ELECTROMAGNETICA SA

SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

Prepared in accordance with
Ministry of Public Finance Order no. 2844/2016 approving the Accounting Regulations compliant with International Financial Reporting Standards as adopted by the European Union

(Together with Independent Auditor's Report and Administrator's Report)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders,
ELECTROMAGNETICA S.A.

Report on the financial statements

Opinion

1. We have audited the separate financial statements of ELECTROMAGNETICA S.A. ("the Company"), with registered office in Bucharest Sector 5, 266-268 Rahova blvd, identified by the unique tax registration code 414118, which comprise the separate statement of financial position as at December 31, 2019, and the separate statement of comprehensive income, separate statement of changes in equity and the separate statement of cash flows for the year then ended, including a summary of significant accounting policies and notes to the financial statements.

2. The separate financial statements as at December 31, 2019 are identified as follows:

• Net assets	RON 335,603,476
• Net profit for the financial year	RON 4,488,687

3. In our opinion, the accompanying financial statements present fairly, in all material respects, the separate financial position of the Company as at December 31, 2019, and its separate financial performance and its separate cash flows for the year then ended in accordance with the Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

4. We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and the Council (forth named "the Regulation") and Law 162/2017 ("the Law"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), in accordance with ethical requirements relevant for the audit of the financial statements in Romania including the Regulation and the Law and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

5. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that there are no key audit matters to be communicated in our report.

Other information- Administrator's Report

6. The administrator is responsible for preparation and presentation of the other information. The other information comprises the Administrator's report which does not include the separate financial statements and our auditor's report thereon, nor the non-financial information declaration that is being presented in a separate report.

   Our opinion on the financial statements does not cover the other information and, unless otherwise explicitly mentioned in our report, we do not express any form of assurance conclusion thereon.

   In connection with our audit of the financial statements for the year ended December 31, 2019, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

   With respect to the Administrator's report, we read it and report if this has been prepared, in all material respects, in accordance with the provisions of Ministry of Public Finance Order no. 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by the European Union, article no. 20.

   On the sole basis of the procedures performed within the audit of the financial statements, in our opinion:

   a) the information included in the administrators' report for the financial year for which the financial statements have been prepared is consistent, in all material respects, with these financial statements;

   b) the administrators' report has been prepared, in all material respects, in accordance with the provisions of Ministry of Public Finance Order no. 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by the European Union, article no. 20.

Moreover, based on our knowledge and understanding concerning the Company and its environment gained during the audit on the financial statements prepared as at December 31, 2019, we are required to report if we have identified a material misstatement of this Administrator's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

7. Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

8. In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

9. Those charged with governance are responsible for overseeing the Company's financial reporting process.

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Auditor's Responsibilities for the Audit of the Financial Statements

10. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

11. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

    - Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

    - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

    - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

    - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

    - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

12. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

13. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

14. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

15. We have been appointed by the General Assembly of Shareholders on April 22, 2019 to audit the financial statements of Electromagnetica S.A. for the financial year ended December 31, 2019. The uninterrupted total duration of our commitment is of 4 years, covering the financial years ended 2016 until the 2019.

We confirm that:

- Our audit opinion is consistent with the additional report submitted to the Audit Committee of the Company that we issued the same date we issued this report. Also, in conducting our audit, we have retained our independence from the audited entity.

- No non-audit services referred to in Article 5 (1) of EU Regulation No. 537 / 2014 were provided.

The engagement partner on the audit resulting in this independent auditor's report is Zeno Caprariu.

Zeno Caprariu, Audit Partner

For signature, please refer to the original signed Romanian version.

Registered in the Electronic Public Register of Financial Auditors and Audit Firms under AF 2693

On behalf of:

DELOITTE AUDIT SRL

Registered in the Electronic Public Register of Financial Auditors and Audit Firms under FA 25

The Mark Building, 84-98 and 100-102 Calea Griviței,
8th Floor and 9th Floor, District 1
Bucharest, Romania
March 25, 2020

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

	Note	12-month period ended December 31, 2019	12-month period ended December 31, 2018
Revenues	**20**	**256,169,132**	**290,123,223**
Investment income	**20**	1,018,418	676,404
Other net income and expenses	**20**	6,802,816	3,125,282
Changes in inventories of finished goods and work in progress	**20**	13,389,266	19,745,239
Own work capitalized	**20**	772,403	769,737
Raw materials and consumables used	**21**	(188,946,222)	(214,511,484)
Employee-related expenses	**24**	(36,494,887)	(32,896,983)
Expenses related to depreciation and impairment	**21**	(10,183,159)	(19,280,031)
Other expenses	**21**	(36,706,154)	(38,817,320)
Financial expenses	**22**	(840,410)	(934,017)
Profit before tax		**4,981,203**	**8,000,050**
Income tax	**23**	(492,516)	(3,176,851)
Profit of the period		**4,488,687**	**4,823,198**
Other comprehensive income			
of which:			
other comprehensive income that cannot be reclassified to profit or loss, of which:			
- revaluation surplus for tangible assets		-	15,319,656
- deferred tax recognized in equity	**23**	-	(2,451,145)
- restatement of deferred tax for revaluation of assets written off		6,085	448,152
Comprehensive income for the period		**4,494,772**	**18,139,861**
Basic/diluted earnings per share	**26**	**0.0066**	**0.0071**

These separate financial statements were approved for issue by the management as at March 25, 2020:

EUGEN SCHEUŞAN
Managing Director

CRISTINA FLOREA
Economic Manager

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

	Note	December 31, 2019	December 31, 2018
ASSETS			
Non-current assets			
Property, plant and equipment	**4**	277,545,153	284,669,256
Investment property	**5**	5,182,279	4,709,859
Intangible assets	**6**	466,487	702,025
Investments in related entities	**8**	3,967,606	3,967,606
Other long-term non-current assets	**9**	24,702,276	20,495,344
Assets related to the rights of use	**7**	1,480,078	-
Total non-current assets		**313,343,879**	**314,544,090**
Current assets			
Inventories	**10**	15,411,327	17,183,417
Trade receivables	**11**	55,114,158	41,275,588
Cash and cash equivalents	**13**	21,711,183	29,162,314
Other current assets	**12**	1,939,785	2,950,187
Current tax assets	**23**	760,012	-
Total current assets		**94,936,464**	**90,571,507**
Total assets		**408,280,342**	**405,115,597**
EQUITY AND LIABILITIES			
Equity			
Share capital	**14**	67,603,870	67,603,870
Reserves and other equity	**15**	176,697,881	177,706,613
Retained earnings	**16**	91,301,725	88,933,829
Total equity attributable to company's shareholders		**335,603,476**	**334,244,312**
Non-current liabilities			
Trade payables and other liabilities	**19**	1,265,003	1,311,019
Investment subsidies	**17**	4,410,306	4,573,525
Deferred tax liabilities	**23**	17,333,187	17,782,339
Leasing debts	**7**	728,164	-
Total non-current liabilities		**23,736,660**	**23,666,883**
Current liabilities			
Trade payables and other liabilities	**19**	46,268,240	43,092,650
Investment subsidies	**17**	163,219	163,219
Provisions	**18**	1,806,142	3,913,666
Current income tax liabilities	**23**	-	34,867
Leasing debts	**7**	702,605	-
Total current liabilities		**48,940,206**	**47,204,402**
Total liabilities		**72,676,866**	**70,871,285**
Total equity and liabilities		**408,280,342**	**405,115,597**

These separate financial statements were approved for issue by the management as at March 25, 2020:

EUGEN SCHEUŞAN
Managing Director

CRISTINA FLOREA
Economic Manager

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

	Note	12-month period ended December 31, 2019	12-month period ended December 31, 2018
Cash flows from operating activities			
Cash receipts from customers		257,825,474	317,196,980
Payments to suppliers		(190,371,032)	(239,404,826)
Payments to employees		(35,213,731)	(31,383,266)
Other operating activities		(34,430,544)	(28,689,294)
Cash generated by/ (used in) operating activities		**(2,189,833)**	**17,719,593**
Interest paid		(15,081)	(26,226)
Income tax paid		(2,161,915)	(3,964,792)
Net cash used in operating activities		**(4,366,829)**	**13,728,575**
Cash flows from investing activities:			
Acquisition of property, plant and equipment		(954,771)	(1,599,568)
Proceeds from sale of non-current-assets		96,015	89,369
Interest received		456,745	93,363
Dividends received		658,487	488,555
Net cash used in investing activities		**256,476**	**(928,282)**
Cash flows from financing activities:			
Proceeds from loans		17,703,891	52,781,026
Cash repayments of amounts borrowed		(17,703,891)	(52,781,026)
Paid leasing		(648,029)	-
Interest paid		(86,330)	-
Dividends paid		(2,606,419)	(37)
Net cash used in financing activities		**(3,340,778)**	**(37)**
Net (decrease)/increase of cash and cash equivalents		**(7,451,132)**	**12,800,257**
Cash and cash equivalents at beginning of period	**13**	**29,162,314**	**16,362,057**
Cash and cash equivalents at end of period	**13**	**21,711,183**	**29,162,314**

These separate financial statements were approved for issue by the management as at March 25, 2020:

EUGEN SCHEUŞAN
Managing Director

CRISTINA FLOREA
Economic Manager

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

	Share capital	**Retained earnings**	**Tangible assets revaluation reserve**	**Other reserves**	**Legal reserve**	**Other equity items**	**Total equity**
Balance as at January 1, 2019	**67,603,870**	**88,933,828**	**115,838,396**	**60,971,315**	**19,431,494**	**(18,534,593)**	**334,244,312**
Comprehensive income for the period:							
Profit of the period	-	4,488,687	-	-	-	-	4,488,687
Other comprehensive income:							
Setup of legal reserve	-	(401,175)	-	152,115	249,060	-	-
Deferred tax recognized in equity	-	-	-	-	-	6,085	6,085
Transfer of revaluation reserve to retained earnings following the depreciation of revalued tangible assets or written off assets	-	2,702,408	(2,702,408)	-	-	-	-
Transfer of the retained earnings to reserves	-	(1,717,868)	-	1,717,868	-	-	-
Total comprehensive income for the period	**-**	**5,072,052**	**(2,702,408)**	**1,869,983**	**249,060**	**6,085**	**4,494,772**
Transactions with shareholders, directly registered to equity							
Dividends distributed	-	(2,704,155)	-	-	-	-	(2,704,155)
Other items	-	-	-	-	-	(431,452)	(431,452)
Balance as at December 31, 2019	**67,603,870**	**91,301,725**	**113,135,988**	**62,841,298**	**19,680,554**	**(18,959,960)**	**335,603,476**

These separate financial statements were approved for issue by the management as at March 25, 2020.

