

Report 3rd quarter of 2019 according to ASF Regulation no. 5/2018

Reporting date: Nov 15, 2019

Name of the Trade Company: S.C. Electroputere S.A.

Headquarters: Craiova, 80 Calea București Street, Dolj County

Tel: 0251 / 437 119; **Fax:** 0372 003 056

Tax Code: 6312800

Registration in the Trade Register: J16/12/1991

Subscribed and paid up capital: 103.760.291,30

Regulated market where issued securities are traded: Bucharest Stock Exchange

General information

S.C. ELECTROPUTERE S.A. (the „Entity”) is an entity set up under the Romanian law. The Entity was initially established in 1949, having its main business purpose the manufacturing of electrotechnical equipment of high currents for energy sector and railway transport, and initially structured in four main production sectors: rotative motors, power transformers, electrical devices and locomotives.

Electroputere S.A. became a holding Company on August 17, 1994 and was privatized in October 2007, Al-Arrab Contracting Company Limited being the major shareholder.

The adress of the registered office of the Company is: Craiova, Bucuresti street, no. 80. Electroputere S.A. is listed on Bucharest Stock Exchange, having the symbol „EPT”.

The main categories of products of the Entity are: power transformers, rotative electrical engines, repairs and upgrades to equipment and installations.

During 2019 approximately 81% (2018:82%) of sales went to Romanian market.

1. Presentation of the main events that occurred in 2019 and their impact on the issuer’s financial situation and its branches.

Based on art. 1 of the EGMS decision no. 79 / 26.04.2018, on February 20, 2019, Electroputere SA donated to the Metropolitan of Oltenia the land with the surface of 3,600 sqm identified with cadastral number 10493/8/8, registered in the Land Book no.204972, Craiova, Dolj County, located in Craiova, 144 Calea Bucuresti, on which a church is built.

Electroputere SA (as seller) on February 20th 2019 has concluded a sale contract having as object the transfer of the following assets (immovables):

- The immovable located in Craiova, 75A Henry Coanda, Dolj county, cadastral number 7402, registered with land book no. 222851 of Craiova Municipality, Dolj County, composed of the plot of land having a surface of 723.27 sqm, together with the building erected on it, having cadastral number 7402-C1;

Total contract price amounts to 173.520 Euro, out of which paid at the signing date by the Buyer.

The sale of the aforementioned assets did not influence the current activity of the company, being not used for such current activity.

2. Economical and financial indicators

Indicator	Calculation method	Result
Current liquidity ratio	Current assets/ debts	0.14
Indebtedness indicator	Loan capital / Equity *100 Loan capital / Capital employed *100	N/A
Rate of debit turnover - customers	Average balance client / Turnover*90	548
Rate of fixed assets turnover	Turnover / Fixed assets	0.13

3. Economical and financial situation and analysis of S.C. Electroputere S.A. activity on September 30, 2019

Detailed comparative synthetic situation (3rd quarter of 2018 – 3rd quarter 2019) as well as the activity analysis of S.C. Electroputere S.A. are presented as follow:

S.C. ELECTROPUTERE S.A.

**FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019**

**PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION
("IFRS")**

CONTENT:**PAGE:**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	3
STATEMENT OF FINANCIAL POSITION	4
STATEMENT OF CASH FLOW	5 – 6
STATEMENT OF CHANGES IN EQUITY	7 – 8
ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS	9 – 50

S.C. ELECTROPUTERE S.A.
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
AS OF SEPTEMBER 30, 2019

(all amounts are expressed in RON, unless otherwise specified)

	Note	Year ended September 30, 2019	Year ended, September 30, 2018
		unaudited	unaudited
Revenue	4	28,976,597	64,725,172
Cost of sales	5	(35,131,316)	(68,116,230)
Gross profit / (loss)		(6,154,719)	(3,391,058)
Administrative expenses	9	(17,062,244)	(16,214,089)
Other operating expenses	7	9,258,675	(278,814)
Distribution expenses		(458,773)	(1,013,679)
Other gains or (losses)	6	(16,505,973)	30,012,160
Finance costs	8	(10,938,217)	(10,868,855)
Finance income	8	734	764
Profit/Loss before tax		(41,860,517)	(1,753,571)
Income tax credit	10	-	-
Profit/Loss for the year		(41,860,517)	(1,753,571)
Other comprehensive income, net of tax:			
Gain on revaluation of properties		-	-
Deferred tax related revaluation of properties		-	-
Total comprehensive income		(41,860,517)	(1,753,571)
Earnings/losses per share		(0.04)	(0.002)

OSAMA M.T. AL-HALABI
President

LAVINIA PETCU
Financial Manager

The notes attached are an integral part of these financial statements.
This is a free translation from the original Romanian binding version.

S.C. ELECTROPUTERE S.A.
STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2019

(all amounts are expressed in RON, unless otherwise specified)

	<u>Note</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>
		<u>unaudited RON</u>	<u>audited RON</u>
ASSETS			
Non-current assets			
Property, plant and equipment	11	220,050,082	228,948,585
Intangible assets	12	100,349	772,402
Other assets	13	2,015,722	1,586,132
Total non-current assets		<u>222,166,153</u>	<u>231,307,119</u>
Current assets			
Inventories	14	5,704,942	9,048,052
Trade and other receivables	15	44,259,113	51,247,724
Other assets	13	24,669,469	23,686,261
Cash and cash equivalents	16	1,090,389	2,730,073
Total current assets		<u>75,723,913</u>	<u>86,712,110</u>
Total assets		<u>297,890,066</u>	<u>318,019,229</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	18	103,760,291	103,760,291
Reserves	19	81,302,365	81,302,365
Accumulated deficit		(425,227,259)	(383,366,741)
Total equity		<u>(240,164,603)</u>	<u>(198,304,085)</u>
Non-current liabilities			
Borrowings	20	-	-
Retirement benefit obligation LT		700,668	700,668
Other non-current liabilities	23	3,800,820	3,800,820
Total non-current liabilities		<u>4,501,488</u>	<u>4,501,488</u>
Current liabilities			
Trade and other payables	22	147,553,959	108,813,074
Retirement benefit obligation ST		131,473	131,473
Borrowings	20	375,692,597	386,016,062
Provisions	21	2,094,108	5,262,513
Other current liabilities	23	8,081,044	11,598,704
Total current liabilities		<u>533,553,181</u>	<u>511,821,826</u>
Total liabilities		<u>538,054,669</u>	<u>516,323,314</u>
Total equity and liabilities		<u>297,890,066</u>	<u>318,019,229</u>

OSAMA M,T, AL-HALABI
President

LAVINIA PETCU
Financial Manager

The notes attached are an integral part of these financial statements.
This is a free translation from the original Romanian binding version.

S.C. ELECTROPUTERE S.A.
STATEMENT OF CASH FLOW
AS OF SEPTEMBER 30, 2019

(all amounts are expressed in RON, unless otherwise specified)

	Year ended as at:	
	September 30, 2019	September 30, 2018
	unaudited	unaudited
Cash flow from operating activities:		
Net loss	(41,860,517)	(1,753,571)
Adjustments:		
Depreciation and amortization of non-current assets	2,913,909	5,733,043
Revaluation of property effect	-	-
Adjustment of impairment of non current assets	-	-
Expense / (Reversal) of provisions for doubtful accounts receivable	(2,840,961)	(1,618,411)
Provisions for other current assets	215,747	45,080
Charges to / (Reversal of) provisions for slow moving and obsolete inventories	(2,007,649)	5,055,691
Reversal of) / Charges to provisions for risks and charges	(3,168,405)	(8,455,616)
Income from fixed assets sale	6,587,741	(30,513,971)
Expense with provision for employee benefits	-	-
Net interest expenses	10,937,483	10,868,855
Unrealized forex (gain) / loss differences	-	(3,267,894)
Donations	-	-
Movements in working capital:		
(Increase) / Decrease in trade and other receivables	8,823,008	(5,699,946)
Decrease / (Increase) in inventories	5,350,759	4,678,528
Decrease / (Increase) of good execution guarantees granted to customers	(429,590)	(22,570)
Decrease / (Increase) in prepaid expenses	631,482	750,319
Increase in trade and other payables	35,223,225	17,436,939
Cash (used in) / generated by operations	20,376,231	(6,763,524)
Interest paid	(635,056)	(2,871,158)
Interest received	-	-
Cash flows (used in) / generated by operating activities	19,741,175	(9,634,682)
Cash flow from investing activities:		
Payments for acquisitions of property, plant and equipment and intangible assets	(754,966)	(911,295)
Proceeds from disposals of property, plant and equipment	-	35,856,827
Cash flows (used in) investing activities	(754,966)	34,945,532

The notes attached are an integral part of these financial statements.
This is a free translation from the original Romanian binding version.

