

Translated from Romanian

*S.C. ARMĂTURA S.A.
Cluj - Napoca*

Half-year report 2019



**HALF-YEAR REPORT 2019
S.C. ARMĂTURA S.A.
CLUJ- NAPOCA**

Registered office:	400267 Cluj-Napoca 19 Gării Street
Telephone:	+40 264 435 367
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Email:	office@armatura.ro
Website:	www.armatura.ro
Tax Identification Number:	RO 199001
Trade Register Registration Number:	J12/13/1991
Subscribed and paid-in share capital:	4.000.000 RON

The regulated market on which the issued transferable securities are traded:

The shares of S.C. ARMATURA S.A. are traded within the 2nd category of the Bucharest Stock Exchange.

The main features of the transferable securities issued by the Company:

- Number of shares: 40.000.000
- Nominal value: 0,1 RON/share
- Registered shares, issued as uncertificated shares, registered in the S.C. Depozitarul Central S.A. independent registry book, as per contract no. 1958 from 19.01.2007

Date of the report: 05.08.2019

* drawn up in accordance with Regulation no. 5/2018 of the Financial Regulator.

* the financial statements as at 30.06.2019 have not been audited.

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1. Economic and financial statement:

The financial statements have been drawn up in accordance with International Financial Reporting Standards.

FINANCIAL POSITION STATEMENT

	<u>1st of January</u> <u>2019</u>	<u>30th of June</u> <u>2019</u>
Asset		
Fixed assets		
Tangible fixed assets	30.346.332	25.289.489
Intangible fixed assets	9.239	9.184
Real estate investments	-	4.742.938
Total fixed assets	<u>30.355.571</u>	<u>30.041.611</u>
Current assets		
Stocks	4.058.368	4.267.951
Clients and other accounts receivable	659.424	785.769
Cash and cash equivalents	458.044	64.803
Short-term financial assets	-	<u>100.600</u>
Total of current assets	<u>5.175.836</u>	<u>5.219.123</u>
Total of assets	<u>35.531.407</u>	<u>35.260.734</u>
Owner's equity and debts		
Share capital	18.110.957	18.110.957
Reserves	21.335.091	21.335.091
Balance carried forward including the balance of the period	<u>-40.835.609</u>	<u>-42.201.215</u>
Total owner's equity	<u>- 1.389.561</u>	<u>-2.755.167</u>
Long-term debts		
Loans	-	-
Debts related to financial leasing	-	-

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Deferred tax liabilities	3.006.772	3.006.772
Suppliers and other debts	-	-
	<u>3.006.772</u>	<u>3.006.772</u>

Current debts

Suppliers and other debts	9.597.502	10.090.022
Settlements with shareholders on share capital	100	100
Loans	24.148.638	24.755.366
Provisions for risks and expenses	<u>167.956</u>	<u>163.641</u>
Total of current debts	<u>33.914.196</u>	<u>35.009.129</u>
Total of debts	<u>36.920.968</u>	<u>38.015.901</u>
Total owner's equity and debts	<u>35.531.407</u>	<u>35.260.734</u>

STOCK ANALYSIS

The Company's stock has increased compared to the beginning of 2019, amounting to 209.583 lei, with a percentage increase of 5.16 %.

The stock structure from June 30th 2019 is the following:

- Raw materials and materials 51.42 %
- End products and goods 28.78 %
- Goods in progress 19.80 %

	<u>30 iunie 2019</u>	<u>01 ianuarie 2019</u>
Raw materials	2.464.906	2.715.596
Provisions for raw materials	-270.349	-328.283
Production in progress	1.270.415	1.086.107
Provisions for goods in progress	-425.525	-428.345
Goods	162.469	162.898

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Provisions for goods	-161.320	-161.475
End products	1.877.483	1.725.601
Provisions for end products	-767.338	-815.105
Other stocks	123.622	112.044
Provisions for other stocks	-6.412	-8.670
Total	4.267.951	4.058.368

ACCOUNTS RECEIVABLE ANALYSIS

On June 30th 2019 the Company's accounts receivable had the following structure:

	<u>30th of June 2019</u>	<u>1st of January 2019</u>
Commercial accounts receivable	923.536	843.834
Minus: provision for the depreciation of the commercial accounts receivable	-727.666	-727.666
Commercial accounts receivable – net	195.870	116.168
- out of which, in relation to affiliated entities	-	-
Accrued expenses	106.930	14.217
Advance payments to suppliers	7.663	353
Minus: provision for the depreciation of the advance payments	-	-
Various debtors	7.349	7.304
Other accounts receivable	467.957	521.382
The current portion of the commercial and other accounts receivable	785.769	659.424

The commercial accounts receivables from June 30th 2019 recorded an increase of 126.346 lei compared to the existing balance in early 2019, with a percentage increase of 19.16 %.