EUGEN SCHEUŞAN
Managing Director

CRISTINA FLOREA
Economic Manager

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

	Share capital	**Retained earnings**	**Tangible assets revaluation reserve**	**Other reserves**	**Legal reserve**	**Other equity items**	**Total equity**
Balance as at January 1, 2018	**67,603,870**	**65,939,347**	**103,319,691**	**61,372,490**	**34,400,651**	**(16,531,600)**	**316,104,451**
Comprehensive income for the period							
Profit of the period	-	4,823,198	-	-	-	-	4,823,198
Other comprehensive income							
Revaluation of tangible assets	-	-	15,319,656	-	-	-	15,319,656
Setup of legal reserve	-	-	-	(401,175)	401,175	-	-
Deferred tax for revaluation recognized in equity	-	-	-	-	-	(2,451,145)	(2,451,145)
Transfer of revaluation reserve to retained earnings following the depreciation of revalued tangible assets or written off assets	-	2,800,951	(2,800,951)	-	-	-	-
Deferred tax recognized in equity	-	-	-	-	-	448,152	448,152
Transfer of the retained earnings to reserves	-	15,370,332	-	-	(15,370,332)	-	-
Total comprehensive income for the period	**-**	**22,994,481**	**12,518,705**	**(401,175)**	**(14,969,157)**	**(2,002,993)**	**18,139,861**
Transactions with shareholders, directly registered to equity							
Other items	-	-	-	-	-	-	-
Balance as at December 31, 2018	**67,603,870**	**88,933,828**	**115,838,396**	**60,971,315**	**19,431,494**	**(18,534,593)**	**334,244,312**

These separate financial statements were approved for issue by the management as at March 25, 2020:

EUGEN SCHEUŞAN
Managing Director

CRISTINA FLOREA
Economic Manager

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

1. GENERAL INFORMATION

ELECTROMAGNETICA SA is organized under the laws of Romania which was set up in 1930 and carries out activities in several sectors; the most important are:

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

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

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

The Company is headquartered in Calea Rahovei nr, 266-268 sector 5 Bucharest, Electromagnetica is listed on the Bucharest Stock Exchange (symbol ELMA), The prices per share can be analyzed as follows:

	Jan – Dec 2019	Jan – Dec 2018
- minimum price	0.1275	0.1210
- maximum price	0.1675	0.1600
- average price	0.1447	0.1360

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

	Jan – Dec 2019	Jan – Dec 2018
Average number of employees	454	479

These financial statements are compliant with IAS 27 – Separate financial statements prepared as at December 31, 2019 and for the periods presented. The Company also prepares consolidated financial statements as it has investments in subsidiaries.

The details of the Company's investments in subsidiaries December 31, 2019 are:

Numele filialei	No, of securities	Ownership and voting right percentage (%)	Value
Electromagnetica Golstar SRL	2,650	100%	3,126,197
Electromagnetica Prestserv SRL	295	98,333%	29,500
Electromagnetica Fire SRL	799	99,875%	79,900
Procetel SA	42,483	96,548%	732,008
TOTAL			**3,967,606**

The information on the object of activity and the general presentation of subsidiaries is found in Note 24.

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

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

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

- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),
- **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 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 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the Company's financial statements.. The impact of IFRS 16 is presented in Note 7.

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

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Material - adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** - Interest Rate Benchmark Reform - adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to References to the Conceptual Framework in IFRS Standards** adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

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 and amendments to the existing standards, which were not endorsed for use in EU.

At the date of authorization of these financial statements, the following new standards and amendments to existing standards and new interpretation were in issue but not yet effective:

- **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,

2. APPLICATION OF THE NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU (continued)

- **Amendments to IFRS 3 "Business Combinations"** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),

- **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).

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

More details about individual standards, amendments to existing standards and interpretations that can be used as appropriate:

- **IFRS 14 "Regulatory Deferral Accounts"** issued by IASB on 30 January 2014. This standard is intended to allow entities that are first-time adopters of IFRS, and that currently recognise regulatory deferral accounts in accordance with their previous GAAP, to continue to do so upon transition to IFRS.

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

  IFRS 16 is valid for annual periods beginning on or after January 1, 2019. IFRS 16 replaces existing lease instructions, including IAS 17 Leasing, IFRIC 4 Determining the extent to which a commitment contains a lease, SIC-15 Operational leasing - Stimulants and SIC-27 Assessing the economic background of transactions involving the legal form of a contract of leasing. Adopting the standard earlier is allowed for entities applying IFRS 15 on or before the initial application of IFRS 16. The standard eliminates the current dual accounting model for tenants and requires companies to bring most of the leasing balance sheets in one model, eliminating distinction between operational and financial leasing contracts. According with IFRS 16, a contract is or contains a leasing contract where it confers the right to control the use of an identified asset for a period of time in exchange for compensation. For such contracts, the new model requires the lessee to recognize a right to use the asset and a lease right. The assets with the right to use are amortized and the debt generates interest. This will result in higher expenses at the beginning of the lease, even if the tenant pays constant rents. The tenant's accounting remains largely unaffected by the introduction of the new standard, and the distinction between operational and financial leasing contracts will be maintained.

  The Company applies IFRS 16 starting with January 1, 2019, using the modified retrospective method. Consequently, the comparative periods have not been restated.

  The impact of the application of IFRS 16 consists in the recognition of a right of use as an asset, respectively of a lease debt for the existing contracts as of December 31, 2019

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

More details on individual standards, amendments and interpretations to existing standards, which may be used as appropriate (continued)

- **Amendments to IFRS 3 "Business Combinations"** - Definition of a Business issued by IASB on 22 October 2018. Amendments were introduced to improve the definition of a business. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. In addition to amending the wording of the definition, the Board has provided supplementary guidance.

- **Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation** issued by IASB on 12 October 2017. The amendments modifies the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. Under the amendments, the sign of the prepayment amount is not relevant, i.e. depending on the interest rate prevailing at the time of termination, a payment may also be made in favour of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of a early repayment gain. Moreover, amendments contain clarification regarding the accounting for a modification of a financial liability that does not result in derecognition. In this case, carrying amount is adjusted with the corresponding result recognized in comprehensive income. The effective interest rate is not recalculated.

- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** - Interest Rate Benchmark Reform issued by IASB on 26 September 2019. The changes in Interest Rate Benchmark Reform:

  a) modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform;

  b) are mandatory for all hedging relationships that are directly affected by the interest rate benchmark reform;

  c) are not intended to provide relief from any other consequences arising from interest rate benchmark reform (if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amendments, discontinuation of hedge accounting is required); and

  d) require specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments.

- **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** issued by IASB on 11 September 2014. The amendments address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business.

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - Definition of Material** issued by IASB on 31 October 2018. The amendments clarify the definition of material and how it should be applied by including in the definition guidance.

- **Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement issued by IASB on 7 February 2018. The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

More details on individual standards, amendments and interpretations to existing standards, which may be used as appropriate (continued)

- **Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures** issued by IASB on 12 October 2017. Amendments were introduced to clarify that an entity applies IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. Amendments also delete paragraph 41 because the Board felt that it merely reiterated requirements in IFRS 9 and had created confusion about the accounting for long-term interests.

- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015 -2017)"** issued by IASB on 12 December 2017. Amendments to various standards 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. The amendments clarify that: a company remeasures its previously held interest in a joint operation when it obtains control of the business (IFRS 3); a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business (IFRS 11); a company accounts for all income tax consequences of dividend payments in the same way (IAS 12); and a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale (IAS 23).

- **Amendments to References to the Conceptual Framework in IFRS Standards** issued by IASB on 29 March 2018. Due to the fact that Conceptual Framework was revised, the IASB updated references to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. This was done to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction.

- **IFRIC 23 "Uncertainty over Income Tax Treatments"** issued by IASB on 7 June 2017. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The separate financial statements of the Company were prepared in compliance with the International Financial Reporting Standards adopted by the European Union ("IFRS") effective on the reporting date, i,e, December 31, 2019, and in compliance with Order of the Minister of Public Finance no, 2844/2016 approving the Accounting Regulations compliant with the International Financial Reporting Standards applicable to the companies the shares of which are admitted to trading on a regulated market, as further amended and clarified, These provisions are consistent with the requirements of the International Financial Reporting Standards adopted by the European Union.

Functional and presentation currency

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

Basis of preparation

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

Property, plant and equipment are presented at revaluation amount (IAS 16) and investment property are presented at fair value (IAS 40).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

For obsolete or slow moving inventories, adjustments are made based on the management's estimates, The set up and reversal of allowances for inventories impairment is made usually at the end of the quarter in the profit and loss account: for obsolete inventories at 50% of the total value and for slow moving inventories at 25%.

In its first financial statements prepared in compliance with IFRS the Company applied IAS 29 – Financial Reporting in Hyperinflationary Economies and adjusted the historical cost of share capital, legal reserves and other reserves set up from the net profit by the effect of inflation until December 31, 2003. These adjustments were recorded in reserve accounts (see Note 15).

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

Foreign currency

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

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

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

	Exchange rate as at December 31, 2019	Exchange rate as at December 31, 2018
EUR	4.7793	4.6639
USD	4.2608	4.0736

Use of estimates and professional judgement

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Accounting principles, policies and methods

According to IAS 8 - Accounting policies, changes in accounting estimates and errors, the accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

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

The Company changes an accounting policy only if the change:

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

We present below a summary of the significant accounting policies applied to all the periods presented in the financial statements, except for the changes deriving from the new standards and amendments to standards with the date of initial application 1 January 2019 and presented in section 2.

Fair value

IFRS 13 - Fair Value Measurement establishes a fair value hierarchy that categorizes on three levels of input data for the evaluation techniques used to assess fair value:

- Level 1 inputs - are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date, This data provides the most reliable evidence of fair value and is used without adjustment to measure fair value whenever available.
- Level 2 inputs - are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly for the assets and liabilities (for example the quoted prices for identical assets or liabilities on markets that are not active.
- Level 3 inputs - inputs are unobservable inputs for the asset or liability, The Company develops unobservable inputs using the best information available in the circumstances, which might include the entity's own data.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Initial measurement

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

Measurement subsequent to initial recognition

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

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

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

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

Property, plant and equipment

Initial measurement

Tangible assets are initially recognized at acquisition cost or production cost.

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

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

Measurement subsequent to initial recognition

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

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

The fair value of land and buildings is generally market-based, through a valuation made by professional and qualified valuers.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

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

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

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

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

Land is not depreciated.

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

For all assets acquired starting January 1, 2015 the Company uses the straight-line method as the depreciation method which results in systematic allocation of the depreciable amount of the assets over their useful life.

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

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

	Durata (ani)
Tangible assets	20 - 100
Buildings	5 - 12
Technological equipment	3 - 8
Measurement, control and adjustment devices	4 - 8
Motor vehicles	8 - 15

Impairment policy applied by the company

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

If an asset is revalued, an impairment loss is recognized directly by reducing the revaluation surplus, but the loss should not exceed it.

The gain or loss resulting from the derecognition of a tangible asset is recognized in profit or loss at the date of the asset derecognition.

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

If items of tangible assets that were held for rental to others are sold repeatedly, these assets are transferred to inventories at the carrying amount of the date when they cease to be rented and become held for sale. The proceeds from the sale of these assets are recognized as revenue in the profit and loss account.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Maintenance and capital repairs

Capitalized costs for capital repairs are separate components of the corresponding assets or groups of assets. Capitalized costs for capital repairs are amortized using the amortization method used for the underlying asset until the next repair.The expenditure for capital repair works includes the cost of replacing the assets or parts thereof, the costs of inspection and the costs of capital repairs. The expenditure is capitalized if an asset or a part of an asset which was amortized separately is replaced and is expected to generate future economic benefits. If a part of the replaced asset was not considered a separate component and, therefore, was not amortized separately, the replacement value is used to estimate the net carrying amount of the replaced asset(s) which is/are immediately removed. All the other costs incurred for day to day repairs and ordinary maintenance are directly recognized as expenses.

