

**REPORT**  
**on the budget of Income and Expenses for the year 2019, as well as the Activity**  
**Schedule for the year 2019**

**A. Budget of Income and Expenses for the year 2019**

The following documents and reference data were considered in drawing up and substantiating of the revenue and expenditure budget for 2019:

- Financial statements of 2018 (asset, liability and equity status, income and expense statements, etc.);
- Structure of turnover achieved in 2018 and provisions for 2019;
- The investment program for 2019, amounting to EUR 3,387.30 thousand (excluding VAT);
- Staff costs incurred in 2018, which are forecasted to increase by 4% in 2019 as a result of the increase in the minimum wage.
- Inflation rate of about 4,5 %
- The average exchange rate of 4.80 lei / EUR estimated for the year 2019.
- Increase of the average exchange rate to 4.20 lei / USD for 2019.

**The main budget provisions for 2019 are structured by activity as follows:**

	<b>Achieved 2018 mii lei</b>	<b>Provisions 2019 mii lei</b>	<b>Differences in %</b>
<b>I. TOTAL INCOME</b>	<b>317,007</b>	<b>237,589</b>	<b>-25.05</b>
of which:			
<b>1. Total operating activity of which:</b>	<b>315,872</b>	<b>236,589</b>	<b>-25.01</b>
<b>Total turnover out of which:</b>	<b>294,566</b>	<b>217,252</b>	<b>-26.25</b>
1.1 Licensed Activity - Turnover	192,656	114,332	-40.65
1.2. Unlicensed Activity - Turnover	101,910	102,920	+ 0.1
<b>2. Licensed activity – other operating income</b>	<b>21,306</b>	<b>19,337</b>	<b>-9.24</b>
2.1 Licensed activity – other operating income.	188	0	0
2.2. Unlicensed activity – other operating income	21,118	19,337	-8.43
<b>3. Financial activity</b>	<b>1,135</b>	<b>1,000</b>	<b>-11.89</b>
<b>II. TOTAL EXPENSES</b>	<b>309,007</b>	<b>231,587</b>	<b>-25.05</b>
of which:			
<b>4. Total operating activity, of which:</b>	<b>308,199</b>	<b>230,587</b>	<b>-25.18</b>
4.1 Licensed activity	121,339	111,598	-8.03
4.2. Unlicensed activity	186,860	118,989	-36.32
<b>5. Financial activity</b>	<b>808</b>	<b>1,000</b>	<b>+23.76</b>
<b>III. GROSS TOTAL RESULT, of which:</b>	<b>8,000</b>	<b>6,002</b>	<b>-24.97</b>
5.1 Licensed activity	<b>5,752</b>	2,734	-52.47
5.2. Unlicensed activity	<b>2,248</b>	3,268	+45.37

In 2018, the turnover of the electricity supply activity increased by more than 30% compared to 2017, in particular due to the capitalization of the opportunities arising from the energy trading activity and stabilization of the client portfolio to a size allowing a more effective risk management. The number of EFET agreements executed by Electromagnetica with partners on OTC increased in 2018 for decreasing the risk due to the reduction of the quantities sold by producers on the PCCB-LE, NC and PZU markets.

The energy production activity exceeded the average of the last few years in 2018. The income for 2018 related to these activities recorded a significant increase compared to the previous year (over 40 %), due in particular to very good hydrological conditions. Thus, 14,877.189 MWh were produced, an increase by 24 % compared to 2017. The number of green certificates (GCs) produced was 31,636 an increase by 26% compared to the previous year. Approximately 37% of the necessary green certificates for energy supply was ensured by the green certificates related to the internal energy production.

We foresee obtaining profit for all the Company's activities in 2019, amounting to Lei 6,002 thousand.

#### **B. Activity Program for 2019**

*For the year 2019, the board of directors and executive management will act towards the following directions:*

##### **LED Lighting Fixtures and Systems:**

New technologies for manufacturing high efficiency LED lighting fixtures shall be developed for supporting the focus of the sales on the most dynamic market segments. The delivery of turnkey LED lighting fixture projects integrating more products and services provided by the Company (lighting, design, installation, maintenance) shall increase.

In 2019, the main objective is to obtain ENEC certification (private security certification required for public tenders) for two families of street lighting fixtures with a power of 20W at 200W made of cast aluminium housings. As no ENEC accredited laboratories exist in Romania, this certification shall be carried out by a foreign laboratory. New technologies for manufacturing LED lighting fixtures made of extruded or laminated linear profiles, as well as innovative technologies for assembling the printed circuit boards on the heater without screws shall be developed.

The development of a proprietary Smart City solution shall also start in 2019 on the basis of the accrued experience in the ENERGSys system and migration of the current solutions for the management of street lighting, vehicle traffic monitoring, video surveillance with HD-PLC transport on third-party operating or development Smart City platforms.

For 2019, due to the European funds financing programs accessed by municipalities, we believe that granting supplier credits shall no longer be as necessary as it is at this time. However, the Company will continue perform sales agreements on LED lighting fixtures on the basis of supplier credits for medium and large projects if this provides a competitive advantage.

##### **Measuring and telemetering systems:**

In 2019, the focus will be on expanding the applications of the ENERGSys Metering System (Electromagnetica registered trademark) both in rural areas with problems concerning the electricity losses and concerning public urban/rural lightning networks, by monitoring consumption in Ignition Points and development of specific Smart-City platform functions within the existing system.