**S.C. ELECTROPUTERE S.A.
STATEMENT OF CASH FLOW
AS OF SEPTEMBER 30, 2019**

(all amounts are expressed in RON, unless otherwise specified)

	Year ended September 30, 2019	Year ended September 30, 2018
	unaudited	unaudited
Cash flow from financing activities:		
Increase / (Decrease) in loans from financial institutions	(20,625,894)	(25,300,486)
Payments for leasing		
Cash generated by / (used in) financing activities	(20,625,894)	(25,300,486)
Net (decrease) in cash and cash equivalents	(1,639,685)	10,364
Cash and cash equivalents at the beginning of the year	2,730,073	1,440,528
Cash and cash equivalents at the end of the year	1,090,389	1,450,889

OSAMA M,T, AL-HALABI
President

LAVINIA PETCU
Financial Manager

The notes attached are an integral part of these financial statements.
This is a free translation from the original Romanian binding version.

S.C. ELECTROPUTERE S.A.
STATEMENT OF CHANGES IN EQUITY
AS OF SEPTEMBER 30, 2019

(all amounts are expressed in RON, unless otherwise specified)

	<u>Share capital</u>	<u>Other reserves</u>	<u>Revaluation reserves</u>	<u>Accumulated deficit from the transition to IFRS</u>	<u>Accumulated deficit</u>	<u>Total</u>
Balance at January 1, 2018	<u>103,760,291</u>	<u>60,918,636</u>	<u>20,383,729</u>	<u>377,386,808</u>	<u>(747,631,101)</u>	<u>(185,181,637)</u>
Loss for the year	-	-	-	-	(13,122,450)	(13,122,450)
Other comprehensive income	-	-	-	-	-	-
Elimination of share capital inflation adjustment	-	-	-	-	-	-
Others	-	87,466	(87,466)	-	-	-
Balance at December 31, 2018	<u>103,760,291</u>	<u>61,006,102</u>	<u>20,296,263</u>	<u>377,386,808</u>	<u>(760,753,549)</u>	<u>(198,304,085)</u>

OSAMA M,T, AL-HALABI
 President

LAVINIA PETCU
 Financial Manager

The notes attached are an integral part of these financial statements.
 This is a free translation from the original Romanian binding version.

S.C. ELECTROPUTERE S.A.
STATEMENT OF CHANGES IN EQUITY
AS OF SEPTEMBER 30, 2019

(all amounts are expressed in RON, unless otherwise specified)

	<u>Share capital</u>	<u>Other reserves</u>	<u>Revaluation reserves</u>	<u>Accumulated deficit from the transition to IFRS</u>	<u>Accumulated deficit</u>	<u>Total</u>
Balance at January 1, 2019	103,760,291	61,006,102	20,296,263	377,386,808	(760,753,549)	(198,304,085)
Loss at September 30, 2018	-	-	-	-	(41,860,517)	(41,860,517)
Revaluation of property gain	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-
Deferred tax related revaluation reserves	-	-	-	-	-	-
Others	-	-	-	-	-	-
Balance at September 30, 2019	103,760,291	61,006,102	20,296,263	377,386,808	(802,614,067)	(240,164,603)

OSAMA M,T, AL-HALABI
 President

LAVINIA PETCU
 Financial Manager

The notes attached are an integral part of these financial statements.
 This is a free translation from the original Romanian binding version.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019

(all amounts are expressed in RON, unless otherwise specified)

1. GENERAL INFORMATION

S,C, ELECTROPUTERE S,A, (the „Entity”) is an entity set up under the Romanian law. The Entity was initially established in 1949, having its main business purpose the manufacturing of electrotechnical equipment of high currents for energy sector and railway transport, and initially structured in four main production sectors: rotative motors, power transformers, electrical devices and locomotives,.

Electroputere S,A, became a holding Company on August 17, 1994 and was privatized in October 2007, Al-Arrab Contracting Company Limited being the major shareholder.

The adress of the registered office of the Company is: Craiova, Bucuresti street, no, 80.

The main categories of products of the Entity are: power transformers, rotative electrical engines, repairs and upgrades to equipment and installations.

During 2019 approximately 81% (2018: 82%) of sales went to Romanian market, Electroputere S,A, is listed on Bucharest Stock Exchange, having the symbol „EPT”. Its prices per share could be analyzed as follows:

	<u>2019</u>	<u>2018</u>
Minimum price	0,0105	0,0100
Maximum price	0,0115	0,0105

The evolution of average number of the Entity’s employees was as follows:

	<u>2019</u>	<u>2018</u>
Average number of employees	275	663

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

a) Initial application of new amendments to the existing standards 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 IAS 7 “Statement of Cash Flows”** - Disclosure Initiative – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017).
- **Amendments to IAS 12 “Income Taxes”** - Recognition of Deferred Tax Assets for Unrealised Losses – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017).

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019

(all amounts are expressed in RON, unless otherwise specified)

- **Amendments to IFRS 12 due to "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 7 February 2018 (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017).

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

- **IFRS 9 "Financial Instruments"** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018).
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).
- **IFRS 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019).
- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time).
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018).
- **Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018).

The Company has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates. The Company anticipates that the adoption of these standards and amendments to existing standards will have no material impact on the financial statements of the Company in the period of initial application.

b) 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 for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU (the effective dates stated below is for IFRS in full):

- **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.
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021).

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019

(all amounts are expressed in RON, unless otherwise specified)

- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018).
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019).
- **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 deferred indefinitely until the research project on the equity method has been concluded).
- **Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019).
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019).
- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018).
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019).
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

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

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the European Union (EU), as provided for by the Public Finance Minister no 2844/2016 and its subsequent amendments.

Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain classes of property plant and equipment and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below, Historical cost is generally based on the fair value of the consideration given in the exchange for assets

The principal accounting policies are set out below:

Going concern

The financial statements have been prepared on a going concern basis, under the historical cost convention adjusted for the effects of hyperinflation until 31 december 2003 for share capital and reserves, respectively equipments.

As at September 30, 2019, the Company recorded an accumulated loss from the previous years in the amount of RON 425,227,259, negative net assets in the amount of RON 240,164,603, net current liabilities in amount of RON 533,553,181 and the loss for the year then ended amounts to RON 41,860,517. These matters indicate an uncertainty regarding the Company's ability to continue as a going concern and an decreased liquidity risk. In addition, according to statutory commercial law 31/1990, revised, in the event where the administrators ascertain that, further to incurring losses, the net assets, calculated as the difference between total assets and total liabilities of the Company, are less than half the value of the share capital, the administrators shall convene the general meeting of shareholders to decide whether to increase the share capital or to reduce it to the remaining value or to dissolve the Company.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Going concern (continued)

Management believes that it is unlikely that the Company will be subject to dissolution procedures in the foreseeable future, but the operational activity will be closed on 31.12.2019, following that in 2020, the shareholders will take a decision regarding the continuation / closure of the activity. These financial statements do not include adjustments that might arise from this uncertainty regarding the ability of the Company to continue as a going concern.