PAYMENT LIABILITIES ANALYSIS

	<u>30th of June 2019</u>	<u>1st of January 2019</u>
Commercial debts	9.833.307	9.363.146
- out of of which, in relation to affiliated entities	9.646.352	8.781.856

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Debts with personnel, contributions, social security	205.063	182.943
Value Added Tax (VAT)	0	0
Other debts	51.652	51.413
	<u>10.090.022</u>	<u>9.597.502</u>

The Company's current debts have registered an increase of 492.520 lei compared to the beginning of 2019, with a percentage increase of 5.13 %.

INCOME AND EXPENSE STATEMENT

	<u>30th of June 2018</u>	<u>30th of June 2019</u>
Revenues	4.455.311	3.932.584
Other operating revenues	18.035	11.035
Changes in stocks of end products and production to be executed	-390.532	336.881
Raw materials and materials	-2.125.056	-2.694.725
Cost of goods	-146.832	-14.484
Personnel charges	-1.368.788	-1.230.324
Utilities expenses	-251.268	-178.919
Services provided by third parties	-265.629	-202.881
Amortization and depreciation of fixed assets	-393.263	-378.704
Net movement in the provision for other risks and expenses	9.413	4.315
Other operating expenses	-333.765	-309.705
Other revenue / (losses), net	<u>668.269</u>	<u>110.933</u>
Operating result	-124.105	-613.994
Financial revenues	<u>-</u>	<u>34</u>
Financial expenses	<u>-257.121</u>	<u>-751.646</u>

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Net financial loss	<u>-257.121</u>	<u>-751.612</u>
Profit / loss before income taxes	-381.226	-1.365.606
Revenue / (Expenditure) with current and deferred tax	-	-
Ordinary business income (loss)	<u>-381.226</u>	<u>-1.365.606</u>

2. The analysis of the commercial Company's activity

2.1. Presenting and analyzing trends, events or uncertainty factors that are affecting or are likely to affect the corporate liquidity as compared to the same period of the previous year.

The Company's management monitors the provisions related to the corporate liquidity needs to ensure that there is sufficient cash to meet the operational requirements. These provisions take into account the Company's debt financing plans, compliance with agreements, compliance with internal targets on the balance sheet ratios.

The Company is financially dependent on Herz Armaturen Gesmh.

2.2. Corporate governance:

The Company has shares listed on BVB Bucharest (Bucharest Stock Exchange). As a result, the Company applies all the legal provisions in force: updated Law no. 31/1990, OMFP Order 2844/2016 (Order of the Minister of Public Finance) for the approval of the Accounting Regulations according to the International Financial Reporting Standards, Regulation ASF 05 / 2018 on reporting, Law no. 297/2004 regarding the stockmarket, BVB regulations and others. All these regulations are public. Until the date of this report, the Company did not adhere to the Corporate Governance Code issued by the Bucharest Stock Exchange (BVB) in 2015. The Company has implemented an Organization and Functioning Regulation, as well as an Internal Order Regulation, which are meant to ensure its functional safety and to contribute to the achievement of the Company's objectives. The internal control system fulfills its established objectives and no significant deficiencies have been identified in the functioning of the internal system. The implemented principles of the internal control system are: the separation of decisions, the existence of automated controls incorporated into the IT application, authorization limits, periodical reports, etc. The Company has an appointed internal auditor, however not an audit committee. There is no distinct department to deal with investors. The Company has a contract with an authorized financial auditor, according to legal requirements, who verifies the financial statements in accordance with the legal provisions in force. The General Assembly has the attributions stipulated by the Law

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31/1990 with its subsequent amendments and by the Company's Articles of Incorporation in force at the date of the General Assembly. The procedure for the Shareholders' General assembly and its key attributes are in line with the legislation in force and the Company's Articles of Incorporation. The shareholders' rights and how they can be exercised are provided by the applicable law.

Members of the Board of Directors:

- Akper Saryyev – Member
- Matthias Haider - Member
- Damir Rutar – Member
- Zoran Bankovic – Member
- Walter Simmel - Member

3. The Company's tangible assets

3.1. Specification of the location and characteristics of the main production capacities in the Company's property.

The equipment and production facilities owned by the Company are located entirely in Cluj-Napoca, 19 Gării Street.