Leasing contracts

The Company applied IFRS 16 beginning with 1 January 2019, using the retrospectively modified method, without the retreatment of comparative values for the presented previous period. This applied IFRS 16 for all the contracts existing prior to 1 January 2019, classified as leasing according to IAS 17 and IFRIC 4.

The Company chose to apply the proposed standard exception for the leasing contracts for assets with a small value (below 5000 USD).

The Company recognized assets and new debts for the operational leasing contracts for motor vehicles, rented premises and equipment. Also, it was recognized an expense with the amortization of the right of asset utilization and an expense for the interest related to the leasing debt. The right to use assets on the date of transition is equal with the leasing debt, adjusted with any amount paid in advance for leasing payments that are foreseen related to leasing's as recognized in the situation of the financial position immediately prior to the date of initial application.

On the date of commencement of the leasing contract, the Company recognizes the leasing debts, assessed at the updated value with the marginal loan rate of the leasing payments, during the duration of leasing contract. Payments include fixed payments minus any incentives to be received, variable leasing payments that are subject to an index or a rate and the amounts are expected to be paid under the form of a residual value.

Investment property

Initial measurement

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

Measurement after recognition

The Company selected the fair value model for the presentation of investment property in its financial statements. Investments properties are not depreciated, gains and losses arising from changes in fair value of investment properties are included in profit or loss in the period in which they arise.

Financial assets

Electromagnetica SA applies IFRS 9 – Financial Instruments which entered into force on 1 January 2018 and where the classification of financial assets is based on the business model of the entity and the cash-flow characteristics of the financial asset.

Clasificarea activelor financiare

Conform IFRS 9 Instrumente financiare, activele financiare sunt calsificate in:

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Classification of financial assets

According to IFRS 9 Financial Instruments, the financial assets are classified in:

1. Financial asset measure d*ata amortized cost if the two requirements below are met:*

- the financial assets held within a business model whose aim is to hold financial assets in order to collect the contractual cash-flows and
- the contractual terms of the financial asset generate, at certain dates, cash flows which are exclusively payments of the principal amount and the interest related to the principal amount owed

2. *financial asset measured at fair value through other components of the comprehensive result, if the two requirements below are met*

- the financial assets held within a business model whose aim can be reached both through the collection of the contractual cash flows and the sale of the financial assets and
- the contractual terms of the financial asset generate, at certain dates, cash flows which are exclusively payments of the principal amount and the interest related to the principal amount owed

3. *a financial asset measured at fair value through profit or loss,* except where it is measured at amortized cost in accordance with point 1 or at fair value, through other components of the comprehensive result, in accordance with point 2

Except for the trade receivables which fall under IFRS15, a financial asset or liability is initially measured at fair value, while for a financial asset or liability which is not measured at fair value through profit or loss the costs of the transaction will be added or deducted, costs which are directly attributable to the acquisition or issue of the financial asset or liability

After initial recognition, the subsequent evaluation of financial assets will be made at:

- amortized cost
- fair value through other components of the comprehensive result or
- fair value through profit or loss

The financial assets include the shares held in subsidiaries, associated entities and jointly controlled entities, the loans granted to those entities, other investments held as non-corporal assets and other loans.

The Company presents its investments in subsidiaries measured at cost. The Company holds no investments in joint ventures or associated entities.

Investments in related parties

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

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

a) power over the investee;

b) exposure, or rights, to variable returns from its involvement with the investee;

c) the ability to use its power over the investee to affect the amount of the investor's returns.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest on loans

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

Interest expenses are recorded using the effective interest rate method. In the years ended December 31, 2019 and December 31, 2018 the Company did not capitalize interest expenses in the assets' value.

Government grants

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

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

Inventories

According to IAS 2 - Inventories, these assets are:

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

Inventories are stated at the lower of cost and net realizable value. The net realizable value is estimated based on the selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale. Based on the management's estimates, adjustments are made for non-moving or slow moving inventories of production supplies and materials, as well as the inventories of unmarketable products.

The set-up and reversal of allowances for inventories impairment is made in the profit and loss account.

To determine the inventory outflow cost of supplied materials, the Company uses the First-In-First-Out (FIFO) method. The standard cost is used for inventory inflow and outflow of finished products. Based on the management accounting, the actual cost of the obtained products is determined at the end of each month.

Receivables and other like assets

Beginning with 1 January 2018, the Company applied for the first time the new standard IFRS 9 *„Financial instruments”* whose result is an anticipated recognition of depreciation adjustments of debts up to the value of foreseen credit losses, calculated based on the rates of historic losses.

Receivables and other similar assets are presented at amortized cost decreased by the value adjustments.

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

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

The discarded receivables will continue to be tracked off-balance sheet.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

Liabilities

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

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

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

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

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

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

Liabilities are presented at amortized cost.

Deferred incomes considered to be non-current liabilities are updated using the effective interest rate method. The updating rate used is the rate determined in accordance with the principles of the procedure issued by the Company management.

The Company derecognizes a liability when the contractual obligations are performed, cancelled or expired.
If the goods and services supplied in relation to current activities were not invoiced but the delivery was made and their value is available, the obligation in question is recorded as a liability.

The amounts representing dividends attributed from the net profit of the reporting period are recorded in the following year as carried forward result, and after the general meeting of shareholders approves this destination, they will be carried as dividends payable to the shareholders.

Current income tax

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

Deferred tax

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenues are measured according to IFRS 15 – Revenues from Contracts with Customers.

IFRS 15 establishes a 5-step model to record the revenues resulted from contracts with customers:

- Step 1:Identification of a contract with a customer
- Step 2:Identification of payment obligations established in the contract
- Step 3:Determination of the transaction price
- Step 4:Allocation of the transaction price for the performance obligations included in the contract
- Step 5:Recognition of revenues as the company fulfills a performance obligation

In accordance with IFRS 15, revenues are recognized in the amount which reflects the consideration at which an entity expects to be entitled in exchange of the transfer of goods or services to a customer.

Sale of goods

In accordance with IFRS 15, the revenues will be recognized when a customer gets control of the goods. The Company delivers goods under contractual conditions based on delivery terms. The time when the customer gets control of the goods is considered to be substantially the same for most contracts of the Company, according to IFRS 15 and IAS 18.

For the contracts with customers, where the sale of goods (mainly LED lighting units, meters, railway traffic safety elements etc.) is generally estimated to be the only performance obligation, it is expected that the adoption of IFRS 15 will have no impact on the revenues and profit or loss of the Company.

The Company expects that the revenue recognition will take place at a certain moment in time, when the control of the asset is transferred to the customer, namely upon delivery of the goods.

While preparing to adopt IFRS 15, the Company considered the following:

Variable consideration

Some contracts with customers provide volume rebates, financial cuts, trade discounts or the right to return the goods for quality defects. Currently, the revenues gained from these sales are recognized based on the price specified in the contract, return net quantities and revenue decreases, trade discounts and volume rebates recorded based on accrual accounting, when a reasonable estimation of revenue adjustment can be made.

In accordance with IFRS 15, the estimation of the variable revenue is necessary to be made at the beginning of the contract. The revenues will be recognized insofar as a significant reversal of the cumulated value of the recognized revenues is unlikely to take place. Consequently, for those contracts for which the Company is not able to make a reasonable estimation of the reductions, the revenue will be recognized earlier than in the case where the return period ends or a reasonable estimation can be made.

However, because the contractual periods for most contracts coincide with the calendar years for which the annual financial statements are prepared, and because the Company currently reports its annual revenues from contracts with customers net of adjustments, such as volume rebates or financial cuts, the impact on the result carried forward from the treatment of variable revenues following the adoption of IFRS 15 is not effective. At the same time, the cases of complaints for quality (rights to return) are isolated and, according to history, they are not material, so that the Company cannot make a reasonable estimation of such a reversal of revenues at the reporting date.

Impact on carried forward result

The Company is the principal in all the sale contractual relationships, because it is the main performer in all the revenue contracts, has the right to establish the price and is exposed to stock and credit risks.

In accordance with IFRS 15, the measurement will be based on the fact that the Company controls the specific goods before transferring them to the end customer rather than these are exposed to risks and significant rewards associated to the sale of goods.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Sale of goods (continued)

Recognition of revenues from distinct performance obligations

According to some delivery terms, the Company may provide services such as transportation to a specified destination beyond the moment of transfer of the control of goods to customers. IFRS 15 requires that an entity should keep records of each of the distinct goods or services as a separate performance obligation. The freight services could fall within the definition of a distinct service, but a full understanding of the commercial terms is necessary to ensure that this is the case. A performance obligation for transportation generally satisfies the performance obligation criteria over a period of time, and the revenues will be recognized during the transfer of goods to the customer. Otherwise, the performance obligation is considered fulfilled at a certain moment in time and the revenues would be recognized when the customer receives the goods.

The impact on the result carried forward from the treatment of transport services as distinct performance obligation, following the adoption of IFRS 15, is non-material.

Service provision

The Company provides various services as main activities (construction-installation works) and occasional activities. The revenue is measured at the fair value of the compensation received or to be received. In accordance with IFRS 15, the total consideration in the service contracts will be allocated for all the services based on their individual sale prices. The independent sale prices will be established based on the list prices at which the Company provides the respective services in separate transactions.

Performance obligations fulfilled in time

SC Electromagnetica SA transfers the control of a good or a service in time and therefore fulfills a performance obligation and recognizes revenues in time if one of the following criteria is met:

(a) the customer receives and simultaneously consumes the benefits offered through the performance by the entity as the entity is performing
(b) the performance by the entity creates or improves an asset (e.g. work in progress) which the customer controls, as the asset is being created or improved or
(c) the performance by the entity does not create an asset with alternative use for the entity, while the entity has an enforceable right to payment for the work performed until the respective date

Performance obligations fulfilled at a specific time

If SC Electromagnetica SA fulfills a performance obligation at a specific time (e.g. the supply of goods with installation or placing in service at a point in time), to determine the specific time when the customer gets the control of a promised asset and SC Electromagnetica fulfills a performance obligation, the stipulations regarding the transfer of control will be analyzed together with the indicators of such transfer, especially the acceptance of the asset by the customer, which can be certified by signing the commissioning protocol/startup report or the explicit acceptance for payment.

If there is an agreement on invoicing before delivery, in addition to the above conditions for a customer to get the control of a product, the following criteria must be met:

- the reason for such agreement on invoicing before delivery must be substantial (a written request from the customer)

- usually the product must be ready for the physical transfer to the customer

- the entity which delivers the product cannot have the capacity to use it or assign it to another customer

If the contract concluded with a customer contains a provision of acceptance, then the time when a customer gets the control of a good or a service will be determined according to that provision.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Sale of goods (continued)

Assessment of the progress in fulfilling a performance obligation entirely

For each performance obligation fulfilled in time SC Electromagnetica SA recognizes the revenues in time through the assessment of the progress in fulfilling that performance obligation entirely. The purpose of such assessment is to present the transfer of control of the goods or services promised to a customer client (i.e. the fulfillment of the performance obligation by the supplier).