The principal accounting policies are presented below:

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, Revenue is reduced by estimated customer returns, rebates and other similar allowances.

Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- The Entity has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Entity 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 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,

Specifically, revenue from sale of goods is recognized when goods are delivered and legal title is passed. Revenues from the sale of power transformers are recognized using the principles of the construction contracts,

Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- installation fees are recognized by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the end of the reporting period;
- servicing fees included in the price of products sold are recognized by reference to the proportion of the total cost of providing the servicing for the product sold; and
- revenue from time and material contracts is recognized at the contractual rates as labour hours and direct expenses are incurred,

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Entity and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Construction contracts (transformers factory)

In accordance with the provisions of IFRS 15 – Revenue from contracts with clients, when the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative for the stage of completion.

Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately and the Company records provisions for onerous contracts.

When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work, For contracts, where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the statement of financial position under trade and other receivables.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Entity's as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Entity's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Entity's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

The Entity as lessee

Assets held under finance leases are initially recognized as assets of the Entity at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation,

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Entity's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

The Company's operations are in Romania and the functional currency is RON.

In preparing the financial statements of the Entity, transactions in currencies other than the Entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date, Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined, Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks,

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The official conversion rates used to convert foreign currency denominated balance sheet items at the end of the reporting periods were as follows:

- December 31st, 2018: 4,0736 RON/USD si 4,6639 RON/EUR;
- September 30^{ty}, 2019: 4.3488 RON/USD si 4,7511 RON/EUR;

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale,

All other borrowing costs are recognized in profit or loss account in the period in which they are incurred.

Employee benefits

The Entity, in the normal course of business, makes payments to the Romanian State on behalf of its employees for pensions, health care and unemployment cover, The cost of these payments is charged to profit or loss account in the same period as the related salary cost.

The Entity pays employees retirement benefits, benefits which are defined in the Collective Labor Agreement of the Entity.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Entity's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period,

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, Deferred tax liabilities are generally recognized for all taxable temporary differences.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax (continued)

Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognized in the profit or loss account, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

Statutory income tax rate for 2019 was 16% (December 31, 2018: 16%).

Property, plant and equipment

Each asset with an acquisition cost exceeding RON 2,500 and estimated useful life of over one year are capitalized. Fixed assets with an acquisition cost lower than RON 2,500 are recorded as an expense.

Cost

The Entity's land and buildings were presented at the date of the transition to International Financial Reporting Standards based on deemed cost, which is equal to the market value of these assets at the date of the transition determined based on a revaluation carried out by an independent appraiser. Subsequently the land and buildings held by the Company have been revalued and are carried in the financial statements at revalued cost.

The Entity's equipments were presented at the date of transition to International Financial Reporting Standards at initial cost on which general price indexes have been applied for the period 1990 – 2003, during which Romania was a hyperinflationary economy.

The expenses with the major improvements are capitalized, based on the criteria whereas they extend the operating life of asset or lead to a significant increase in its ability to generate revenue. Cost of maintenance, repair and minor improvements are shown on expenses when they are carried out.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Cost (continued)

Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period. Any revaluation increase arising on the revaluation of such land and buildings is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss account, in which case the increase is credited to profit or loss account to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recorded in profit or loss account to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. On subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

The Company revaluated its land and buildings as of December 31st 2017, with the support of independent evaluator certified by ANEVAR, and the result was a net loss from revaluation of RON 307,611 out of which the amount of 8,983,627 was booked as increase of revaluation reserves and the amount of RON 9,291,238 was booked as adjustment in the profit and loss account of the 2017 year.

As of 31.12.2018 the assets held by the company have not been revalued.

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at the value presented above, deducting any accumulated amortization and any subsequent impairment allowance.

Assets in course of construction to be used for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees, and, for qualifying assets, borrowing costs capitalised in accordance with the International Financial Reporting Standards. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continue use of the asset.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of comprehensive income.

Depreciation and amortization

Property, plant and equipment and intangible assets are depreciated/amortized on a straight line basis, according to their estimated useful lives since the date of put in function, so that the cost to be decreased to the estimated residual value at the end of their useful live. The main useful lives for the various categories of property, plant and equipment are:

	Years
Buildings and special constructions	30 – 60
Installations and equipment	10 – 25
Computers and electronic equipment	3 – 5
Vehicles	3 – 5

Land is not depreciated as it is assumed to have an unlimited service life.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Depreciation and amortization (continued)

Estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period. If the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount.

Assets held under finance leases are depreciated over the useful life on the same basis as owned assets or, where the period is shorter, over the term of the relevant lease contract.

An item of property is no longer recognized as a result of the disposal or when no future economic benefits are expected from continued use of the asset.

Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalized and the carrying amount of the initial component is canceled. Other subsequent expenditure is capitalized only when future economic benefits are expected through the use of such assets, All other expenditure is recognized in the profit or loss account as incurred.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses, Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis, Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development,

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Internally-generated intangible assets - research and development expenditure

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognized in the statement of comprehensive income in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in the statement of comprehensive income when the asset is derecognised.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets other than goodwill (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the statement of comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Inventories like raw materials, consumables, materials in the form of inventory items, goods and packages are valued at acquisition cost or the price in foreign currency at the exchange rate on the date of acquisition, plus custom duties, custom fees and travel expenses such as insurance.

Production in progress, semi-finished and finished goods are valued at the production cost.

Costs of inventories are determined on a first-in-first-out basis, Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that the Entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Entity has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

Restructuring

A restructuring provision is recognized when the Entity has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Warranties

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognized at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Entity's obligation.

Financial instruments

Financial assets and financial liabilities are recognized when the Entity becomes a party to the contractual provisions of the instrument.

Financial assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL), and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognised on a trade date basis, Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial assets is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Entity manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument,

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Entity's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 "Financial instruments": Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the "Net financial expenses" in the statement of comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, Loans and receivables (including trade and other receivables, bank balances and cash, etc,) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Entity's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- The disappearance of an active market for that financial asset because of financial difficulties,

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Derecognition of financial assets

The Entity derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset other than in its entirety (e.g, when the Entity retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Entity retains control), the Entity allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by the Entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and equity instruments (continued)

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities, Equity instruments issued by the Entity are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been acquired principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Entity manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument,

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Entity's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'financial cost, net' line item in the statement of comprehensive income/income statement.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and equity instruments (continued)

Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Entity derecognises financial liabilities when, and only when, the Entity's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognized in profit or loss account.

Related parties

Parties are considered related when other party, either through ownership, contractual rights, family relationship or otherwise, has the ability to directly control or significantly influence the other party.

Operating segments

An operating segment is a component of the 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 regularly reviewed 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, Segment information is presented in respect of the Entity's business and geographical segments and is determined based on the Entity's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis,

Use of estimates

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments (other than investment property) and related revenue, loans and borrowings and related expenses, corporate assets (primarily the Entity's premises) and head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates (continued)

In the application of the Entity's accounting policies, as described above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on a ongoing basis, Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting judgements

The following are the critical judgements that the directors have made in the process of applying the Entity's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

i) Impairment of tangible and intangible assets

At each balance sheet date, the Entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, management estimates future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

ii) Useful lives of property, plant and equipment

The Entity reviews for adequacy the estimated useful lives of property, plant and equipment at the end of each annual reporting period.

iii) Restructuring provisions

iv) Deferred taxes

v) Provisions and contingent liabilities

vi) Allowances for bad and doubtful customers

vii) Allowances for obsolete inventory or for net realizable value adjustments

The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

4. REVENUES

Below, is in analysis of the Company's revenues for the period.