The equipment of the Assembly Department consists mainly of equipment for the assembly of valves or their component parts, pressure test stands, electrostatic painting line and spray painting plant.

The processing of large-scale cast iron products is done with the help of CNC machines.

3.2. The outline and analysis of the wear and tear degree of the Company's properties.

At present, the production is limited only to CNC processing and the assembly of valves supplied from third parties. The departments that have been closed are in conservation and regarding the machines that do not have a high degree of wear and tear, one tries to capitalize them.

4. Changes affecting the capital and management of the Company

On the 7th of March, 2013, the Extraordinary General Assembly of Shareholders approved the reduction of the Company's share capital to the "zero" value together with its increase to the amount of 4.000.000 lei by cash contribution by its shareholders. The completion of this operation was not possible due to the fact that the shareholder Bugică Radu challenged this decision at the Cluj County Commercial Court, under file no. 817/1285/2013, and the EGA decision was annulled by the court through definitive sentence. From the financial point of view, this affected the Company only in the sense that it was not

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possible to solve the problem of equity, which on 31.12.2015 was less than 50% of the share capital. The main reason for the annulment was that the Company did not organize an Extraordinary General Assembly in which to discuss the dissolution and liquidation of the Company, previous to the approval of the reduction and increase of the share capital.

On April 29th 2014 within the Extraordinary General Assembly of Shareholders one has rejected the proposal of the Board of Directors regarding the winding-up and the liquidation of the Company and the Company had one year to come up with a proposal to the shareholders to solve the negative equity situation at the end of 2014.

On February 12th, 2015, the Extraordinary General Assembly of the Shareholders decided to reduce the Company's share capital from 4.000.000 lei to 400.000 lei by reducing the number of shares from 40.000.000 to 4.000.000 registered shares and simultaneously increasing the share capital from 400.000 lei to the amount of 4.000.000 lei by cash contribution. The notification provided by ASF (Financial Supervisory Authority) regarding the registration of the share capital reduction operation was sent to the Company on 12.02.2016. Within the Extraordinary General Assembly of Shareholders (EGA) that took place in April 2016 the proposal approved through the EGA Decision no. 01/12.02.2015 was rejected. The same EGA granted the mandate of the Board of Directors to approve and carry out an increase of the share capital up to the amount of 10.000.000 lei, within one year from the EGA's decision date, but up to the present financial statements no steps have been taken so far.

The reimbursement date of the 5 million Euro loan from shareholder Herz Armaturen Ges.b.h was not prolonged throughout 2019, the maturity date being the 15th of April 2016 (15.04.2016).

During the year of 2017 the Company went through a period of reorganizing its activity by closing the following departments: Iron Foundry, Mechanical Machining, Assembly Department, the Showroom and in February 2018 the Brass Foundry Department was closed.

From the date of the last financial statements until the date of the present semestrial situations no major changes have been recorded in the Company's current activity.

Administrator,

Drawn up by,



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**INDIVIDUAL FINANCIAL SITUATIONS
FOR THE SEMESTER THAT ENDED ON JUNE 30TH 2019**

**DRAWN UP IN ACCORDANCE WITH
THE INTERNATIONAL FINANCIAL REPORTING STANDARDS
ADOPTED BY THE EUROPEAN UNION**



ARMATURA

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ARMĂTURA SA
FINANCIAL POSITION STATEMENT
ON THE 30TH OF JUNE 2019
(in lei, if not specified otherwise)

	Note	1 st of January 2019	30 th of June 2019
Assets			
Fixed assets			
Tangible fixed assets	3	30.346.332	25.289.489
Intangible fixed assets	4	9.239	9.184
Real estate investments		-	4.742.938
Total fixed assets		<u>30.355.571</u>	<u>30.041.611</u>
Current assets			
Stocks	5	4.058.368	4.267.951
Clients and other accounts receivables	6	659.424	785.769
Cash and cash equivalents		458.044	64.803
Short-term financial assets		-	<u>100.600</u>
Total current assets		<u>5.175.836</u>	<u>5.219.123</u>
Total assets		<u>35.531.407</u>	<u>35.260.734</u>
Equity and debts			
Share capital	8	18.110.957	18.110.957
Reserves		21.335.091	21.335.091
Balance carried forward including the balance of the period		<u>-40.835.609</u>	<u>-42.201.215</u>
Total owner's equity		<u>- 1.389.561</u>	<u>-2.755.167</u>
Long-term debts			
Loans		-	-
Debts related to financial leasing		-	-
Deferred tax liabilities		3.006.772	3.006.772
Suppliers and other debts	7	-	-
		3.006.772	3.006.772

The notes attached are an integral part of these financial statements.