Reasonable progress assessments

Electromagnetica SA recognizes the revenues for a performance obligation fulfilled in time only if it can reasonably assess its progress in fulfilling that obligation entirely and holds the reliable information necessary to apply an adequate progress assessment method.

To assess the progress in fulfilling a future obligation, which is necessary, for example, in the contracts including a provision for placing into service or installation, SC Electromagnetica SA chose the method based on inputs, according to which revenues are recognized on the basis of inputs or of the efforts of the entity in fulfilling a performance obligation (e.g. consumed resources, number of hours worked, recorded costs, time elapsed or hours of use of machinery) as compared to the total inputs foreseen for fulfilling the respective performance obligation. If the inputs or efforts are distributed uniformly over the whole period of performance, the revenues can be recognized on a straight-line basis.

IFRS 15 requirements for recognition and assessment are also applicable to the recognition and measurement of any gains or losses resulted from the disposal of non-financial assets (such as non-current assets and intangible assets), where such disposal is not in the normal course of business. Nevertheless, upon transition, the effect of these changes is not expected to be significant for the Company.

Rental income is recognized on a straight-line basis in the profit and loss account over the duration of the rental agreement.

Dividends and interest

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

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

Provisions

Provisions can be distinguished from other liabilities such as trade payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement.

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

Provisions are grouped by categories and are recognized for:

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

When the review by the management together with the legal advisors of the chances for the Company to lose a lawsuit leads to the conclusion that the estimated probability for loss is higher than 50%, a provision is recognized at the reliably estimated amount.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

Provisions for guarantees to customers are recognized depending on the estimates of the management and the sales, technical and quality departments on the level of expenses incurred for repairs during the warranty period. The level of expenses incurred for repairs during the warranty period is determined as a percentage of the turnover for the reporting year.

Restructuring provisions

The implicit restructuring obligation occurs where an entity:

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

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

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

Provisions for employee benefits

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

Other provisions

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

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

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

Employee benefits

The obligations representing short-term employee benefits are not discounted and are recognized in profit or loss as the related service is rendered.

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Profit or loss of the year

The profit or loss is accounted for cumulatively from the beginning of the financial period.
The profit or loss for the period is determined as the difference between the income and expenses of the period.

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

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

Earnings per share

IAS 33 - Earnings per Share stipulates that the entities which present both the consolidated financial statements and the separate financial statements are required to present the earnings per share only on the basis of consolidated information, If the entity chooses to present the earnings per share based on its separate financial statements, it is required to present the information about the earnings per share only in the statement of comprehensive income,

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

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

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

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

Segment reporting

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

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

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

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

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

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

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

4. PROPERTY, PLANT AND EQUIPMENT

Cost	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
As at December 31, 2018	**151,433,699**	**111,213,804**	**32,407,616**	**3,248,607**	**1,088,185**	**299,391,911**
Inflows	-	63,377	841,190	745,195	1,641,697	3,291,459
Transfer	-	63,377	841,190	639,706	(1,544,273)	-
Outflows	-	-	(730,363)	(194,682)	(1,544,273)	(2,469,318)
As at December 31, 2019	**151,433,699**	**111,277,181**	**32,518,443**	**3,799,120**	**1,185,609**	**300,214,052**

Accumulated depreciation	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
As at December 31, 2018	**328,881**	**-**	**13,005,545**	**1,388,229**	**-**	**14,722,655**
Depreciation for the year	-	4,060,867	3,914,809	426,286	-	8,401,962
Accumulated depreciation for outflows	-	-	(422,155)	(33,563)	-	(455,718)
As at December 31, 2019	**328,881**	**4,060,867**	**16,498,199**	**1,780,952**	**-**	**22,668,899**

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

4. PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment allowances	**Land and land improvement**	**Buildings**	**Plant and machinery**	**Other tangible assets**	**Tangible assets in progress**	**Total**
As at December 31, 2018	**-**	**-**	**-**	**-**	**-**	**-**
Allowances for impairment recognized in profit or loss	-	-	-	-	-	-
Reversal of allowances for impairment recognized in profit or loss	-	-	-	-	-	-
As at December 31, 2019	**-**	**-**	**-**	**-**	**-**	**-**
Net book value						
As at December 31, 2018	**151,104,818**	**111,213,804**	**19,402,071**	**1,860,378**	**1,088,185**	**284,669,256**
As at December 31, 2019	**151,104,818**	**107,216,314**	**16,020,244**	**2,018,168**	**1,185,609**	**277,545,153**

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

4. PROPERTY, PLANT AND EQUIPMENT

Cost	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
As at December 31, 2017	**143,844,428**	**121,183,618**	**30,730,779**	**3,031,131**	**1,615,064**	**300,405,019**
Inflows of which:	8,614,167	8,555,007	1,992,457	260,131	1,926,254	21,348,016
- from revaluation	8,614,167	8,046,306	-	-	-	16,660,473
transfer	-	303,040	1,895,393	254,699	(2,453,132)	-
Outflows of which:	(1,024,896)	(18,524,821)	(315,620)	(42,655)	(2,453,132)	(22,361,124)
- from revaluation	(1,024,896)	(10,045,439)	-	-	-	(11,070,335)
- from the determination of the net amount for revaluation	-	(7,813,489)	-	-	-	(7,813,489)
As at December 31, 2018	**151,433,699**	**111,213,804**	**32,407,616**	**3,248,607**	**1,088,185**	**299,391,911**

Accumulated depreciation	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
As at December 31, 2017	**303,047**	**4,076,035**	**8,647,437**	**950,822**	**-**	**13,977,341**
Depreciation for the year	25,834	3,846,299	4,638,771	479,964	-	8,990,868
Accumulated depreciation for outflows of which:	-	(7,922,334)	(280,663)	(42,557)	-	(8,245,554)
- from the determination of the net amount for revaluation	-	(7,813,489)	-	-	-	(7,813,489)
As at December 31, 2018	**328,881**	**-**	**13,005,545**	**1,388,229**	**-**	**14,722,655**

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

4. PROPERTY, PLANT AND EQUIPMENT

Impairment allowances	**Land and land improvement**	**Buildings**	**Plant and machinery**	**Other tangible assets**	**Tangible assets in progress**	**Total**
As at December 31, 2017	**-**	**-**	**-**	**-**	**-**	**-**
Allowances for impairment recognized in profit or loss	-	-	-	-	-	-
Reversal of allowances for impairment recognized in profit or loss	-	-	-	-	-	-
As at December 31, 2018	**-**	**-**	**-**	**-**	**-**	**-**
Net book value						
As at December 31, 2017	**143,541,381**	**117,107,583**	**22,083,342**	**2,080,309**	**1,615,064**	**286,427,678**
As at December 31, 2018	**151,104,818**	**111,213,804**	**19,402,071**	**1,860,378**	**1,088,185**	**284,669,256**

As at December 31, 2019 corporal assets decreased by 1.98% as of December 31, 2018 mainly due to depreciation.

Tangible assets are represented by upgrades of the headquarters of the company as well as the acquisition of technological equipment.

Outflows of assets represent write-downs due to sale and disposal.

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

4. PROPERTY, PLANT AND EQUIPMENT (continued)

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

Name of asset	Net book value as at December 31, 2019	Net book value as at December 31, 2018
- Land com, Domnesti, Ilfov County = 67,713,56 m2	-	12,632,266
- Land com, Moara Vlasiei, Ilfov County = 70,469 m2	-	6,901,868
- Land str, Mitropolit Filaret 35-37 sect, 4 Bucharest = 1,595 m2	-	4,574,936
- Land str, Veseliei nr, 19 sect, 5 Bucharest =16,095 m2	-	14,187,374
Real estate (cadastral parcels no,13,15)		
- Calea Rahovei 266-268 Sector 5 Bucharest	26,354,492	26,843,201
Real estate (cadastral parcels no. 16)		
- Calea Rahovei 266-268 Sector 5 Bucharest	33,496,145	33,620,510
- Land Calea Rahovei, 242 = 2.157 m2	5,160,797	5,160,797
- Small hydropower plants (land+industrial and urban buildings)	48,706,930	-

The tangible assets also include assets acquired by Government grant and used in licensed activity in one of the small hydropower plants located in Brodina, Suceava County. The net carrying amount of the investment at December 31, 2019 is RON 10,831,211 of which RON 4,573,525 represents grant. The net carrying amount of the investment at December 31, 2018 was RON 11.418.690 of which RON 4.736.744 represents grant.

Fair value of tangible assets

The tangible assets of the Company other than tangible assets in progress are presented in the financial statements at revalued amount, representing the fair value at the date of valuation, less accumulated depreciation and impairment.

This method is recommended for properties, when there is sufficient and reliable data on transactions or selling offers for similar properties in the area, Analysis of prices at which transactions were made on requested or offered prices for comparable properties is followed by the performance of price corrections, in order to quantify the prices paid, required or provided, due to differences between the specific characteristics of each property in some called elements for comparison

The fair value of buildings was determined using the cost method and the income method,

The cost method requires that the maximum value of an asset for an informed buyer is the amount that is needed to buy or build a new asset with equivalent utility. When the asset is not new, the current cost of crude has low all forms of impairment that may be assigned to him, until the valuation date.

The income method provides an indication of value by converting future income flows in asset value (market value or investment value).

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

	Level 1	Level 2	Level 3	Fair value at December 31, 2019
Lands and land improvements	-	-	151,104,818	151,104,818
Constructions	-	-	107,216,314	107,216,314

	Level 1	Level 2	Level 3	Fair value at December 31, 2018
Lands and land improvements	-	-	151,104,818	151,104,818
Constructions	-	-	111,213,804	111,213,804

During 2019 and 2018, there were no transfers between levels related to fair value.

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

5. INVESTMENT PROPERTY

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

According to IAS 40, this category of property is recognized as investment property, The Company selected the fair value model for the presentation of investment property in its financial statements, The fair value revaluation as at December 31, 2019 was performed by an ANEVAR authorized company who used the income approach (discounted cash flow method).

As at December 31, 2019 the investment property is structured as follows:

	2019	2018
Opening balance	**4,709,859**	**4,555,912**
Inflows, of which:	509,356	699,248
fair value valuation	509,356	228,280
transfer	-	470,968
Outflows, of which:	(36,936)	(545,301)
fair value valuation	(36,936)	(311,624)
transfer	-	(233,677)
Closing balance	**5,182,279**	**4,709,859**

The revenues arising from the investment property in 2019 amounts to RON 1.569.326 and covers the expenses incurred by the owner (2018: 1.467.224 lei).

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

There are no restrictions on the level of realization of investment property or the transfer of revenue and proceeds from disposal.

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

	Level 1	Level 2	Level 3	Fair value at December 31, 2019
Investment property	-	-	5,182,279	5,182,279

	Level 1	Level 2	Level 3	Fair value at December 31, 2018
Investment property	-	-	4,709,859	4,709,859

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

6. INTANGIBLE ASSETS

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

In the statement of financial position, they are presented at historical cost, less amortization and impairment. The increase of intangible assets is mainly due to the renewal of some licenses.
The useful life was estimated at 3 years for most of the intangible assets.