	September 30, 2019	September 30, 2018
	unaudited	unaudited
Revenues from sales of goods	26,632,937	63,392,911
Revenue from commodities	(647)	-
Revenue from rendering of services	73,298	46,055
Other revenues	2,271,009	1,286,206
Total	28,976,597	64,725,172

	Segment revenue	
	September 30, 2019	September 30, 2018
Domestic sales (Romania)	23,326,451	28,387,581
Sales on foreign markets	5,650,146	10,326,637
Total	28,976,597	38,714,218

Segmentation revenue and profits

	Segment revenues		Segment (losses)	
	Sept 30, 2019	Sept 30, 2018	Sept 30, 2019	Sept 30, 2018
Power transformers	19,230,882	28,155,648	(9,108,743)	(10,321,632)
Electric engines	8,499,979	10,070,150	(4,697,515)	(2,212,624)
Administrative – not allocated	1,245,736	488,420	(28,054,259)	19,020,224
Total from operations	28,976,597	38,714,218	(41,860,517)	6,485,967

Segment Assets and Liabilities

	Segment Assets		Segment Liabilities	
	Sept 30, 2019	Sept 30, 2018	Sept 30, 2019	Sept 30, 2018
Power transformers	118,756,696	128,097,279	224,242,765	218,100,078
Electric engines	34,796,967	41,883,610	64,039,747	63,052,441
Administrative – not allocated	144,336,403	151,266,897	249,772,157	220,300,242
Total Assets/ Liabilities	297,890,066	321,247,786	538,054,669	501,452,761

This is a free translation from the original Romanian binding version.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

5. COST OF SALES

	September 30, 2019	September 30, 2018
	unaudited	unaudited
Raw materials	16,624,384	40,053,246
Consumables expenses	859,006	1,948,213
Packages expenses	3,197	12,931
Energy, water and gas	1,441,268	1,982,974
Repairs	7,959	255
Staff costs	11,502,111	17,988,093
Depreciation and amortization related to non-current assets	2,838,522	2,969,223
Others	7	17
Third party services	1,575,374	2,524,775
Discounts received	-	-
Transportation expenses	133,813	270,322
Telecommunication expenses	26,187	43,846
Rent	73,704	108,938
Entertainment, promotion and advertising	2,011	1,176
Environmental expenses	43,773	212,221
Total	35,131,316	68,116,230

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

6. OTHER GAINS AND LOSSES

	September 30, 2019	September 30, 2018
	unaudited	unaudited
Income from sale of fixed assets	823,873	46,017,905
Expenses with disposal of property, plant and equipment	(9,072,999)	(15,173,960)
Income / (Expense) net of exchange differences	<u>(8,256,847)</u>	<u>(831,785)</u>
Total	<u>(16,505,973)</u>	<u>30,012,160</u>

7. OTHER OPERATING EXPENSES

	September 30, 2019	September 30, 2018
	unaudited	unaudited
	RON	RON
Other income	1,182,840	635,167
(Expenses with) / Reversal of provisions for current assets	8,638,900	28,474
(Net expense) with additional liability related fiscal inspection (Note 13)	-	-
(Expenses with) provisions for risks and charges	3,169,536	3,065,470
(Expense with) depreciation of fixed assets	-	45,205
Travel expenses, and transfer postings	-	-
Environmental expenses	-	(2,329,100)
Other expenses	<u>(3,732,601)</u>	<u>(1,724,030)</u>
Total	<u>9,258,675</u>	<u>(278,814)</u>

8. FINANCE COSTS, NET

	September 30, 2019	September 30, 2018
	unaudited	unaudited
Interest income	(734)	(764)
Interest expense from loans and leasing	<u>10,938,217</u>	<u>10,868,855</u>
Total	<u>10,937,483</u>	<u>10,868,091</u>

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019

(all amounts are expressed in RON, unless otherwise specified)

9. ADMINISTRATIVE EXPENSES

	September 30, 2019	September 30, 2018
	unaudited	unaudited
Energy, water and gas	392,180	294,884
Repairs expenses	18,116	10,825
Insurance premiums	77,864	111,571
Staff costs	8,362,436	7,527,464
Fees and charges	8,451	188,089
Entertainment, promotion and advertising	8,418	25,033
Travel and detachment costs	319,760	292,502
Other third party services	2,118,618	2,253,151
Other taxes, charges and similar expenses	1,263,189	1,376,538
Consumables expenses	362,677	529,153
Bank charges	227,748	547,347
Merchandise expenses	15,363	10,111
Rent expenses	72,244	117,548
Depreciation expense	2,726,774	2,929,873
Expenses from materials cassation	1,088,406	-
Total	17,062,244	16,214,089

10. INCOME TAX

(Income) / expense for the current and deferred tax recognized in the income statement (-a) for 2019 and 2018 is detailed below,

	September 30, 2019	September 30, 2018
	unaudited	unaudited
Current tax		
Current income tax expense	-	-
Deferred tax (income)	-	-

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019

(all amounts are expressed in RON, unless otherwise specified)

11. PROPERTY, PLANT AND EQUIPMENT

	<u>Land</u>	<u>Buildings and other constructions</u>	<u>Plant and machinery</u>	<u>Equipment and vehicles</u>	<u>Advances for fixed assets and capital work in progress</u>	<u>Total</u>
COST						
December 31, 2018	<u>183,038,498</u>	<u>48,434,462</u>	<u>244,278,065</u>	<u>107,315,962</u>	<u>4,740,115</u>	<u>587,807,102</u>
Additions			114,845	5,853	634,269	754,966
Transfers						
Disposals	4,322,149	445,332	74,604	-	3,843,845	8,685,930
Transfers						
Revaluation impact						
September 30, 2019	<u>178,716,349</u>	<u>47,989,130</u>	<u>244,318,305</u>	<u>107,321,815</u>	<u>1,530,539</u>	<u>579,876,139</u>
ACCUMULATED DEPRECIATION						
December 31, 2018	<u>72,306</u>	<u>5,868,318</u>	<u>241,113,127</u>	<u>107,272,390</u>	<u>-</u>	<u>354,326,140</u>
Depreciation expense	26,030	4,326,999	998,856	6,311	-	5,358,195
Eliminated on disposals of assets	-	37,786	72,496	-	-	110,282
Revaluation impact						
September 30, 2019	<u>98,336</u>	<u>10,157,531</u>	<u>242,039,487</u>	<u>107,278,700</u>	<u>-</u>	<u>359,574,053</u>

This is a free translation from the original Romanian binding version.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019

(all amounts are expressed in RON, unless otherwise specified)

11. PROPERTY, PLANT AND EQUIPMENT (continued)

	<u>Land</u>	<u>Buildings and other constructions</u>	<u>Plant and machinery</u>	<u>Equipment and vehicles</u>	<u>Advances for fixed assets</u>	<u>Total</u>
IMPAIRMENT ALLOWANCE						
December 31 2018	-	-	-	-	(4,532,376)	(4,532,376)
	-	-	-	-	-	-
Impairment losses recognized in profit or loss account	-	-	-	-	(4,280,373)	(4,280,373)
September 30, 2019	-	-	-	-	(252,003)	(252,003)
NET BOOK VALUE						
December 31 2018	182,966,192	42,566,144	3,164,938	43,572	207,739	228,948,585
September 30, 2019	178,618,013	37,831,599	2,278,818	43,115	1,278,536	220,050,082

This is a free translation from the original Romanian binding version.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

11. PROPERTY, PLANT AND EQUIPMENT (continued)

Fair value of property, plant and equipment

The Company's land and buildings are disclosed in the financial statements at revalued values as of December 31, 2017, which is the fair value as at the valuation date less accumulated depreciation and impairment allowances.

The fair value of the Company's land was determined using the direct comparison method.