ARMĂTURA SA
FINANCIAL POSITION STATEMENT
ON THE 30TH OF JUNE 2019
(in lei, if not specified otherwise)

	Note	1 st of January 2019	30 th of June 2019
Current debts			
Suppliers and other debts	7	9.597.502	10.090.022
Settlements with shareholders on share capital		100	100
Loans		24.148.638	24.755.366
Provisions for risks and expenses		167.956	163.641
Total of current debts		33.914.196	35.009.129
Total of debts		36.920.968	38.015.901
Total owner's equity and debts		35.531.407	35.260.734

Administrator,

Drawn up by,



The notes attached are an integral part of these financial statements.

ARMĂTURA SA
INCOME AND EXPENSE STATEMENT
FOR THE SEMESTER THAT ENDED ON THE 30TH OF JUNE 2019
(in lei, if not specified otherwise)

	<u>30th of June 2018</u>	<u>30th of June 2019</u>
Revenues	4.455.311	3.932.584
Other operating revenues	18.035	11.035
Changes in stocks of end products and production to be executed	-390.532	336.881
Raw materials and materials	-2.125.056	-2.694.725
Cost of goods	-146.832	-14.484
Personnel charges	-1.368.788	-1.230.324
Utilities expenses	-251.268	-178.919
Services provided by third parties	-265.629	-202.881
Amortization and depreciation of fixed assets	-393.263	-378.704
Net movement in the provision for other risks and expenses	9.413	4.315
Other operating expenses	-333.765	-309.705
Other revenue / (losses), net	<u>668.269</u>	<u>110.933</u>
Operating result	-124.105	-613.994
Financial revenues	<u>-</u>	<u>34</u>
Financial expenses	<u>-257.121</u>	<u>-751.646</u>
Net financial loss	-257.121	-751.612
Profit / loss before income taxes	-381.226	-1.365.606
Revenue / (Expenditure) with current and deferred tax	<u>-</u>	<u>-</u>
Ordinary business income (loss)	-381.226	-1.365.606
Number of shares issued	40.000.000	40.000.000
Basic and diluted earnings per share	-0,0095	-0,0341

ARMĂTURA SA
STATEMENT OF THE OVERALL FINANCIAL RESULT
FOR THE SEMESTER THAT ENDED ON THE 30TH OF JUNE 2019
(in lei, if not specified otherwise)

	<u>30th of June 2018</u>	<u>30th of June 2019</u>
Ordinary business income (loss)	<u>-381.226</u>	<u>-1.365.606</u>
Other elements of the overall result:		
Earnings / (Loss) from revaluation of buildings	-	-
Impact of the deferred tax on revaluation reserves	-	-
Other elements of the overall result for the year, net of tax	<u>-</u>	<u>-</u>
The total overall result associated with the financial exercise	<u>-381.226</u>	<u>-1.365.606</u>

Administrator,

Drawn up by,



The notes attached are an integral part of these financial statements.

ARMĂTURA S.A.
STATEMENT OF CHANGES IN EQUITY
FOR THE SEMESTER THAT ENDED ON THE 30TH OF JUNE 2019
(in lei, if not specified otherwise)

	Share capital	Reserves from revaluation	Other reserves	Balance carried forward	Total
Existing balance on January 1 st 2019	<u>18.110.957</u>	<u>20.384.144</u>	<u>950.947</u>	<u>-40.835.609</u>	<u>-1.389.561</u>
Profit / (Loss) pertaining to the year	-	-	-	-1.365.606	-1.365.606
Other elements of the result	-	-	-	-	-
Overall global result	-	-	-	-1.365.606	-1.365.606
Existing balance on June 30 th 2019	<u>18.110.957</u>	<u>20.384.144</u>	<u>950.947</u>	<u>-42.201.215</u>	<u>-2.755.167</u>

Administrator ,



Drawn up by,




The notes attached are an integral part of these financial statements.