Intangible assets as at December 31, 2019 are as follows:

Cost	**Concessions patents licenses**	**Other intangible assets**	**Intangible assets in progress**	**Total**
As at December 31, 2018	**854,637**	**2,616,091**	**78,312**	**3,549,040**
Inflows	266,523	-	246,896	508,944
Outflows	(2,829)	(4,475)	(259,670)	(262,499)
Transfers	-	-	-	-
As at December 31, 2019	**1,118,331**	**2,611,616**	**65,538**	**3,795,485**
Accumulated amortization				
As at December 31, 2018	**617,524**	**2,229,491**	**-**	**2,847,015**
Amortization for the year	160,846	321,217	-	560,363
Accumulated amortization for outflows	(80)	-	-	-
As at December 31, 2019	**778,290**	**2,550,708**	**-**	**2,847,015**
Net book value				
As at December 31, 2018	**237,113**	**386,600**	**78,312**	**702,025**
As at December 31, 2019	**340,041**	**60,908**	**65,538**	**466,487**

Cost	**Concessions patents licenses**	**Other intangible assets**	**Intangible assets in progress**	**Total**
As at December 31, 2017	**705,934**	**2,616,091**	**212,122**	**3,534,147**
Inflows	149,378	-	14,853	164,231
Outflows	(675)	-	(148,663)	(149,338)
Transfers	-	-	-	-
As at December 31, 2018	**854,637**	**2,616,091**	**78,312**	**3,549,040**
Amortizare cumulată				
As at December 31, 2017	**438,555**	**1,848,097**	**-**	**2,286,652**
Amortization for the year	178,969	381,394	-	560,363
Accumulated amortization for outflows	-	-	-	-
As at December 31, 2018	**617,524**	**2,229,491**	**-**	**2,847,015**
Net book value				
As at December 31, 2017	**267,379**	**767,994**	**212,122**	**1,247,495**
As at December 31, 2018	**237,113**	**386,600**	**78,312**	**702,025**

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

7. ASSETS RELATING TO THE RIGHTS OF USE

IFRS 16 replaces existing lease instructions, including IAS 17 Leasing, IFRIC 4 Determining the extent to which a commitment contains a lease, SIC-15 Operational leasing - Stimulants and SIC-27 Assessing the economic background of transactions involving the legal form of a contract of leasing. The standard eliminates the current dual accounting model for tenants and requires companies to bring most of the leasing contracts in the balance sheet in a single model, eliminating the distinction between operational and financial leases. According to IFRS 16, a contract is or contains a lease if it grants the right to control the use of an identified asset for a period of time in exchange for compensation. For such contracts, the new model requires the lessee to recognize an asset related to the right of use and a debt regarding the lease agreements. The assets related to the rights of use are amortized over the term of the lease, and the debt generates the interest. Interest expenses are recorded in the profit and loss account for the duration of the lease, being calculated on the remaining balance of the lease debt for each period. For most leases, this will result in higher costs at the beginning of the lease, even if the tenant pays constant rents. The tenant's accounting remains largely unaffected by the introduction of the new standard, and the distinction between operational and financial leasing contracts will be maintained.

As mentioned in the accounting policies note, the Company considered the following aspects related to the contracts that fall under IFRS 16: i) did not recognize any assets related to the right of use and no lease debt related to the contracts that expires in 12 months or less from the date of application; and ii) did not recognize any assets related to the right of use and no leasing debt for small value contracts (below $ 5,000).

Being permitted by the standard, the Company has adopted IFRS 16 starting with January 1, 2019 using the modified retrospective method, without changing the figures from previous periods.

The assets related to the rights of use for the previous operational leasing contracts were evaluated at the date of initial application at the value of the lease debt, adjusted with the advance payments. The debts regarding the leasing contracts were evaluated at the value of the lease payments for the remaining contractual period, updated with the marginal interest rate as of January 1, 2019. The weighted average rate of the marginal interest of the tenant applied to these leasing debts on January 1, 2019 was 3,05%.

The initial application of IFRS 16 resulted in the recognition of assets related to the rights of use as of January 1, 2019, as well as the lease debts amounting to RON 1,102,470, of which the short-term debts amounting to RON 466,905 and the long-term debts worth of RON 635,565 th.

As of December 31, 2019, the Company recognizes assets related to the use rights in the amount of RON 1,480,078 and of the lease debts amounting to RON 1,430,769 related to the previous operational leasing contracts, of which the short term debts amounting to RON 702,605 and long-term debts worth RON 728,164.

	The balance at January 1,2019	**Inflows**	**Outflows**	**The balance at December 31,2019**
Right of use	1,102,470	1,046,437	-	2,148,907
of witch:				
Right of use of buildings	1,023,748	843,189	-	1,866,937
Right of use of vehicles	78,722	203,248	-	281,970
Debt from Leasing	1,102,470	976,328	648,029	1,430,769
Recognized depreciation	-	668,829	-	668,829
Interest expense	-	86,330	-	86,330

Net asset value at December 31, 2019: RON 1,480,078.

Of which:

Net value of the right to use the assets:RON 1,231,777.

Net value of the right to use vehicles: RON 248,301.

The remaining amount of the debts as of December 31, 2019: RON 1,430,769.

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

7. ASSETS RELATING TO THE RIGHTS OF USE (continued)

The table below shows the value of the adjustment for each element of the profit or loss situation affected by the application of IFRS 16 in the current financial year:

	2019
Deduction of Other Operating Expenses (Rents)	643,865
Increased depreciation of Assets related to rights of use	(668,829)
Increase of financial expenses	(86,330)
Impact on the result of the financial year	**(111,294)**

8. INVESTMENTS IN RELATED ENTITIES

As at December 31, 2019, the Company classified its investments in related entities amounting to RON 3,967,606 are stated at cost.

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

The details of the Company's investments in subsidiaries as at December 31, 2019 are:

Name of subsidiary	**No, of securities**	**Ownership and voting right percentage (%)**	**Value**
Electromagnetica Goldstar SRL	2,650	100%	3,126,198
Electromagnetica Prestserv SRL	295	98.333%	29,500
Electromagnetica Fire SRL	799	99.875%	79,900
Procetel SA	42,483	96.548%	732,008
TOTAL			**3,967,606**

These companies will be included in the consolidated financial statements.

9. OTHER NON-CURRENT ASSETS

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

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

	December 31, 2019	**December 31, 2018**
Performance guarantees granted to customers	1,612,182	1,008,072
Trade receivables scheduled on the long-term	24,901,807	20,598,443
Adjustment trade receivables at present value	(1,830,235)	(1,299,487)
Other	18,522	188,316
Total	**24,702,276**	**20,495,344**

Trade receivables scheduled on the long-term in net value of RON 23,071,572 as at December 31, 2019 have been discounted at present value, and the effect of the discount amounted to RON 1.830.235. The short-term portion is recognized in trade receivables (Note 11).

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

10. INVENTORIES

	December 31, 2019	December 31, 2018
Raw materials	7,040,842	7,526,382
Consumables	1,768,142	1,764,677
Finished goods	3,241,583	5,649,617
Work in progress	3,170,253	2,079,010
Other inventories	1,897,656	1,812,269
Allowances for impairment of inventories	(1,707,149)	(1,648,538)
Total	**15,411,327**	**17,183,417**

Other inventories include items of inventory, finished goods or materials in custody at third parties and advances paid to suppliers of goods.

The changes in inventory impairments is as follows:

	2019	2018
Balance at the beginning of period	**1,648,538**	**1,041,252**
Increase	1,253,817	1,167,901
Decrease	(1,195,206)	(560,614)
Balance at the end of period	**1,707,149**	**1,648,538**

Allowances recorded in the reporting period are for obsolete or slow moving raw materials and consumables.

The Company did not pledge inventories to secure its liabilities.

11. TRADE RECEIVABLES

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

	December 31, 2019	December 31, 2018
Internal trade receivables*	54,678,262	36,931,377
External trade receivables	5,384,968	5,555,204
Estimated trade receivables	605,325	3,574,011
Adjustment of internal trade receivables at present value	(614,177)	(478,792)
Impairment of trade receivables	(4,940,221)	(4,306,212)
Net trade receivables	**55,114,158**	**41,275,588**

Internal trade receivables include performance guarantees granted to customers with maturity under one year. As at December 31, 2019 they amounted to RON 256,546 (December 31, 2018: 412,925 lei).

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

11. TRADE RECEIVABLES (continued)

The sale contracts or services provision contracts concluded with customers under credit facilities have been discounted at present value. The total effect of the discount was RON 2,444,412, of which RON 614,177 due in one year and RON 1,830,235, due in more than one year (Note 9).

The balance of trade receivables from customers as at December 31, 2019 is RON 484,456 (December 31, 2018: RON 607.455) and represents promissory notes issued by customers in favor of the company under the contracts concluded.

The changes of impairment allowances of trade receivables are as follows:

	2019	2018
Balance at the beginning of period	**4,306,212**	**4,094,466**
Impairment allowance	1,100,670	268,282
Decreases of impairment allowances	(466,661)	(56,536)
Balance at the end of period	**4,940,221**	**4,306,212**

Doubtful accounts or litigating customers are in amount of RON 4,940,221 as at December 31, 2019 RON (December 31, 2018: RON 4,306,212).

The impairment recorded refers to amounts not collected from doubtful accounts or litigating customers and for which a risk of default was estimated according to the policy adopted by the Company.

The accounts receivable collection period has increased in 2019 to 111 compared to 76 days in 2018.

The maturity of receivables as at the preparation date of the statement of financial position is:

	Gross value as at December 31, 2019	Provision as at December 31, 2019	Gross value as at December 31, 2018	Provision as at December 31, 2018
Outstanding	44,397,268	-	33,547,467	-
Overdue between 1 – 30 days	5,885,271	-	5,643,460	-
Overdue between 31 – 90 days	791,361	-	1,260,969	-
Overdue between 90 – 180 days	1,449,893	-	669,878	-
Overdue between 180 – 365 days	1,798,922	-	162,928	(10,325)
More than 1 year	5,731,663	(4,940,221)	4,297,098	(4,295,887)
TOTAL	**60,054,378**	**(4,940,221)**	**45,581,800**	**(4,306,212)**

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

12. OTHER CURRENT ASSETS

	December 31, 2019	December 31, 2018
Debtors	366,062	31,440
Prepaid expenses	899,734	2,285,137
Debtor suppliers	194,295	81,322
Other assets	479,694	552,288
Total	**1,939,785**	**2,950,187**

The accrued expenses of RON 899,734 mainly consist of rent paid in advance, insurance premiums for the civil liability of directors and various subscriptions.

Other assets also include the value of the VAT non-chargeable in amount of RON 159,496, amounts recoverable from social health insurance amounting to RON 304,575.

13. CASH AND CASH EQUIVALENTS

	December 31, 2019	December 31, 2018
Petty cash	18,851	7,997
Current accounts with banks	21,691,334	29,153,802
Cash equivalents	11,081	515
Total	**21,711,183**	**29,162,314**

	December 31, 2019	December 31, 2018
Restricted cash	80,302	11,269,250
Total	**80,302**	**11,269,250**

Restricted cash is used to guarantee collateral.

14. SHARE CAPITAL

The share capital subscribed and paid up is RON 67,603,870, divided into 676,038,704 shares at nominal value 0,10 RON/share, fully paid-up.