With regard to auctions for telemetering systems and counters, the Company is dependent on traditional beneficiaries, which are energy distribution companies, whose investment program differs greatly every year.

### **Electrical vehicle power supply equipment;**

In 2019, a new concept of 22kW stations will be implemented, incorporating the OCPP protocol for managing and administering the stations and users. Software platforms for OCPP protocol interface with other systems will be developed by own effort to enable the provisions of services requested by the client (charging, booking, consumption statistics, dynamic power redistribution). The 10kW D.C. rectifier being an important part of the direct current feeding power station will be achieved in Electromagnetica.

### **Production and supply of energy:**

We believe that the energy production shall be performed under average hydrological conditions and with the capitalization in full of the energy and green certificates to the client portfolio in 2019.

We estimate a reduction of the income from the energy supply activity by approximately 40% 2019, due to the reduction of the risks of energy purchase from the centralized OPCOM markets. In addition, in 2019, there is a regulatory risk due to the calculation of the ANRE-licensed activity, as well as the introduction of the regulated energy quantities approved by the ANRE which the State-owned producers (hydrological and nuclear energy producers) must sell to the SLR (suppliers of last resort) for the domestic consumers, i.e. the reduction of the competitive energy market.

We shall aim to purchase of energy under bilateral agreements, in order to minimize the risks of the price volatility on the PZU and to provide the necessary energy to the domestic consumers at competitive prices. It must be specified that, on the date of the electricity supply activity report, the sale of 90% and purchase of 60% was contracted.

### **Export:**

The export will traditionally be supported by low-voltage electric apparatus, LED lighting bodies / systems and a large part of plastic injection production. The growth trend in the export of LED lighting objects will be maintained in 2019, with exports expected to grow by 10% for these products. Other exported products will also be metallic fittings.

### **Other measures forecasted for 2019:**

- Tracking the sales program through daily reports of invoices and receipts;
- Maintaining of 98% occupancy of the rented premises;
- Maintaining the comfort of buildings to stabilize turnover from rental services;
- Participation in fairs and exhibitions according to the marketing program;

### **Investment program**

The focus of the investment on the reuse and upgrade of the production capacities, as well as on the optimal operation and upgrade of the buildings shall also be maintained in 2019, their value being estimated at approx. EUR 2,717,300, of which approx. EUR 1,340,000 related to the production activity.

The investment program shall be carried out from internal funding sources.

**The structure of the investment program for 2019 is as follows:**

<b>REF. NO</b>	<b>INVESTED»</b>	<b>VALUE (EUR)</b>
<b>A</b>	<b>TANGIBLE ASSETS</b>	<b>3,317,300</b>
1	BUILDING WORKS AND BUILDING REFURBISHMENTS	<b>828,000</b>
2	TECHNICAL INSTALLATIONS, TRANSPORTATION MEANS	<b>919,300</b>
2.1	TECHNOLOGICAL EQUIPMENT (machinery, equipment and work installations)	427,000
2.2	SDVs, plastic injection molds	260,000
2.3	MEASURING, CONTROL AND ADJUSTMENT APPARATUS AND INSTALLATIONS	72,800
2.3.1	Apparatus and installations for scientific research	36,800
2.3.2	Other measuring, control and adjustment apparatus and installations	3,000
2.3.3	Electronic computers and peripheral equipment	33,000
2.4	TRANSPORT MEANS (for driving and lifting)	59,500
2.5	UTILITARIAN VEHICLES	100,000
3	FURNITURE, OFFICE DEVICES, PROJECTION SYSTEMS FOR HUMAN AND MATERIAL VALUES, AND OTHER TANGIBLE ASSETS	<b>30,000</b>
4	Power increase to 5.2 MW and accomplishment of medium-voltage lines and refurbishment of TP	<b>500,000</b>
5	REFURBISHMENT 1	<b>260,000</b>
6	NOT NOMINATED	<b>730,000</b>
7	ACTIVITY OF PRODUCTION OF RENEWABLE ENERGY FROM HYDROLOGICAL SOURCES	<b>50,000</b>
<b>B</b>	<b>INTANGIBLE ASSETS</b>	<b>70,000</b>
<b>TOTAL GENERAL</b>		<b>3.387.300</b>

**Measures for licensed activity (production and supply of energy)**

- Controlling of the risk associated with energy supply by maintaining a flexible portfolio of consumer customers according to market conditions;
- Exploiting market opportunities on OPCOM-managed energy trading platforms; Diversification of contractual partners on EFET energy contracts;
- Continuation of the measures for optimizing of the energy balancing and trading activity;
- Exploiting own capacities to produce energy from renewable sources;
- Capitalization of green certificates from own production;

**Financial measures**

- Carefully monitoring of cash flow and taking of the necessary steps to maintain an appropriate level of liquid funds.
- Ensuring credit lines for the smooth operation of the business.
- Identifying of new financing solutions for sales with long payout terms.

BOARD OF DIRECTORS  
 PRESIDENT  
 Eugen Scheusan  
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Financial Manager  
 Cristina Florea  
*Illegible signature*

Stamp of SC ELECTROMAGNETICA SA - Bucharest