ARMĂTURA S.A.
INDIVIDUAL STATEMENT OF CASH-FLOWS
FOR THE SEMESTER THAT ENDED ON THE 30TH OF JUNE 2019
(in lei, if not specified otherwise)

	<u>30 iunie 2018</u>	<u>30 iunie 2019</u>
Cash-flows from operating activities		
Cash generated from operating activities	-445.825	-227.931
Paid interests	-	-
Net cash-flow generated from operating activities	<u>-445.825</u>	<u>-227.931</u>
Cash-flows from investment activities		
Acquisitions of tangible fixed assets	-19.601	-64.744
Incoming net payments from the sale of tangible fixed assets	-	-
Income from interests	-	34
Net cash used in investment activities	<u>-19.601</u>	<u>-64.710</u>
Cash-flows from financing activities		
Reimbursement of leasing loans	-	-
Settlements from shareholders	-	-
Net cash used in financing activities	<u>-</u>	<u>-</u>
Net change in cash and cash equivalents	<u>-465.426</u>	<u>-292.641</u>
Cash and cash equivalents at the beginning of the year	<u>565.825</u>	<u>458.044</u>
Increases /- Decreases	<u>-465.425</u>	<u>-292.641</u>
Cash and cash equivalents at the end of the semester	<u>100.400</u>	<u>165.403</u>

Administrator,

Drawn up by,



The notes attached are an integral part of these financial statements.

ARMĂTURA S.A.
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE SEMESTER THAT ENDED ON THE 30TH OF JUNE 2019
(in lei, if not specified otherwise)

1 GENERAL INFORMATION

General information

ARMĂTURA SA („The Company”) was registered in early 1991 at the Trade Register Office from Cluj as a joint-stock company and at the end of 1996 the privatization process was completed. It is currently a fully private owned Company. The Company has its registered office in Cluj Napoca, 19 Gării Street, where it also carries out its production activity.

The object of the Company’s activity is the „Manufacturing of valve items”, CAEN (Classification of Economic Activities in the National Economy) code 2814 and it operates in the field of metal fittings with experience in producing valves for heating, water and gas installations, today’s portfolio of products covering over 1,500 articles of different dimensions. Its customers are national and international companies.

The Company has been listed on the Bucharest Stock Exchange - 2nd category - since 1997.

The Company has no open subsidiaries, is not associated with other companies and does not hold equity securities.

The Company has a subscribed and paid-in share capital of 4.000.000 lei consisting of 40.000.000 shares with a nominal value of 0.1 RON per share.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The main accounting policies applied in the preparation of these individual financial statements are presented below. These policies have been consistently applied in all the given years, unless otherwise stated.

2.1 Bases for its preparation

The Company’s individual financial statements were drawn up in accordance with the provisions of the Ordinance of the Public Finances Ministry no. 2844/2016, for the approval of Accounting Regulations in accordance with the International Financial Reporting Standards, applicable to commercial companies whose securities are admitted to trading on a regulated market, including subsequent amendments and clarifications.

2.2 Segment reporting

A segment is a distinct component of the Company that provides certain products or services (segment of activity) or provides products and services in a particular geographic environment (geographic segment) and which is subject to risks and benefits different from those of other segments. In terms of business segments, the Company does not identify distinct components when it comes to risks and benefits.

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE SEMESTER THAT ENDED ON THE 30TH OF JUNE 2019
(in lei, if not specified otherwise)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Foreign currency conversion

(a) Functional and presentation currency

The financial situations are presented in lei (RON), which is the national currency of Romania. *The Company* keeps its accounting records in lei, it prepares and presents the financial statements in accordance with the applicable laws and with the Regulations on Accounting and the financial and accounting reports issued by the Public Finances Ministry.

(b) Transactions and balances

Foreign currency transactions are converted into functional currency using the exchange rate from the date of the transaction. Earnings and losses resulting from exchange rate differences following the conclusion of these transactions and from the conversion at the end of the financial year, at the year-end exchange rate of monetary assets and denominated liabilities in foreign currency, are reflected in the profit and loss account.

Exchange-rate earnings and losses relating to loans, cash and cash equivalents are presented in the profit and loss account within the "Financial income or expenses" section. All other earnings and losses resulting from the exchange rate are presented in the profit and loss account under „Other revenue / (losses), net”.

Monetary assets and liabilities denominated in foreign currencies are expressed in lei at the date of the balance sheet. On June 30th 2019, the exchange rate used to convert balances in foreign currency was the following: EUR = 4,7351 lei (January 1, 2019: 1 EUR = 4,6639 lei). Earnings and losses resulting from the conversion of monetary assets and liabilities are reflected in the profit and loss account over the year.

2.4 Accounting the effects of the hyperinflation

The Romanian economy has experienced periods with relatively high inflation rates and has been considered hyperinflationary according to IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29").

IAS 29 requires that the financial statements drawn up using the currency of a hyperinflationary economy be restated in terms of the purchasing power at the balance sheet date. Amounts expressed in terms of the purchasing power on December 31st 2003 (end date of the hyperinflation) are considered basis for the net book values in these financial statements.