The structure of the shareholders that own over 10% of the share capital as at December 31, 2019 is the following, according to the Central Depositary Register:

	December 31, 2019		December 31, 2018	
SHAREHOLDER	**No, of shares**	**%**	**No, of shares**	**%**
Asociaţia PAS	171,084,540	25.3069	200,302,763	29.6288
SIF Oltenia SA	176,717,594	26.1402	176,717,594	26.1402
Natural persons	249,631,166	36.9256	222,392,283	32.8964
Legal persons	78,605,404	11.6274	76,626,064	11.3346
Total	**676,038,704**	**100**	**676,038,704**	**100**

This is no controlling party or joint control over the Company.

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

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

15. RESERVES

Legal reserve

	2019	2018
Balance as the beginning of the period	**19,431,494**	**34,400,651**
Increases	249,060	401,175
Reductions	-	(15,370,332)
Balance as the end of the period*	**19,680,554**	**19,431,494**

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

During the reporting period, the legal reserve related to the obtained profit was constituted (5% of the accounting profit established according to the law).

* The allowance for inflation following the application of IAS 29 to this reserves amounts to RON 8,649,877 at December 31, 2019 (December 31, 2018: 8.649.877 lei).

Revaluation reserves amount to RON 113.135.990 as at December 31, 2019. Reported at the beginning of the period, they decreased due to the transfer of the revaluation reserve to retained earnings as a result of amortization.

	2019	2018
Balance as the beginning of the period	**115,838,396**	**103,319,691**
Increases	-	15,215,280
Reductions	(2,702,408)	(2,696,574)
Balance as the end of the period	**113,135,988**	**115,838,396**

At December 31, 2019 the Company has **other reserves** amounting to RON 62.841.298 of which reserves for own sources of founding represent 98%.

	2019	2018
Balance as the beginning of the period	**60,971,315**	**61,372,490**
Increases	1,869,983	-
Reductions	-	(401,175)
Balance as the end of the period	**62,841,298**	**60,971,315**

Within the AGOA Electromagnetica from April 22, 2019, it was approved the allocation of 1,717,868 lei for reserves as own sources of financing.

16. RETAINED EARNINGS

As at December 31, 2019, the retained earnings arising from the transfer of reserves from revaluation related to depreciated or decommissioned assets was in amount of RON 2,702,408.

Within the OMS Electromagnetica from April 22, 2019, it was approved the allocation of RON 2,704,155 for the payment of dividends for the year 2018 (respectively 0.004 lei / share).

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

17. INVESTMENT SUBSIDIES

	Total	Within one year	In more than one year
Investment subsidies as at December 31, 2019	4,573,525	163,219	4,410,306

	Total	Within one year	In more than one year
Investment subsidies as at December 31, 2018	4,736,744	163,219	4,573,525

In 2012, the Company benefited from an investment subsidy of 5,997,788 RON granted for the modernization of the micro-hydro power plant in Brodina (Suceava), which will be transferred to revenue concomitantly with the registration of the amortization of the non-current assets purchased under this project. The net book value of the fixed assets purchased from such grant are presented in Note 4.

18. PROVISIONS

Denumire	Balance January 01,2019	Inflows (set-up)	Outflows (reversals)	Balance December 31,2019
Provisions for performance guarantees to customers	1,340,884	140,000	(332,202)	1,148,682
Provisions for risks and charges	31,440	-	-	31,440
Provision for employees' benefits	2,541,342	1,041,595	(2,956,917)	626,020
TOTAL	**3,913,666**	**1,181,595**	**(3,289,119)**	**1,806,142**

The Company has concluded contracts for the supply of lighting units with warranty, for long periods, i,e, 2-4 years. The contracts do not provide for a percentage or amount of the performance guarantee, therefore the related provision is calculated based on the analysis of the history of costs incurred with goods under warranty.

The provision for employee benefits relates to the value of the rest leaves not taken in the previous year.

19. TRADE AND OTHER PAYABLES

	December 31, 2019	December 31, 2018
Trade payables		
Internal trade payables	8,900,394	6,509,919
External trade payables	2,797,053	3,707,533
Estimated trade payables	15,388,430	6,957,002
Other current payables		
Advances received from customers	939,456	508,161
Salaries and social security contributions	3,365,077	3,200,027
Income in advance	1,836,764	98,191
Other payables	13,041,066	22,111,817
Total trade and other payables	**46,268,240**	**43,092,650**

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

The liability settlement period increased to 90 days in 2019 compared to 62 days in 2018.

The Company does not have significant outstanding trade payables.

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

19. TRADE AND OTHER PAYABLES (continued)

The Company does not have overdue liabilities to employees and the state budget. The amounts presented represent liabilities for December 2019, were paid on the due date, in January 2020.

The Company did not have long-term loans at December 31, 2019.
The Company has several loan agreements approved as at December 31, 2018. Their status is presented in Note 29 to these financial statements. There were no outstanding liabilities related to loans as at December 31, 2019 and as at December 31, 2018.

Other payables include guarantees received from tenants, VAT to be paid, other taxes and the fine in amount of RON 9.021.308. For this amount the Company requested ANAF the suspension according to Art. 235 of the Fiscal Procedure Code.

The guarantees received as at December 31, 2019 amount to RON 2.680.667 and will be settled according to the contractual terms.

	Total	Within one year	In more than one year
Guarantees received 2019	2,680,667	1,415,664	1,265,003

	Total	Within one year	In more than one year
Guarantees received 2018	2,624,254	1,313,235	1,311,019

Leasing debts are presented under current and long-term liabilities. Their total value is RON 1,430,769. (Note 7)

20. INCOME

	2019	2018
Income	**256,169,132**	**290,123,223**
- Income from sold production	78,941,288	89,395,821
- Rental income	16,159,606	15,179,199
- Income from sale of goods	161,068,238	185,548,202
Investment income	**1,018,418**	**676,404**
- Interest income	359,931	187,850
- Income from dividends	658,487	488,555
Variation in inventories of finished goods and work in progress	**13,389,266**	**19,745,239**
Own work capitalized	**772,403**	**769,737**
Other income / expenses	**6,802,816**	**3,125,282**
- Income from subsidies	4,535,967	4,479,203
- Net provisions	1,414,906	(1,013,251)
- Net foreign exchange difference	329,428	(68,543)
- Other income	522,515	(272,127)
Net income	**278,152,035**	**314,439,885**

Rental income for the year ended December 31, 2019 includes RON 1.569.326 representing rents related to real estate investments (2018: RON 1.467.224).

Net provisions are income from adjustments for impairment of inventories and receivables as well as income /expense with provisions for good execution guarantees granted to clients.

Net income from valuation at fair value of investment property were in the amount of RON 472,420 and can be found in Other income.

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

21. EXPENSES

	2019	2018
Expenses related to materials	**188,946,222**	**214,511,484**
- Raw materials and consumables	48,417,927	57,623,370
- Goods purchased for resale	138,363,723	154,715,068
- Electricity, heating and water	2,164,572	2,173,046
Employee-related expenses	**36,494,887**	**32,896,983**
- Salaries	19,866,875	17,940,825
- Other employee-related expenses	16,628,012	14,956,158
Other expenses	**36,706,154**	**38,817,320**
Post	207,116	201,109
Maintenance expenses	376,693	333,049
Rentals	327,825	1,472,858
Advertisement and entertainment	196,364	383,813
Insurance	493,050	508,837
Transport and travel	1,199,260	1,430,541
Subcontracted work	7,857,655	10,674,923
Other taxes	1,534,731	1,541,825
Consultants and collaborators	827,861	611,528
Costs of green certificates	11,686,188	11,409,320
Other operating expenses	11,999,411	10,249,518
Expenses related to depreciation and impairment	**10,183,159**	**19,280,031**
- Depreciation	10,183,159	9,550,516
- Net impairment	-	9,729,515
Total expenses	**272,330,422**	**305,505,819**

Expenditure on raw materials, materials and commodities decreased as sales increased both on licensed activities and on non-licensed activities.

The "Other operating expenses" line shows the services rendered by third parties, banking and similar services, fees and commissions etc.

22. FINANCIAL EXPENSES

	2019	2018
Interest expenses	13,138	27,883
Bank charges	740,942	906,134
Lease interest expenses	86,330	-
Total financial expenses	**840,410**	**934,017**

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

23. INCOME TAX

Income tax recognized through profit or loss:

	December 31, 2019	December 31, 2018
Current income tax		
Current income tax expenses	1,367,036	3,486,197
Deferred income tax		
Deferred income tax income	(874,520)	(309,346)
	492,516	**3,176,851**

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

Caption	Year ended December 31, 2019	Year ended December 31, 2018
Net accounting (loss)/profit	**4.488.687**	**4.823.198**
Deductions	(5,728,809)	(6,535,767)
Non-taxable income	(7,407,647)	(15,871,817)
Non-deductible expenses	17,254,242	39,381,821
Taxable (loss)/profit	8,606,473	21,797,435
Tax loss from previous years	-	-
Current income tax	1,377,036	3,487,590
Income tax reduction	(10,000)	(1,393)
Income tax due at end of period	**1,367,036**	**3,486,197**

The tax rate used for the reconciliations above is 16%.

As at December 31, 2019, the current income tax due is RON 760.012 (as at December 31, 2018: RON 34.867).

The analysis of deferred tax for the reporting period is shown below:

	Opening balance	Through profit or loss	Through other comprehensive income	Closing balance
Property, plant and equipment	19,426,238	(532,119)	(6,084)	18,888,035
Receivables	(284,525)	(106,581)	-	(391,106)
Impairment of receivables	(688,994)	(101,441)	-	(790,435)
Impairment of inventories	(263,766)	(9,379)	-	(273,144)
Employee-related benefits	(406,615)	306,452	-	(100,163)
Property, plant and equipment	-	(431,452)	431,452	-
TOTAL	**17,782,339**	**(874,520)**	**425,368**	**17,333,187**

The deferred income tax resulted from different accounting and tax depreciation methods, and the one from revaluation reserves resulted from the revaluation of tangible assets registered after January 1, 2004, which are taxed concomitantly with the deduction of the tax depreciation.

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

24. AVERAGE NUMBER OF EMPLOYEES

Evolution of the average number of employees:

	December 31, 2019	December 31, 2018
Management	43	44
Administrative	157	152
Production	254	283
Total	**454**	**479**

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

	December 31, 2019	December 31, 2018
Higher education	38%	35%
Secondary education	35%	34%
Technical education	5%	5%
Vocational and qualification training	22%	26%
Average number of employees	454	479

24. AVERAGE NUMBER OF EMPLOYEES

The expenses incurred for salaries and related taxed in the years of 2019 and 2018 are:

	2019	2018
Expenses related to salaries	19,866,875	17,940,825
Others	16,628,012	14,956,158
Total	**36,494,887**	**32,896,983**

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

25. RELATED PARTY TRANSACTIONS

	2019	2018
Sales of goods and services to subsidiaries		
Electromagnetica Goldstar	72,426	74,136
Electromagnetica Fire	21,906	21,974
Electromagnetica Prestserv	19,817	19,109
Procetel	33,385	38,796
Total	**147,534**	**154,015**

	2019	2018
Purchases of goods and services from subsidiaries		
Electromagnetica Goldstar	257,270	244,655
Electromagnetica Fire	1,275,562	1,081,586
Electromagnetica Prestserv	1,062,199	866,988
Procetel	1,183,845	1,043,365
Total	**3,778,876**	**3,236,594**

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

25. RELATED PARTY TRANSACTIONS (continued)

	December 31, 2019	December 31, 2018
Trade and other payables to subsidiaries		
Electromagnetica Goldstar	-	18,299
Electromagnetica Fire	175,286	108,343
Electromagnetica Prestserv	108,909	106,241
Procetel	4,744	-
Total	**288,939**	**232,883**

The remuneration of the members of the Board of Directors in 2019 was RON 437.582 lei (December 31, 2018: RON 255.449).