This method is recommended for properties when there is sufficient and reliable data on sales transactions or similar offers involving properties in the area. Analysis of prices at which the transactions were made or of the prices charged or offered for comparable properties is followed by adjustments to such prices, to quantify the differences between the prices paid, charged or offered due to differences between specific characteristics of each property, called elements of comparison.

The fair value of buildings was determined through the cost approach.

This method assumes that the maximum value of an asset for an informed buyer is the amount needed to buy or build a new asset of an equivalent utility, When the asset is not new, all forms of depreciation that can be assigned for those assets up to the valuation date should be subtracted from the current gross cost.

Information on the hierarchy of fair value as at September 30, 2019 and December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	Fair value as at September 30, 2019 unaudited
Land	-	-	178,618,013	178,618,013
Buildings and other constructions	-	-	37,831,599	37,831,599
				Fair value as at December 31, 2018 audited
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Land	-	-	182,966,192	182,966,192
Buildings and other constructions	-	-	42,566,144	42,566,144

The value at cost of property, plant and equipment as at June 30, 2019 and December 31, 2018, net of accumulated expenses with depreciation and impairment is presented below:

	Value at cost Sept 30, 2019 unaudited	Value at cost December 31, 2018 audited
Land	178,618,013	182,966,192
Buildings and other constructions	37,831,599	42,566,144
Plant and machinery	2,278,818	3,164,938
Equipment and vehicles	43,115	43,572
TOTAL	218,771,545	228,740,846

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

11. PROPERTY, PLANT AND EQUIPMENT (continued)

1. Pledged property, plant and equipment

As of September 30, 2019 the net book value of the property, plant and equipment pledged in favour of banks, with regard to the loans of the Entity, is of RON 204,875,610 (December 31, 2018: RON 217,228,500).

2. Property, plant and equipment purchased under finance lease

As of September 30, 2019, the net book value of the property, plant and equipment purchased under finance leases was of RON 0 (December 31, 2018: RON 0).

Based on art, 1 of the EGMS decision no, 79 / 26,04,2018, on February 20, 2019, Electroputere SA donated to the Metropolitan of Oltenia the land with the surface of 3,600 sqm identified with cadastral number 10493/8/8, registered in the Land Book no,204972, Craiova, Dolj County, located in Craiova, 144 Calea Bucuresti, on which a church is built.

Electroputere SA (as seller) on February 20th 2019 has concluded a sale contract having as object the transfer of the following assets (immovables):

- The immovable located in Craiova, 75A Henry Coanda, Dolj county, cadastral number 7402, registered with land book no, 222851 of Craiova Municipality, Dolj County, composed of the plot of land having a surface of 723,27 sqm, together with the building erected on it, having cadastral number 7402-C1;

Total contract price amounts to 173,520 Euro, out of which paid at the signing date by the Buyer.

The sale of the aforementioned assets did not influence the current activity of the company, being not used for such current activity.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

12. INTANGIBLE ASSETS

	<u>Development expenses</u>	<u>Other intangibles</u>	<u>Advances for intangibles</u>	<u>Total</u>
COST				
December 31, 2018	217,867	2,331,020	557,533	3,106,420
Additions	-	-	-	-
Disposals	217,867	2,330,956	457,235	3,006,059
Sept 30, 2019	-	63	100,298	100,361
ACCUMULATED AMORTISATION				
December 31, 2018	71,693	2,262,325	-	2,334,018
Amortisation expense	146,174	68,645	-	214,818
Eliminated on disposal of assets	217,867	2,330,956	-	2,548,824
Sept 30, 2019	-	13	-	13
IMPAIRMENT ALLOWANCE				
December 31, 2018	-	-	-	-
Impairment losses of intangible assets in progress	-	-	-	-
Sept 30, 2019	-	-	-	-
December 31, 2018	0	214,868	557,533	772,402
Sept 30, 2019	0	51	100,298	100,349

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

13. OTHER ASSETS

	September 30, 2019	December 31, 2018
	unaudited	audited
Guarantees on long-term	2,015,722	1,586,132
Guarantees on short-term	1,628,745	1,592,071
Provisions for guarantees	-	(215,747)
Other investments	1,818	1,818
Advance payments	491,130	140,352
Sundry debtors	9,223,373	8,077,676
VAT receivable	13,324,403	14,090,091
Less: Allowance for doubtful VAT receivable		
Total	26,685,191	25,272,393

During the year ended December 31, 2014 the Company was subject to a VAT reimbursement control by the local tax authorities, covering prior periods December 2008 – February 2014. The VAT amount requested by the Company for reimbursement was RON 8,507,956, The VAT inspectors disallowed the amount requested for reimbursement by the Company and assessed additional VAT liabilities in amount of RON 8,404,943 and additional late payment interest and related penalties in the amount of RON 5,635,396, Following the fiscal inspection, there is an ongoing litigation between ANAF and Electroputere, On 5th of October 2017. The Appeal Court of Craiova issued Resolution no, 540 by cancelling the fiscal inspection report and rejected the request of Electroputere for VAT reimbursement. Based on management's best estimate related to the recoverability of these amounts as at December 31, 2017, the Company recorded a receivable equal to amount requested to be reimbursed of RON 8,507,956, a liability of RON 1,752,854, and reversed all the previous existing provisions. During the year 2017, Electroputere paid to ANAF the amount of RON 6,245,767 and by the end of February 2018 paid also the rest of RON 1,472,579, covering practically the whole debt claimed by ANAF. However, Electroputere paid all these amounts being forced by participation to public tenders and has never admitted or recognized the dbt, Until the approval of these financial statements for the year ended December 31, 2017 the case was not settled.

	September 30, 2019	December 31, 2018
	unaudited	audited
Guarantees on long-term	2,015,722	1,586,132
Other current assets	24,669,469	23,686,261
Total	26,685,191	25,272,393

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019

(all amounts are expressed in RON, unless otherwise specified)

14. INVENTORIES

	September 30, 2019	December 31, 2018
	unaudited	audited
Raw materials	7,772,579	10,337,580
Consumables	233,307	289,365
Materials in the form of inventory items	894,466	1,197,212
Packaging	98,513	434,662
Finished goods	1,038,244	1,202,191
Work in progress	698,156	2,632,130
Semi-finished goods	595,416	593,092
Residual products	10,347	5,555
Goods	47,369	47,369
Allowance for impairment of inventories	(5,683,455)	(7,691,104)
Total	5,704,942	9,048,052

Inventories are carried at the lower of cost and net realisable value, The Company's policy of recognising allowances for obsolete inventories is for inventories between 6 and 12 months 25%, for inventories older than 12 months but not more than 24 months 50%, for inventories older than 24 months but not older than 36 months 75%, for inventories older than 36 months but not older than 48 months 80% and for those older than 48 months 99%.

The movement in the allowance for slow moving and obsolete inventory is presented below:

	September 30, 2019	December 31, 2018
	unaudited	audited
Balance at the beginning of the year	7,691,104	9,166,596
Charge / (Release) in the current year	(2,007,649)	(1,475,492)
Balance at the end of the year	5,683,455	7,691,104

15. TRADE AND OTHER RECEIVABLES

	September 30, 2019	December 31, 2018
	unaudited	audited
Trade receivables	53,397,949	64,296,807
Trade receivables recognised under IAS 11	7,107,438	5,839,487
Allowance for doubtful receivables	(16,305,602)	(19,146,563)
Advances paid for inventories	45,356	235,075
Advances paid for services	13,972	22,918
Total	44,259,113	51,247,724

Trade and other receivables are carried at amortized cost, less any impairment losses.