The Company has decided to reflect the impact of applying IAS 29 in the financial statements drawn up on December 31st, 2012 and the recalculation of the amounts presented on December 31st, 2011 and December 31st, 2010. The impact of these adjustments was reflected in the value of the property, share capital and balance carried forward.

ARMĂTURA S.A.
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE SEMESTER THAT ENDED ON THE 30TH OF JUNE 2019
(in lei, if not specified otherwise)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Intangible fixed assets

Intangible fixed assets are presented in the financial statements at acquisition costs less accumulated amortization and are depreciable over a period of 1 to 3 years, their reference values being shown in *Note 4*.

2.6 Tangible fixed assets

Buildings are presented at their fair value, based on regular assessments, at least once every three years, performed by independent external assessors, less amortization and subsequent depreciation. Any accumulated amortization at the revaluation date is eliminated from the gross book value of the asset and the net amount is recorded as a revalued amount of the asset. All other tangible assets are recorded at the historical cost less amortization. Historical cost includes costs that can be directly attributed to the acquisition of those items.

Subsequent expenses are included in the net book value or recognized as a separate asset, as the case may be, only when the Company's future economic benefits associated with the item are probable and the cost of that item can be measured in a reliable way.

Increases in the book value arising from the revaluation of buildings are credited to "Revaluation reserves" from the owner's equity.

Decreases that compensate increases associated with the same asset are recorded alongside other reserves directly in the owner's equity; all other decreases are recorded in the profit and loss account. Amounts recorded in revaluation reserves are transferred to the balance carried forward at the end of the useful life of the asset or when the asset is derecognised.

Repairs and maintenance expenses are recorded in the income and expense statement within the period in which they incur. The costs of replacing the major components of tangible assets elements and equipment are capitalized, while the replaced components are being decommissioned.

Earnings and losses from eliminations determined by the comparison of earnings with the net book value are recognized in profit or loss.

Real estate is not amortized. The amortization of other tangible assets elements is calculated using the straight-line method in order to allocate the revalued amount of each asset to its residual value over its expected useful life, as follows:

<u>Type</u>	<u>Number of years</u>
Buildings	7 - 45
Equipment	2 - 12
Vehicles	3 - 15

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE SEMESTER THAT ENDED ON THE 30TH OF JUNE 2019
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The residual value of an asset is the estimated amount that the company could derive from the sale of the asset less the estimated sale costs if the asset already has the age and corresponds to the end-of-life conditions of the asset. The residual value of an asset is zero if the Company estimates the use of the asset until the end of its physical life. Residual asset values and their expected useful life are revised and adjusted accordingly at each balance sheet date.

Real estate investments

Real estate investments are real estate properties (buildings) owned by the Company for the purpose of renting or increasing the value or both, and not for:

- being used in the production or supply of goods or services or for administrative purposes; or
- being sold during the normal course of the business.

A real estate investment is initially assessed at fair value. The Company's accounting policy for the subsequent assessment of real estate investments is based on the fair value model. This policy is equally applied to all owned real estate investments. Assessing the fair value of real estate investments is carried out by evaluators that are members of The National Association of Romanian Authorized Valuers (ANEVAR). Thus, the amortization expense is no longer recognized, and the real estate investment is subject to revaluation with sufficient regularity in order to be recognized at fair value. Gains or losses resulting from changes in the fair value of real estate investments are recognized in the profit or loss account for the time period in which they incur.

At the beginning of 2019, the Company transferred several buildings that are owned for the purpose of leasing in the "Real Estate Investment" category.

2.7 Stocks

Stocks are assessed at their acquisition or production cost. The discharge of stocks is done starting with 2019 by using the FIFO method (first in, first out).

End products and goods to be executed are recorded at the actual production cost.

Where necessary, provision is made for slow moving stocks, with physical wear and tear or obsolescence. The probable value of completion is estimated on the basis of the selling price without the final costs and sales expenses.

2.8 Commercial accounts receivable

Receivables are recorded at nominal value less depreciation adjustments.

Commercial accounts receivable are amounts owed by customers for the products or sold goods or for the services provided in the normal course of business.

The provision for depreciation of accounts receivable is established when there is objective evidence that the Company will not be able to collect all the amounts owed to it under the original

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terms of the receivables. Significant difficulties faced by the debtor, the likelihood of the debtor to go bankrupt or to undergo a financial reorganization, failure to pay or to comply with payment terms are considered to be signs of depreciation of accounts receivable.