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

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

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

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

Procetel SA is a joint-stock company with its registered office in Calea Rahovei 266-268, Bucharest, sector 5, registered with the Trade Registry under no, J40/10437/1991, Tax ID 406212, tel,: 031.700.2614, fax: 031.700.2616. Its main object of activity is Other research and experimental development on natural sciences and engineering (NACE code 7219), In relation to Electromagnetica it carries out renting activities,

Electromagnetica Goldstar SRL is a limited liability company with its registered office in Bucharest, Calea Rahovei no, 266-268, sector 5, registered with the Trade Registry Office attached to Bucharest Tribunal under no, J40/12829/1991, Tax ID 400570. Its main object of activity is Manufacture of communication equipment (NACE code 2630). In relation to Electromagnetica it carries out renting activities.

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

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

Electromagnetica provides renting services to related parties Procetel, Electromagnetica Prestserv and Electromagnetica Fire.

26. EARNINGS PER SHARE

Basic earnings per share

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

	2019	2018
Net profit attributable to the shareholders	4,488,687	4,823,198
Average weighted number of ordinary shares	676,038,704	676,038,704
Earnings per share	0.0066	0.0071

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

26. EARNINGS PER SHARE (continued)

Diluted earnings per share

To calculate the diluted earnings per share, the company adjusts the profit attributable to the ordinary shareholders of the parent and the weighted average of outstanding shares by the effects of all the potentially diluting ordinary shares. For 2019 and 2018, the Company registers the basic earnings per share as equal to the diluted earnings per share as there are no certain securities that could be converted into ordinary shares in the future.

27. INFORMATION ON SEGMENTS OF ACTIVITY

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

- Licensed activity – electricity supply and production
- Unlicensed activity

The aggregation criterion relies on the license needed to run business and the conditions required by the license, such as presentation of separate financial statements. The electricity production and supply were aggregated as they constitute an integrated process for some of the operations.

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

2019	Unlicensed activity	% Total Company	Licensed activity	% Total Company	Total Company
Net profit	(2,801,961)	n/a	7,290,648	n/a	4,488,687
Total assets	315,833,553	77,36	92,446,789	22,64	408,280,342
Total liabilities	37,914,386	52,17	34,762,480	47,83	72,676,866
Customer revenue	91,905,523	35,88	164,263,609	64,12	256,169,132
Interest income	362,447	100,0	-	-	362,447
Impairment and depreciation	8,253,708	81,06	1,929,451	-	10,183,159

2018	Unlicensed activity	% Total Company	Licensed activity	% Total Company	Total Company
Net profit	1,435,659	n/a	3,387,539	n/a	4,823,198
Total assets	329,452,473	81,32	75,663,124	18,68	405,115,597
Total liabilities	49,749,265	70,20	21,122,020	29,80	70,871,285
Customer revenue	101,909,936	35,13	188,213,287	64,87	290,123,223
Interest income	187,850	100,0	-	-	187,850
Impairment and depreciation	8,209,587	42,58	11,070,444	-	19,280,031

Main products and production structure

The Company benefits from a wide range of technologies and equipment that enables it to obtain a rich diversity of products. The share of the main groups of products in the production-related turnover (excluding services) is as follows:

LED lighting units, systems and solutions

The production of LED lighting units has the largest share in the whole merchandise production of the Company (55.4% of sales). In 2019, sales decreased by 9.9% as compared to the previous year due to decreased export sales, as well as to the postponement of tenders by various contracting authorities (city halls).

27. INFORMATION ON SEGMENTS OF ACTIVITY (continued)

LED lighting units, systems and solutions

The product range covers the following:

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

The competitive advantage of LED lighting equipment is due to their high efficiency (over 130 lm/w), long service life and reduced maintenance costs. In addition, the LED lighting units provide high quality lighting, are environmentally friendly and can be integrated in telemanagement systems.

Equipment for distribution and measurement of electricity

The entire production of meters and systems is destined to the internal market Measurement systems (meters and the EnergSys telemanagement system) used as part of the modernization works of street lighting networks, electric vehicles charging stations or of the modernization works of the low voltage distribution network represented approx. 5.4 % of the total merchandise production, cumulating more than 4 million lei. We mention that the production of the profile has registered fluctuations in the last years, depending on the dynamics of the acquisitions carried out by the electricity distribution companies. The energy measurement and management system ENERGSys is a product established on the market, reaching the third version.In 2019, emphasis was laid on extending the applications of the system in the urban/rural public lighting networks, by monitoring consumption in ignition points and the development within the existing system of functions specific to Smart-City platforms.

Plastic injection and molds

Electromagnetica benefits from a wide range of technologies, which enables the Company to manufacture plastic injection molded subassemblies for both the internal market and export. The Company currently owns 24 machines, the most part of the manufactured products being represented by auto parts.

The production of plastic injection molded subassemblies and molds decreased by 21.3% as compared to the previous year. This group of products has the second largest share of the total exports of the Company, i.e. 32.8% of total exports. The production of plastic injection molded subassemblies also benefits from the onsite manufacture and repair of the molds.

Low voltage electrical switchgear

The production of low voltage electrical switchgear (for ABB) was an element of continuity and stability in the production intended for export, being a range of products that increased in 2019 as compared to 2018 (+ 6.4%). Electrical switchgear represented in 2019 approximately 63.4% of the total exports.

Electricity production from renewable sources

The electricity production is regulated by ANRE; the Company has been a licensed producer since 2007. There was no further need for investments in the 10 micro-hydro power plants (MHPs) along the Suceava River. In 2019 the electricity production significantly exceeded the average production of the last few years.

Approximately 40% of the green certificates necessary for energy supply were ensured by the green certificates related to the own energy production.

The revenues from production and supply of electricity in 2019 recorded a decrease coparing to prior year by 13% due to unstable legislation (OUG 114/2018).

The production of energy in the company's micro-hydro power plants was higher by 1% in 2019 (15,021 MWh) than in 2018. The number of green certificates (GCs) granted in 2019 was 33,144, by 0.3% more than in the previous year.

27. INFORMATION ON SEGMENTS OF ACTIVITY (continued)

Railway traffic safety components

The sales of railway traffic safety components increased by more than 49.7% as compared to 2018, being the activity with the highest growth, in the context of increased orders from renowned companies (such as ALSTOM, SIEMENS) that are working on the maintenance and modernization of the railway infrastructure. The future evolution of this product category broadly depends on the timetable for the modernization of the railway infrastructure.

The main services offered

Electricity supply service

The electricity supply business is regulated by ANRE. The Company has been an authorized supplier since 2001; in 2013 the license was renewed for another 10 years, under the provisions of the new energy law (Law no. 123/2012).

A particular emphasis was laid on risk management by the precontractual review of the consumer, as well as by sustained actions in relation to customers that exceeded the payment deadline (including by disconnection notifications) so that the overdue amounts were insignificant (below 0.5% of receipts).

A significant part of the need of green certificates for the whole supply customer portfolio was covered in 2019 by the certificates obtained for the electricity produced by the company's own micro-hydro power plants.

Services for renting and providing utilities

Electromagnetica administers approximately 33,900 sqm of rentable premises in Bucharest, as well as 3,500 sqm in Varteju commune, Ilfov County. At the end of 2019, the average occupation level for the headquarters located at 266-268 Calea Rahovei Street was 96.68%, for an average rental price of 7.28 euro/square meter. For the premises in Varteju commune (Magurele), the level of occupation was 81.60%, for an average rental price of 1.87 euro/square meter.

The rental and utility supply activity increased by 2.92 % as compared to the previous year, in the context of a higher rented surface and the average Eur-Leu exchange rate which had a favorable evolution as compared to 2018. There is noticed a reduction in the rentable premises for offices in favor of service provision or production premises and the office tenants have increasing demands regarding the comfort level.

28. RISK MANAGEMENT

The Company is exposed to the following risks:

Equity risk

Equity risk management aims to ensure the capacity of the Company to carry out its activity in good conditions through the optimization of the capital structure (equity and liabilities).The analysis of the capital structure is focused on the cost of capital and the risk associated to each category. To maintain an optimum capital structure and an appropriate debt ratio, in the last years the Company proposed to its shareholders an adequate dividend policy, able to secure own sources of funding. The absence of funding sources can limit the Company expansion on the market segments where the sale is supported through the commercial facilities offered.

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

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

28. RISK MANAGEMENT (continued)

Equity risk (continued)

The debt ratio as at December 31, 2019 was as follows:

	December 31, 2019	December 31, 2018
Total loans (lease debts IFRS 16)	1,430,769	-
Suppliers and other liabilities	46,268,240	43,092,650
Less: Cash and cash equivalents	(21,711,183)	(29,162,314)
Net Liabilities/(Assets)	**25,987,826**	**13,930,336**
Equity	**335,603,476**	**334,244,312**
TOTAL BORROWED CAPITAL	**361,591,302**	**348,174,648**
Gearing ratio	**7.74%**	**4.17%**

Credit risk

Credit risk is the possibility that contracting parties breach their contractual obligations resulting in financial loss for the Company. When possible and allowed by market practices, the Company requests guarantees.Trade receivables derive from a wide range of customers operating in various fields of activity and different geographical areas.To counteract this risk factor, the Company applied restrictive policies to the delivery of products to doubtful customers. Insurance policies were contracted for foreign market receivables. Due to the increase of insolvency cases in the economy, there is a concrete risk related to the recovery of the equivalent value of products and/or services supplied prior to the declaration of insolvency. The Company is paying more attention to the creditworthiness and financial discipline of its contractual partners.

	2019	2018
Trade receivables (long and short terms)	79,797,911	61,582,616
Other receivables (long and short terms)	2,718,319	3,138,503
Cash and cash equivalents	21,711,183	29,162,314
	104,227,413	**93,883,433**

Market risk

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

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

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

The foreign currencies most frequently used in transactions are EUR and USD. The assets denominated in foreign currencies are represented by customers and available cash in foreign currency. The liabilities denominated in foreign currency are represented by suppliers.

At December 31, 2019, their situation is as follows:

	Assets	Liabilities	Net exposure
EUR	2,775,954	469,016	2,306,938
USD	19,067	130,371	(111,304)

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

28. RISK MANAGEMENT (continued)

Market risk **(continued)**

At December 31, 2018, their situation is as follows:

	Assets	Liabilities	Net exposure
EUR	3,455,851	638,637	2,817,214
USD	205,693	151,031	54,662

The analysis of the foreign exchange risk sensitivity for a +/- 10% variation in the exchange rate shows an impact on the gross result of the period of +/- 1.055.130 lei.