In determining the recoverability of trade receivables, the Company takes into account changes in the creditworthiness of the customer from the date of credit to the reporting date. Concentration of credit risk is limited due to the existence of a large portfolio of clients unaffiliated. Thus, the Company's management believes that no additional adjustments are needed for trade receivables impairment than those recognized in these financial statements.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

15. TRADE AND OTHER RECEIVABLES

The Company is recording the due dates for the invoices issued based on the commercial clauses included in the contracts concluded between the parties. For the power transformer sales the commercial clauses usually include amounts that will be received by the Company after the put in function of the power transformer in the electric stations of the end customers. The due date of the invoice for the sales of power transformers can suffer changes depending on the date on which the electric station is ready to be used.

The trade receivables recognised under the construction contracts for the open orders as at the financial year end are presented above in the caption "Trade receivables recognised under IAS 11"

Aging of receivables that are older than 60 days:

	September 30, 2019	December 31, 2018
	unaudited	audited
60-90 days	21,772,444	412,892
90-120 days	11,022	49,366
Over 120 days	18,448,784	18,605,826
Total	40,232,250	19,068,084

Movement in allowance for trade receivables is as follows:

	September 30, 2019	December 31, 2018
	unaudited	audited
Balance at the beginning of the year	19,146,563	17,150,795
Release in the current year	(2,840,961)	1,995,768
Balance at the end of the year	16,305,602	19,146,563

Aging of receivables past due and impaired:

	September 30, 2019	December 31, 2018
	unaudited	audited
Over 120 days	13,866,819	16,707,780
Total	13,866,819	16,707,780

16. CASH AND CASH EQUIVALENTS

	September 30, 2019	December 31, 2018
	unaudited	audited
Bank accounts	1,088,539	2,719,815
Other	1,850	10,258
Cash equivalents	-	-
Total	1,090,389	2,730,073

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

17. EMPLOYEE BENEFITS

According to the Collective Labor Agreement of Electroputere, the employees have the following benefits:

- Retirement benefits: 1 x negotiated salary of the previous month to retiring
- Employee death allowance: 2 x medium salary in the company realized in the previous month
- Fidelity allowance: 1 x minimum salary in the company, paid when the employee reach the seniority of: 25, 30, 35 and 40 uninterrupted in the company.

In 2019, the provision for employees benefits has the following structure:

	September 30, 2019	December 31, 2018
	unaudited	audited
Retirement benefits	409,058	409,058
Death allowance	112,333	112,333
Fidelity allowance	310,750	310,750
Total	832,141	832,141

The following assumptions have been considered when the provision amount was calculated:

- Mortality rate of Romania, published by National institute of Statistics (INSSE) for the year 2013
- A rate of 6,5 % for the personnel turnover, calculated as average of the last 5 years inside the company
- The dismissals rate: for the year 2019, the company plans to reduce staff by 400 employees
- A balancing forward rate of 4,05%, calculated using the method Smith-Wilson
- Inflation rates using the statistics and prognosis issued by INSSE and NBR as following: 3,75% in 2019; 3,1% in 2020; lineary descending up to 2,5% in the period 2021-2025; 2,5% in 2025 – 2030 and following a descending trend for the following years
- Salary increase rates: an increase of 0% in 2019, 3 % in 2020, For 2021 and subsequent years, an average annual salary increase equal to the annual inflation rate plus 1% taking in consideration a wage increases due to seniority and promotions,

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

18. ISSUED CAPITAL

Share capital is fully paid as at September 30, 2019 and December 31, 2018,

	<u>No, of shares</u>	<u>Share capital</u> <i>RON</i>
Share capital at December 31, 2018	<u>1,037,602,913</u>	<u>103,760,291</u>
Share capital at September 30, 2019	<u>1,037,602,913</u>	<u>103,760,291</u>
	<u>No of shares</u>	<u>Procent</u>
Shareholder structure December 31, 2018		
Al-Arrab Contracting Company Ltd	991,284,640	95,54%
Other shareholders	46,318,273	4,46%
Total	<u>1,037,602,913</u>	<u>100%</u>
Shareholder structure September 30, 2019		
Al-Arrab Contracting Company Ltd	991,284,640	95,54%
Other shareholders	46,318,273	4,46%
Total	<u>1,037,602,913</u>	<u>100%</u>

During the year ended December 31, 2015 the Company operated a reduction in share capital related to the hyperinflation adjustments recorded at the first time adoption of IFRS, On 28th April 2015 the Shareholders of the Company approved the reversal of the inflation adjustment pertaining to share capital amounting to RON 952,227,570 against the retained earnings.

19. RESERVES

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
	<u>unaudited</u>	<u>audited</u>
Legal reserves	17,784,866	17,784,866
Revaluation reserves	20,296,261	20,296,261
Other	43,221,238	43,221,238
Total	<u>81,302,365</u>	<u>81,302,365</u>

The revaluation reserve is related to revaluations performed on property, plant and equipment and cannot be used until they are realized, Revaluation reserves cannot be distributed.

The legal reserve created by the Company is in amount of RON 17,784,866 both as at September 30, 2019 and December 31, 2018.

Other reserves include reserves created before 2008 in amount of RON 43,133,772 (their value prior to inflation adjustment was RON 10,828,383), to which was added the revaluation reserve made, related to the sale of fixed assets from January 2018.

If the management decides to change their destination, they will be taxed. The management has decided not to use such reserves, thus no deferred tax has been established in relation thereto.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019

(all amounts are expressed in RON, unless otherwise specified)

20. BORROWINGS

	June 30, 2019	December 31, 2018
	unaudited	audited
Loans guaranteed		
Short term loans	375,692,597	386,016,062
Current portion of long term loans	-	-
Loans guaranteed		
Long term loans	-	-
Total	375,692,597	386,016,062

a) Amounts due to credit institutions

By the Addendum no. 31 / 24.09.2019 to the credit agreement no. 22233 / 23.03.2011 concluded between Blom Bank France and Electroputere, the parties agreed to restructure existing Electroputere debts at the date of signing the additional act for the purpose of consolidating in EUR all amounts due by Electroputere based on credit agreements and canceling the total debts of ELECTROPUTERE.

At the date of signing the additional act, the consolidation of all Electroputere debts in EUR represented an amount of EUR 8,415,807.76.

The consolidated credit in the above amount is composed of the following three sublimities of credit:

- a.) EUR 6,885,367.79 - credit for financing the current activity of the borrower
- b.) EUR 144,480 - credit for financing an import credit
- c.) EUR 1,385,959.97 - credit representing the value of the bank guarantee letters issued on the date of signing the additional act.

The interest rate for the loan is at least 5.25% per year.

The credit mentioned in letter. a.) will be reimbursed as follows:

- 1,000,000, EUR - on 30.09.2019
- 1,000,000, EUR - on 31.10.2019
- 2,000,000 EUR - on 30.11.2019
- 2,885,367.79 EUR - on 31.12.2019

The credit mentioned in letter. b.) will be reimbursed on 31.12.2019

The credit mentioned in letter. c.) will be reimbursed at the latest by 30.09.2021.

The above mentioned agreement is pledged with:

- Real estate mortgage over the land located in Craiova, Calea Bucuresti Str,, No, 80, Dolj county, with a surface of 430,832 sqm,, property of SC Electroputere SA, as well as the related constructions,
- Pledge over the cash accounts of the debtor;
- Pledge over the receivables resulting from the agreement sealed by SC Electroputere SA with its clients, According to the addendum 1/30,08,2011 to the Real Warranty agreement, the company is unconditionally obliged to warrant the above mentioned credit through the of rights from the selling agreements between the company and its final clients;
- Guarantee contract entitled „Guarantee and Indemnity” signed by Mada Group For Industrial and Commercial Investment Company Limited, related party, for the amount of EUR 26,200,000,
- Real estate mortgage over the land located in Mogosoaia, Iflow county with a surface of 184,000 sqm, property of SC Electroputere SA

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

20. BORROWINGS (continued)

b) Amounts due to shareholders

As at September 30, 2019 the amounts owed to the shareholders, are long-term loans from the main shareholder of the Company, Al-Arrab Contracting Company Ltd, in the amount of EUR 44,100,239 equivalent of RON 209,524,647 (December 31, 2018: EUR 44,100,239 equivalent of RON 205,679,106), granted for financing of working capital, environment and development investments, according to the obligations assumed under the privatization agreement no, 67/30,10,2007.