The net book value is reduced by the use of a provision account and the amount of the loss is recognized in the statement of income and expenses in "Other earnings / (losses) - net" in the profit and loss account. When a commercial accounts receivable cannot be recovered, it is charged to expenses, with the corresponding cancellation of the provision for accounts receivable. Subsequent recoveries of previously amortized amounts are credited to the profit and loss account.

2.9 Cash and cash equivalents

For the cash flow statement, cash and cash equivalents include cash-in-hand, bank accounts, demand deposit accounts, other short-term financial investments, overdraft facilities and the short-term part of the restricted cash accounts.

2.10 Share capital and reserves

The share capital composed of common shares is registered at the value established on the basis of the Articles of Incorporation and additional acts, as the case may be, as well as on the supporting documents regarding the capital payments.

According to the law, repurchased shares are presented in the statement of assets, liabilities and equity as a correction of the owner's equity.

Earnings or losses relating to the issuing, repurchasing, sale, free of charge transfers or cancellation of the entity's equity instruments are recognized directly in the owner's equity in the "Earnings / or losses related to the equity instruments" section.

2.11 Loans

Short-term and long-term loans are initially recorded at the amount received, net of borrowing costs. In the following periods, the loans are recorded at amortized cost using the effective yield method, the differences between the amounts received (net of costs of acquisition) and the normal repurchase value being recognized in the profit and loss account over the term of the loan agreement.

2.12 Commercial liabilities

Commercial liabilities are recognized at fair value.

Commercial liabilities are obligations to pay for goods or services that were purchased in the ordinary course of business from suppliers. Supplier accounts are classified as current debts if the payment is to be made within a year or less than a year (or later, within the normal course of business). Otherwise, they will be presented as long-term debts.

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2.13 Provisions

Provisions are recognized when the Company has a current (legal or constructive) obligation generated by a previous event, it is likely that an outflow of resources will be required to honor the obligation and the liability can be estimated reliably.

2.14 Employee benefits

During the financial year *the Company* makes payments to the National Insurance Fund on the account of its employees, as they are all included in the public pension system. With regard to its employees, *the Company* does not contribute to any other pension or retirement benefits funds and has no other obligations of the kind.

Benefits given at the termination of the activity

According to the Company's Collective Labor Agreement, the employees will receive on account of their retirement a prize equivalent to two basic salaries from the month previous to their retirement.

2.15 Revenue recognition

Revenue is recorded when the significant risks and benefits of owning the property are transferred to the client. Revenue amounts do not include sales taxes (VAT), but they do include the commercial discounts given. Financial discounts given to customers (discounts) reduce the value of the Company's revenue.

The Company recognizes revenues when their value can be measured in a reliable way, when it is likely to produce the future economic benefits to the entity and well as when specific criteria have been met for each of the Company's activities as described below. The amount of the revenues is not considered as measured reliably until all sales contingencies have been settled. The Company bases its estimates on historical data, taking into account the type of customer, the transaction type and the specific elements of each contract.

Revenues from the provision of services are recognized in the period in which they were provided and in correspondence with the execution stage.

Interest revenue is recognized periodically and proportionately, as the revenue is generated, and on the basis of accrual accounting.

Revenues from renting and / or rights to use assets are recognized on the basis of accrual accounting, as per the contract.

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3 TANGIBLE FIXED ASSETS	Property and buildings	Vehicles and equipment	Furniture, facilities and equipments	Assets under construction	Total
Financial exercise on 1st of January 2019					
Initial net book value	29.584.841	729.881	31.610	-	30.346.332
Transfers	-4.736.038	-	-	-	-4.736.038
Entries	-	42.884	6.142	43.610	92.636
Exits	-	-10.193	-	-36.630	-46.823
Amortization charges	-289.398	-72.626	-4.594	-	-366.618
Revaluation surplus in owner's equity	-	-	-	-	-
Discount from revaluation in income and expenses statement	-	-	-	-	-
Transfers	-	-	-	-	-
Final net book value on the 30th of June 2019	24.559.405	689.946	33.158	6.980	25.289.489
Cost or evaluation	24.848.803	8.260.344	111.877	6.980	33.228.004
Accumulated amortization	289.398	7.570.398	78.719	0	7.938.515
Net book value	24.559.405	689.946	33.158	6.980	25.289.489

