350.147
<b>Other expenses</b>	<b>48.488.347</b>	<b>51.114.476</b>
Postage	404.256	490.737
Rental	338.913	247.671
Advertisement and entertainment	977.911	1.225.794
Insurance	558.006	601.201
Transport and travel	1.959.661	2.047.527
Other operating expenses	44.249.600	46.501.546
<b>Expenses related to depreciation and impairment</b>	<b>25.379.016</b>	<b>10.557.463</b>
- Depreciation	9.563.923	9.599.785
- Net impairment	15.815.093	957.678
<b>Total expenses</b>	<b>423.821.261</b>	<b>436.526.482</b>

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.

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

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

For the purpose of consolidation, mutual transactions were offset.

**22 FINANCIAL EXPENSES AND INCOME**

	<b>31 December 2015</b>	<b>31 December 2014</b>
Foreign exchange losses	(608.784)	(1.923.180)
Foreign exchange gains	872.031	1.991.317
<b>Net foreign exchange difference</b>	<b>263.247</b>	<b>68.137</b>
Interest expense	(97.678)	(12.529)
interest income	77.307	314.602
<b>Net Interest difference</b>	<b>(20.371)</b>	<b>302.073</b>
<b>Dividends received</b>	<b>39.667</b>	-
Losses from short-term investments	(35.747)	-
Gains from short-term investments	115.174	369.157
<b>Net difference from short-term investments</b>	<b>79.427</b>	<b>369.157</b>
Other financial expenses	194.909	188.909
Other financial income	593.865	1.257.907
<b>Net difference other financial income and expenses</b>	<b>398.956</b>	<b>1.068.998</b>
<b>Financial result</b>	<b>760.926</b>	<b>1.808.365</b>

**23 INCOME TAX**

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

<b>Indicator</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
<b>Net accounting (loss)/profit</b>	<b>(22.582.806)</b>	<b>8.137.494</b>
Deductions	(9.561.474)	(9.909.672)
Non-taxable income	(3.535.013)	(13.813.838)
<b>Non-deductible expenses</b>	<b>32.857.291</b>	<b>25.316.460</b>
(Tax Loss)/Taxable profit	486.339	-
Tax loss from previous years	-	-
Current income tax	(2.335.663)	9.730.444
Income tax reduction	75.591	145.931
<b>Net accounting (loss)/profit</b>	<b>96.961</b>	<b>1.355.294</b>
Deductions	-	(13.049)
<b>Income tax due at end of period</b>	<b>96.961</b>	<b>1.342.245</b>

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

Income tax paid during the year	74.537	(2.014.229)
Income tax payable/recoverable	22.424	(671.984)

At group level is reported tax loss (wholly attributable to the parent ), but because it is not a tax group, there may be situations where once the fiscal consolidation is done the group dues income tax arising from subsidiaries .

At 31 December 2015, the current tax asset is 770.955 lei, and at 31 December 2014 it is 773.662 lei. All group entities are under the same tax jurisdiction, in Romania

## 24 AVERAGE NUMBER OF EMPLOYEES

Evolution of the average number of employees:

	31 decembrie 2015	31 decembrie 2014
<b>Grup</b>	<b>686</b>	<b>698</b>
Parent company	615	626

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

	31 decembrie 2015	31 decembrie 2014
<b>Expenses related to salaries</b>	<b>28.508.585</b>	<b>28.301.958</b>
Of which parent company	26.633.903	26.439.930
<b>Expenses related to social security contributions</b>	<b>6.353.883</b>	<b>7.350.147</b>
Of which parent company	5.928.233	5.855.553
<b>Total</b>	<b>34.862.468</b>	<b>35.652.105</b>
Of which parent company	32.562.136	33.295.483

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

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

**25 TRANSACTIONS WITH RELATED PARTIES (the parent company in relation to its subsidiaries)**

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

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

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

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

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.

For the purpose of consolidation, mutual transactions were offset.