The Company received a notification letter from the shareholders stating that the loans provided to the Company are repayable by December 31, 2022.

Interest payable at September 30, 2019 on loans from shareholders amounts to RON 133,508,771, equivalent of EUR 27,526,476 (31 December 2018: RON 123,205,610, equivalent of EUR 26,416,863), calculated at rates ranging between 0% and 6,5% per year.

The interest expense related to the shareholders loan for the analyzed period is in amount of RON 10,303,161 (for the year ended December 31, 2018: RON 10,586,349).

According to the loan agreement, Electroputere undertakes to establish in favour of Al-Arrab Contracting Company Ltd a pledge on movable assets (plant, machinery and equipment) required for the manufacture of transformers and electric motors, as well as a real estate mortgage on the land located in Craiova, with the following cadastral numbers: 10493/3 (mortgaged to Blom Bank France S,A), 10493/4 (mortgaged to Blom Bank France S,A), 10493/5 (mortgaged to Blom Bank France S,A), 10493/6/1 (mortgaged to Blom Bank France S,A), 10493/7 (mortgaged to Blom Bank France S,A), 10493/8 (mortgaged to Blom Bank France S,A), 10493/9 (mortgaged to Blom Bank France S,A), 10493/10 (mortgaged to Blom Bank France S,A), 10493/11/2 (mortgaged to Blom Bank France S,A), 10493/11/3 (mortgaged to Blom Bank France S,A), 10493/12 (mortgaged to Blom Bank France S,A), 10493/13/1 (mortgaged to Blom Bank France S,A), 10493/13/3 (mortgaged to Blom Bank France S,A) and 11,042 (without mortgaged to Blom Bank France S,A,).

As of the balance sheet date this pledges/mortgages have not been made.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

21. PROVISIONS

	September 30, 2019	December 31, 2018
	unaudited	audited
Provisions for guarantees to customers	1,118,832	1,118,832
Provisions for restructuring	-	-
Provisions for onerous contracts	391,199	3,306,538
Provisions for employees benefits	-	-
Provision for environmental liabilities	-	-
Provision for penalties for late delivery	-	-
Other provisions (*)	584,077	837,143
Total	2,094,108	5,262,513

22. TRADE AND OTHER PAYABLES

	September 30, 2019	December 31, 2018
	unaudited	audited
Trade payables	6,325,507	15,681,273
Invoices to be received	163,378	573,480
Advances from customers	491,619	3,612,872
Sundry creditors	694,506	206,008
Sundry creditors group related	139,878,949	88,739,441
Total	147,553,959	108,813,074

The sundry creditors related to the group are amounts paid by the Group companies – mainly Mada Group, to Electroputere’s suppliers. Whenever such a payment is made the trade payables are settled and a correspondent liability is recorded as Sundry creditors group related.

23. OTHER LIABILITIES

	September 30, 2019	December 31, 2018
	unaudited	audited
Salaries payable	1,237,071	1,850,227
Social contributions	2,530,606	4,224,517
VAT to be paid	1,588,805	2,956,738
Other taxes	179,121	277,997
Tax on salaries	485,746	730,312
Other current liabilities	2,059,695	1,558,913
Total current liabilities	8,081,044	11,598,704
Other long term liabilities	3,800,820	3,800,820
Total liabilities	11,881,864	15,399,524

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019

(all amounts are expressed in RON, unless otherwise specified)

23. OTHER LIABILITIES (continued)

On 03.12.2018, ANAF issued the decision no, 7644 regarding the rescheduling payment for a period of 36 months for the outstanding tax liabilities in amount of RON 8,263,376, from which RON 4,449,995 represents tax liabilities and RON 3,813,381 represents interests, as well as the postponement for the amount of RON 1,357,552 which represents penalties.

The amount of RON 3,800,820 represents late payment for unpaid debts to the State Budget, with a maturity of more than one year.

According to the fiscal procedure code, the guarantee for this facility was the distraint of the Electroputere SA stadium with an area of 18,110 sqm at the value of 9,960,500 RON and a bank guarantee letter of 1,000,000 RON.

24. FINANCIAL INSTRUMENTS

a) Capital risk management

The Entity's objectives when managing capital are to safeguard the Entity's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Entity consists of debt, which includes the borrowings presented at note 20, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings, as presented in notes 18 and 19.

Consistent with others in the industry, the Entity monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital, Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'capital and reserves' as per the balance sheet plus net debt.

The gearing ratios as at June 30, 2019 and 2018 were as follows:

	September 30, 2019	December 31, 2018
	unaudited	audited
Total borrowings	375,692,597	386,016,062
Less: cash and cash equivalents	1,090,389	(2,730,073)
Net debt	376,782,986	383,285,989
Total capital and reserves	(240,164,603)	(198,304,085)
Gearing ratio	n/a	n/a

b) Interest rate risk management

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Financial instruments bear interest at market rates, therefore it is considered that their fair values did not differ significantly from the carrying amounts.

c) Credit risk management

Interest rate sensitivity

The Company is subject to credit risk due to its trade receivables and other types of claims. The Company has policies to ensure that sales are made to customers with appropriate references on their creditworthiness. Date of maturity of debt is closely monitored and amounts due after exceeding it are pursued promptly. Trade receivables (customers) are presented net of adjustments for impairment of doubtful debts. The company develops policies that limit the amount of credit exposure to any financial institution.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

24. FINANCIAL INSTRUMENTS (continued)

d) Fair value of the financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard term and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes);
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments
- The fair values of derivative instruments are calculated using quoted prices, Where such prices are not available using discounted cash flow analysis, based on the yield curve which do not include options models and valuation models for derivatives which have options pricing models,

The financial instruments from statement of financial position includes trade and other receivables, cash and cash equivalents, borrowings both short term and long term and other liabilities. Estimated fair values of these instruments approximate their carrying amounts. Carrying amounts represent the Company's maximum exposure to credit risk of existing claims.

e) Foreign currency risk management

The Entity is exposed to foreign exchange rate fluctuations in trade and finance, Currency risk arising from recognized assets and payables including loans denominated in foreign currency, Due to the high costs associated with Company policy is not to use derivative financial instruments to mitigate this risk,

f) Liquidity risk management

A prudent liquidity management involves maintaining sufficient cash and credit lines available, by a continuous monitoring of the estimated and real cash flow and by correlating the due dates of the financial assets and liabilities. Given the nature of its business, the Company aims at being flexible with regard to financing options, by maintaining credit lines available to finance the operating activities, as well as by the financial support from the majority shareholder.

The following tables detail the Company's remaining contractual maturity for financial liabilities.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019

(all amounts are expressed in RON, unless otherwise specified)

25. RELATED PARTY TRANSACTIONS

Balances and transactions with related parties are as follows:

	Amounts receivable from Related Parties		Amounts payable to Related Parties	
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
	unaudited RON	audited RON	unaudited RON	audited RON
Al-Arrab Contracting Company Ltd	235,683	119,875	343,033,418	328,884,716
Mada Group for Industrial and Commercial investment	2,850	2,850	-	-
Mabani Steel	-	-	-	-
Osama Al-Halabi	4,140	-	498,438	-
Mada Gypsum Company Ltd	-	-	40,836	28,329
Cladtech International	-	-	-	1,421
Al Rahji	-	-	139,838,113	88,706,292
Saudi Waterproofing Company	-	-	-	3,399
Unipods LLC	-	-	-	-
Tony Akiki	-	-	-	-
Total	242,673	122,725	483,410,805	417,624,157
	Sale of goods and services		Purchase of goods and services	
	9 months 2019	9 months 2018	9 months 2019	9 months 2018
	RON	RON	RON	RON
Al-Arrab Contracting Company Ltd	-	-	-	-
Mada Gypsum Company LTD	-	-	-	-
Unipods LLC	-	-	-	-
Saudi Waterproofing Company	-	-	-	-
Mabani Steel	-	-	-	-
Al Rajhi	-	-	-	-
Total	-	-	-	-

This is a free translation from the original Romanian binding version.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

26. COMMITMENTS AND CONTINGENCIES

Litigations

As at September 30, 2019 the Entity is subject to a number of lawsuits arising in the normal course of business. The Company's management believes that these actions will not have a material adverse effect on economic performance and financial position of the Company.