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4 INTANGIBLE FIXED ASSETS

	<u>Information systems</u>	<u>Advances and other intangible fixed assets</u>	<u>Total</u>
Financial exercise on 1st of January 2019			
Initial balance	9.239	-	9.239
Entries	1.839	-	1.839
Amortization charges	1.893	-	1.893
Transfers	-	-	-
Closing balance on the 30th of June 2019	<u>9.184</u>	<u>-</u>	<u>9.184</u>
Cost	277.689	-	277.689
Accumulated amortization	<u>268.505</u>	-	<u>268.505</u>
Net book value	<u>9.184</u>	<u>-</u>	<u>9.184</u>

5 STOCKS

	<u>30th of June 2019</u>	<u>1st of January 2019</u>
Raw materials	2.464.90	2.715.596
Provisions for raw materials	-270.349	-328.283
Production to be executed	1.270.415	1.086.107
Provisions for goods in progress	-425.525	-428.345
Goods	162.469	162.898
Provisions for goods	-161.320	-161.475
End products	1.877.483	1.725.601
Provisions for end products	-767.338	-815.105
Other stocks	123.622	112.044
Provisions for other stocks	<u>-6.412</u>	<u>-8.670</u>

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	4.267.951	4.058.368
Total		

6 CLIENTS AND OTHER ACCOUNTS RECEIVABLE

	30th of June 2019	1st of January 2019
Commercial accounts receivable	923.536	843.834
Minus: provision for the depreciation of the commercial accounts receivable	-727.666	-727.666
Commercial accounts receivable – net	195.870	116.168
- out of which, in relation to affiliated entities	-	-
Accrued expenses	106.930	14.217
Advance payments to suppliers	7.663	353
Minus: provision for the depreciation of the advance payments	-	-
Various debtors	7.349	7.304
Other accounts receivable	467.957	521.382
The current portion of the commercial and other accounts receivable	785.769	659.424

7 SUPPLIERS AND OTHER LIABILITIES

	30th of June 2019	1st of January 2019
Commercial liabilities	9.833.307	9.363.146
- out of of which in relation to affiliated entities	9.646.352	8.781.856
Debts with personnel, contributions, social security	205.063	182.943
Value Added Tax (VAT)	0	0
Other liabilities	51.652	51.413
	10.090.022	9.597.502
Minus the long-term portion: subsidies	-	-

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The current portion of the commercial debts and other debts	<u>10.090.022</u>	<u>9.597.502</u>
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8 SHARE CAPITAL

The amount of the subscribed capital on the 30th of June 2019 was of 4.000.000 lei (31st of December 2018: 4.000.000 lei) representing 40.000.000 shares. All shares have the same voting right, with a nominal value of 0.1 lei / share and are traded on the BVB (Bucharest Stock Exchange), 2nd category.

According to the data supplied by the Central Depository, the shareholder structure on June 30th 2019 is presented as follows:

	<u>Number of shares (pcs)</u>	<u>Amount (lei)</u>	<u>Percentage (%)</u>
Hric Beteiligungs Ges.M.B.H Tridelta Heal	10.400.000	1.040.000	26.0000
Beteiligungsgesellschaft S.A.I. Swiss Capital Asset Management S.A.	6.703.418	670.342	16.7585
Legal persons	4.180.618	418.061	10.4515
Natural persons	10.864.625	1.086.463	27.1616
	7.851.339	785.134	19.6283
TOTAL	40.000.000	4.000.000	100.0000

Administrator,

Drawn up by,

Corpul Expertilor Contabile S.A.
 Filiala Hunedoara
 EXPERT CONTABIL
 Hudrea Aurelia Maria
 Nr.48206
 Viza on 2019
 2019-06-30 10:00

Declaration

in accordance with Art. 30 of the Accounting Law no. 82/1991

The financial statements as of 30.06.2019:

SC Armatura SA

County 12 – Cluj

Address: Cluj Napoca, Str. Garii, No. 19

Number in the Trade Register: J12 / 13/1991

Form of ownership: 34 - Stock company

Preponderant activity – Manufacture of valves

Fiscal identification code: RO 199001

Matthias Haider and Akper Saryyev , as Administrators of SC Armatura SA, takes responsibility for the semestrial financial statements as of 30.06.2019 and confirms that:

- a) The individual financial statements for 30.06.2019 have been prepared in accordance with International Financial Reporting Standards (IFRS) and the order of Ministry of Finance no. 2844/2016.
- b) The accounting policies used in preparing the annual financial statements are in accordance with the applicable accounting regulations.
- c) The financial statements present fairly the financial position, financial performance and other information of the activity carried.
- d) The legal person develops its activity in conditions of continuity.

Signatures,