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

**26 INFORMATION BY OPERATING SEGMENTS**

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

- Licensed activity – electricity supply and production
- Unlicensed activity

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

<b>Year 2015</b>	<b>Unlicensed activity</b>	<b>% Total Company</b>	<b>Licensed activity</b>	<b>% Total Company</b>	<b>Total Company</b>
Net profit	4.706.006		(27.288.812)		(22.582.806)
Total assets	232.363.331	71,62	92.071.305	28,38	324.434.636
Total liabilities	21.372.257	37,04	36.327.488	62,96	57.699.745
Customer revenue	100.628.060	26,10	284.855.316	73,90	385.483.376
Interest income	77.307	100	-	-	77.307
Impairment and depreciation	8.007.517	31,55	17.371.499	68,45	25.379.016
<b>Year 2014</b>	<b>Unlicensed activity</b>	<b>% Total Company</b>	<b>Licensed activity</b>	<b>% Total Company</b>	<b>Total Company</b>
Net profit	5.153.245	67,97	2.428.360	32,03	7.581.605
Total assets	146.574.038	44,34	184.004.406	55,66	330.578.444
Total liabilities	24.718.736	41,48	34.867.461	56,52	59.586.197
Customer revenue	94.800.409	22,15	333.223.733	77,85	428.024.142
Interest income	314.602	100	-	-	314.602
Impairment and depreciation	7.577.881	71,78	2.979.582	28,22	10.557.463

**Licensed activities – these activities can be found only at the parent**

**Electricity supply services**

The supply of electricity is regulated by ANRE. The Group 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

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

---

prices on the Next Day Market (PZU) under pressure of high energy production from renewable sources, the Group 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 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 Group pursued customer portfolio restructuring, giving up those producing imbalances and those who had late payment of invoices.

At the same time, the Group 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 Group'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 Group 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.

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

---

**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 Group (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:

- 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 .

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

---

---

**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.

**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 Group and only account for 3,7% of the Group 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 Group 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

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

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 Group has to follow the trends of the real estate market, i.e. the decrease in rental rates, additional efforts must be undertaken by the Group in order to mitigate the effects and maintain itself on the market by reconsidering the facilities granted.

In addition to the above services, SC Electromagnetica Prestserv SRL and SC Electromagnetica Fire SRL provides cleaning services, technical support for prevention and firefighting and emergency services for private civil protection .

## 27 RISK MANAGEMENT

The Group is exposed to the following risks:

### *Equity risk*

The goals of the Group with respect to capital management aim to ensure the continuity of the Group'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 Group 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 Group can adjust the dividends paid to shareholders, issue new shares or sell assets.

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

The Group 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:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Total loans	-	-
Suppliers and other liabilities	34.933.358	47.942.183
Less: Cash and cash equivalents	(17.009.938)	(31.449.749)
<b>Net Liabilities/(Assets)</b>	<b>17.923.422</b>	<b>16.492.434</b>
<b>Equity</b>	<b>266.734.891</b>	<b>270.992.247</b>

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

<b>TOTAL CAPITAL EMPLOYED</b>	<b>284.658.313</b>	<b>287.484.681</b>
<b>Debt ratio</b>	<b>6,29%</b>	<b>5,74%</b>

*Credit risk*

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

	<b>2015</b>	<b>2014</b>
Trade receivables	54.785.931	53.822.749
Other receivables	3.251.670	7.127.934
Financial assets at fair value through profit or loss	1.100.280	224.000
Cash and cash equivalents	17.009.936	31.449.749
	<b>76.147.817</b>	<b>92.624.432</b>

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

The Group 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 Group usually recording cash-flow surplus. The Group monitors and manages on a permanent basis its exposure to exchange rate differences.

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

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:

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

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 Group.

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 Group 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 Group 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 Group. 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 Group 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 Group concluded insurance policies to protect MHPs and against disasters.

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

---

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

**General framework for risk management**

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

The activity is governed by the following principles::

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

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

The risk management policies of the Group are defined to ensure the identification and analysis of the risks the Group 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 Group. Through its training and management standards and procedures, the Group aims to develop an orderly and constructive control environment where all employees understand their roles and duties.

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

## **28 COMMITMENTS AND CONTINGENT LIABILITIES**

### **Commitments**

At 31 December 2015, the Group 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;

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

---

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.

#### **Contingent liabilities**

##### ***Litigation***

The Group is involved in lawsuits deriving from its ordinary course of business. The Group 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 Group's economic results and financial standing. During the reporting period the Group Hidroelectrica SA opened a court action on the contract for electricity supply concluded between it and the Group for the period January 2011 - June 2012. The Group'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 Group 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 Group.

## **29 SUBSEQUENT EVENTS**

There were no subsequent events.