As at the date of the issuance of the financial statements a fiscal control is ongoing covering the period 2010 – 2015 and the result has not yet been presented to the management. The management of the Company believes that the findings of the fiscal inspectors will not have a negative impact on the financial statements of the Company.

Taxation

Taxation system in Romania is still developing trying to consolidate and harmonize with the European legislation, In this respect, there still are various interpretations of the tax laws, In certain cases, tax authorities may treat differently certain aspects and calculate supplementary taxes and levies and related interests and penalties.

According to the legislation in force, during 2019, interest and delay penalties were levied for tax payers' failure to pay their tax obligations on time.

In 2019, the interest value is 0,02% for each day of delay; the delay penalties are 0,01% for each day of delay.

In Romania, the fiscal year stays open for verifications during 5 years, The management estimates that the tax liabilities included in these financial statements are adequate.

In accordance with the provisions issued by the Ministry of Public Finance, which regulate the tax regime of items of equity which have not been subject to income tax as at their accounting registration, due to their nature, should the Company change the destination of revaluation reserves (by covering losses or allocation to shareholders), it will incur additional income tax liabilities.

Transfer pricing

The tax laws in Romania have included rules regarding the transfer pricing between affiliates since 2000. The current legislative framework defines the "market value" principle for the transactions between affiliates, as well as methods of setting transfer pricing, In accordance with the relevant tax laws, the tax assessment of a transaction conducted between affiliates is based on the concept of the market price pertaining to the respective transaction. Based on this concept, transfer pricing need to be adjusted such as to reflect the market rates set between non-affiliates acting independently at arm's length. As a result, it is expected that the tax authorities should initiate thorough verifications of the transfer pricing, in order to make sure that the fiscal result and/or customs value of the imported goods are not distorted by the effect of the rates used for the transactions with affiliates. It is likely that the tax authorities should conduct verifications of the transfer pricing to determine whether the respective prices are at arm's length and the taxable base of the Romanian taxpayer is not distorted, The Company cannot quantify the result of such verification. The Company considers that the related party transactions were conducted at market rates.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

26. COMMITMENTS AND CONTINGENCIES (continued)

Environment

The regulations regarding the environment are in a development phase in Romania and the Company did not record any liabilities as at June 30, 2019 and December 31, 2018 for any anticipated costs, including legal and consulting fees, design and implementation of remedial plans regarding the environment.

On February 24, 2010, the Regional Agency of Environment of Dolj County issued an environmental authorization valid until February 24, 2020, By this authorisation the Company was not required to adhere to any compliance program.

27. RESULT PER SHARE

	September 30, 2019	December 31, 2018
	audited	audited
Profit/Loss of the year	(41,860,517)	(13,122,450)
No, of shares	<u>1,037,602,913</u>	<u>1,037,602,913</u>
Earnings/Losses per share	<u>(0.04)</u>	<u>(0.01)</u>

28. SUBSEQUENT EVENTS

I. Fixed assets sale

In May 2019 Electroputere SA had to sell the following assets (real estate):

- The immovable located in Craiova, 80 Calea Bucuresti, Dolj county, cadastral number 10493/6/1/1, registered with land book no, 206147 of Craiova Municipality, Dolj County, composed of the plot of land having a surface of 6,463 sqm, together with the buildings erected on it, having cadastral numbers 10493/6/1/1-C66, C67, C69;
- The immovable located in Craiova, 80 Calea Bucuresti, Dolj county, cadastral number 205684, registered with land book no, 205684 of Craiova Municipality, Dolj County, composed of the plot of land having a surface of 6,716 sqm, together with the buildings erected on it, having cadastral numbers 205684-C2;

Total contract price amounts to 3,426,540 Euro.

Until the date of the 3rd quarter financial statements, the above mentioned transaction did not take place and the contracting parties (seller / buyer) have not agreed on the date on which it will occur.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

II. Reducing activity

In an attempt to mitigate operational losses, beginning with June 2018, the management of the company decided to increase the gross margin in all the offers presented to customers, which made Electroputere's prices no longer competitive: the Power Transformer Division failed to acquire new contracts, and in the Rotating Electrical Machines Division the last signed contract was in January 2019, a contract that did not provide enough volume of work.

Within the Power Transformers Division, in 2018 the company tested the outsourcing of Metallic Construction, The outsourcing of Metallic Construction (transformer vats) is a current practice among global transformer manufacturers, Electroputere being one of the few companies in the world market which produce the transformer vats internally. That is why we are considering outsourcing the production of transformer vats for ongoing projects and for future ones when will be the case.

As a result of the analysis carried out and in order to minimize the costs in order to stop the losses, it is necessary to close the operational activity after the completion of the ongoing projects, in the conditions in which the possibility of purchasing new contracts is not foreseen to ensure a volume of activity in within the Transforming Division and the Rotary Electric Machines division.

The measure is due to the lack of perspective regarding finding solutions that could support the activity and costs within the company in terms of efficiency and profitability.

The closing of the operational activity will also affect the general services.

Thus, the active personnel who carry out their activity in the Rotary Electric Machines division and in the Transformers division will remain practically without the object of the work as the activity of each employee to complete the ongoing projects will be completed.

In this context, the solution of resizing the current structure within the two divisions remained practically without volume of activity is required with stringency, under the conditions in which the current structure can no longer be maintained in terms of efficiency and profitability.

At the level of the general services, the restructuring will be done in such a way as to ensure the functionality of the company until the closing of the operational activity.

Thus, taking into account the ones presented above, it is necessary to restructure a number of 261 employees, personnel remaining after the completion of the first announced process of collective dismissal.

OSAMA M,T, AL-HALABI
President

LAVINIA PETCU
Financial Manager

S.C. ELECTROPUTERE S.A.
STATEMENT OF RESPONSIBILITY
AS OF SEPTEMBER 30, 2019
(all amounts are expressed in RON, unless otherwise specified)

STATEMENT OF RESPONSIBILITY
as per art,30 from the Accounting Law no,82/1991
and ASF Regulation no, 5/2008

The financial statements as of September 30, 2019 have been drawn up for:

Entity: ELECTROPUTERE S,A,

Headquarters: CRAIOVA, 80 Calea Bucuresti Street, Dolj County

Unique Identification Number at the Trade Register Office: 6312800

Registration no, in the Trade Register: J 16/12/1991

Subscribed and paid up capital: 103,760,291,30 lei

Regulated market where issued securities are traded: Bucharest Stock Exchange – 2nd
Category

The undersigned OSAMA AL HALABI, as President and member of the company Board of Directors, and LAVINIA PETCU, as Financial Manager, assume the responsibility for the financial statements as of September 30, 2019 and acknowledge that:

- the accounting policies used when drawing up the financial statements are in compliance with the applicable accounting regulations;
- the financial situations are a trustworthy reflection of the financial status and of the information related to the activity developed;
- the legal entity is running the activity uninterruptedly.

The financial statements on September 30, 2019 have not been audited.

OSAMA M,T, AL-HALABI
President

LAVINIA PETCU
Financial Manager