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

Price risk includes the risk of changes in acquisition prices, exchange rate and interest rate. Among the markets where the Company is present, the energy market has the highest level of price risk, given the volatility of prices on the Day Ahead Market and the Balancing Market, as well as the absence of long-term risk coverage mechanisms. The behavior of the electric power producers, consisting in selling as much as possible on the spot market, increases the price risk on that market.To control the price risk on the energy market, the Company took action for reducing its exposure by re-dimensioning its customer portfolio and externalized the balancing services.

The Company is exposed to exchange rate risk because the sourcing of materials is largely based on imports. In order to limit the effect of the exchange rates, the payment schedule was correlated with that of receipts in foreign exchange, usually ensuring a cash-flow surplus. The change in prices of raw materials and materials entailed a continuous review of cost prices. To maintain some of the products profitable, the Company cooperated with the suppliers for ensuring price control and the related technological processes were improved.

Liquidity and cash flow risk

The Company cash flow department prepares forecasts on the liquidity reserve and maintains the appropriate level of credit facilities in order to be able to prudently manage the liquidity and cash flow risks. At the same time, investments were limited to own sources of funding and to those with direct impact on the turnover.The liquidity and cash-flow risk management policy should be adapted to the resized activity of electricity supply. This risk is closely related to the risks described.

The status of trade receivables and payables according to maturity is presented below:

	December 31, 2019	0 - 1 year	1 - 2 years	2 - 5 years	In more than 5 years
Trade receivables	80,643,667	55,741,861	13,899,307	11,002,499	-
Trade liabilities	46,187,792	44,194,625*	1,993,167	-	-

*) The sum of 44,194,625 RON includes the amount of RON 9,021,307 representing the fine notified by the Competition Council. The company has requested from ANAF the suspension of this amount according to art.235 of the Fiscal Procedure Code.

	December 31, 2018	0 - 1 year	1 - 2 years	2 - 5 years	In more than 5 years
Trade receivables	62,166,344	42,867,389	9,355,610	9,943,345	-
Trade liabilities	43,797,317	42,486,226*	1,311,091	-	-

*) The amount of RON 42,486,226 includes the amount of RON 19,046,133 representing the fine notified by the Competition Council. The company requested from ANAF the suspension of this amount according to Art.235 of the Fiscal Procedure Code. The company paid the amount of 10,024,826 during the year 2019, the difference being still requested at ANAF for its suspension according to art. 235 of the Fiscal Procedure Code.

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

28. RISK MANAGEMENT (continued)

Fair value of financial instruments

December 31, 2019	Carrying value	Fair value	Level
Financial assets			
Trade receivables	79,797,911	79,797,911	Level 1
Cash and cash equivalents	21,711,183	21,711,183	Level 1
Other current assets	1,958,307	1,958,307	Level 1
	103,467,401	**103,467,401**	

December 31, 2019	Carrying value	Fair value	Level
Long term financial liabilities			
Trade and other payables	1,993,167	1,993,167	Level 1
	1,993,167	**1,993,167**	
			Level 1
Short term financial liabilities			
Trade payables	46,970,845	46,970,845	Level 1
	46,970,845	**46,970,845**	

December 31, 2018	Carrying value	Fair value	Level
Financial assets			
Trade receivables	61,582,616	61,582,616	Level 1
Cash and cash equivalents	29,162,314	29,162,314	Level 1
Other current assets	3,138,294	3,138,294	Level 1
	93,883,433	**93,883,433**	

December 31, 2018	Carrying value	Fair value	Level
Long term financial liabilities			
Trade and other payables	1,311,019	1,311,019	Level 1
	1,311,019	**1,311,019**	
Short term financial liabilities			
Trade payables	43,092,650	43,092,650	Level 1
	43,092,650	**43,092,650**	

28. RISK MANAGEMENT (continued)

Political and legislative risk

As two elections will take place in 2020, involving political instability and possible anticipated elections, a part of the budgeted investments could be reduced/postponed.

Calamity risk

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

Risk related to the lack of qualified human resources

This risk has become important both for Electromagnetica and at national level. Due to factors such as: massive immigration, strong competition and the relatively high level of wages in Bucharest area, the Company was confronted following recruitment notices with a lack of qualified workers for production activities, such as locksmiths, milling machine operators, turners, etc. To counteract this situation, we focused on the reconversion and training of own employees where layoffs were made, as well as on the continuous training of new employees. We also consider the application of an internship program with the possibility of retaining in the Company these persons at the end of the internship period.

Risk related to data protection and processing

The risk can be generated by situations such as the loss or accidental modification of data, as well as by the unauthorized access to personal data.

Irrespective of the ground for processing, Electromagnetica complies with the obligations laid down by the General Data Protection Regulation – Regulation (EU) 2016/679, including the obligation to inform the data subject upon the collection of data.

Medical risks

The new coronavirus COVID19 pandemic generates negative effects such as:

- the slowing down of sourcing activities, especially in relation with China
- the delay/reduction of export sales of LED lighting systems
- tenants who postpone the payment of rents or even become insolvent
- delayed payments from customers or even insolvency of smaller customers
- possible cases of disease among employees or employees taking leaves to care for their children

At this time, we cannot estimate the economic impact of this pandemic. For the first quarter of the year we estimate a normal operation (inclusively based on the stock of raw materials and products) but, if the situation of infections at global level escalates, with all the consequences deriving therefrom (closure of enterprises and stores, closure of borders), the effects on the operation of the Company will amplify. As the effects will be better known, we will provide details and estimations.

General framework for risk management

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

The activity is governed by the following principles:

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

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

28. RISK MANAGEMENT (continued)

General framework for risk management (continued)

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

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

29. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2019, the Company had the following commitments granted for bank loans and guarantee agreements / credit agreements concluded with the financing banks (BCR, BRD, Libra Internet Banking, OTP BANK):

• BCR revocable credit line amounting to RON 9,000,000(of which RON 4,500,000 noncash) uncommitted on December 31, 2019.

• Non-cash guarantee agreement at BCR in the amount of RON 30,000,000 of which employed on December 31, 2019, in amount of RON 16,990,920.
Guarantees:
Mortgage contract rank III on the accounts opened at BCR, guarantees MHC less Milisauti (real estate mortgage urban and extra-urban land and industrial and urban constructions with built surface area).

• guarantee agreement discovered authorized by the account in the amount of RON 15,000.
Guarantees: cash deposit RON 15,000

• guarantee agreement discovered authorized by the account in the amount of RON 75,000.
Guarantees: collateral cash deposit RON 75,000

• line of credit concluded with Libra Internet Bank in the amount of RON 5,000,000 committed on December 31, 2019, in the amount of RON 0.01.

• convention regarding the issuance of letters of bank guarantee, concluded with Libra Internet Banking in the amount of RON 10,000,000, of which the amount of RON 6,801,867 was committed on December 31, 2019.

Guarantees:

- Real estate mortgage on bank accounts opened on behalf of the borrower at all Libra Internet Bank units
- Movable mortgage on receivables resulting from the rental contracts related to lots 13 and 15.
- Real estate mortgage on real estate - land and construction - lots 13 and 15.

• OTP BANK credit contract amounting to 12,000,000 lei, of which 5,000,000 lei cash and 7,000,000 lei non-cash not employed on 31.12.2019.

Guarantees:

- Mortgage on accounts opened with OTP BANK
- Mortgage on debtors

Commitments

The commitments received from clients and tenants in the form of letters of guarantee on December 31, 2019, are worth RON 4,337,488 according to the contractual clauses.

Litigation

The litigations in which the company is involved are values that are not likely to affect the financial stability of the company.

30. SUBSEQUENT EVENTS

The influence of the regularization of the final share of green certificates for the energy supply activity carried out in 2019 was not reflected in the financial statements due to the late publication of ANRE order no. 18 / 26.2.2020. Regularization will not influence profit.

At the time of writing the report, the company management cannot estimate the economic impact of COVID-19 on the company's activity. The risks are those presented above.

Also, the management has no knowledge of events, economic changes or other factors of uncertainty that could significantly affect the revenues or liquidity of the company, other than those mentioned.

These separate financial statements were approved for issue by the management as at March 25, 2020:

EUGEN SCHEUŞAN
Managing Director

CRISTINA FLOREA
Economic Manager

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BOARD OF DIRECTORS REPORT FOR THE FINANCIAL YEAR 2019

ON THE ECONOMIC AND FINANCIAL ACTIVITY OF ELECTROMAGNETICA SA

- SEPARATE STATEMENTS –

according to Article 67 of Law no. 14/2017 on issuers of financial instruments and payment operations, and to annex 15 to the Financial Supervisory Authority (ASF) Regulation no. 5/2018 and to the Code of Bucharest Stock Exchange

ELECTROMAGNETICA IDENTIFICATION DATA:

Report date**:**	**March 25, 2020**
Company name**:**	**Electromagnetica SA**
Registered office:	**266-268 Calea Rahovei Street, District 5, Bucharest, postal code 050912**
Tel/ Fax:	**021 404 21 02/ 021 404 21 95**
Tax ID	**RO 414118**
Trade Register no**:**	**J40/19/1991**
Regulated market**:**	**Bucharest Stock Exchange (BVB), Equity securities, Shares, Premium category**
Stock symbol**:**	**ELMA**
Number of shares**:**	**676,038,704**
Nominal value**:**	**RON 0.1000**
Share capital**:**	**RON 67,603,870.40**

1. COMPANY OVERVIEW

Electromagnetica SA is a Romanian legal entity incorporated in 1930 under the legal form of joint stock company for an unlimited duration and organized and operating under its articles of incorporation, Law no. 31/1991 republished in 2004 and amended by Law no. 441/2006, the Government Emergency Ordinances (GEO) nos. 82/2007 and 52/2008, and Law no. 24/2017 regarding the *issuers* of the financial instruments and market operations.

The Company share capital is 67,603,870.40 lei divided into 676,038,704 ordinary shares, registered and dematerialized, which are recorded in electronic account in the shareholder register held by Depozitarul Central SA (Central Securities Depositary). According to the Company's articles of incorporation, its main object of activity is the manufacture of instruments and appliances for measuring, testing and navigation (NACE code 2651).

Electromagnetica SA, in its capacity of trading company whose shares are admitted to trading on a regulated market (Bucharest Stock Exchange, Premium category, ELMA stock symbol, has adopted the IFRS (International Financial Reporting Standards) starting with the financial year 2012. The financial statements for 2018 were prepared in compliance with Order no. 2844/2016 of the Minister of Public Finance (OMFP) approving the accounting regulations compliant with the International Financial Reporting Standards adopted by the European Union.

1.1. Mission, vision, values

THE MISSION of ELECTROMAGNETICA top management and employees is to provide high performance solutions based on new technologies, in order to fully satisfy customers and to respond reasonably to expectations by breaking new ground in technology and business.

Our **VISION** in order to achieve our mission is to develop in particular products deriving from our own research-design activity. By its strategy, ELECTROMAGNETICA aims to expand to complementary fields, with a high potential for growth, which allow us to make better use of our research and development resources and our technological base. At the same time, the company aims at maintaining a high degree of production flexibility, the full or partial outsourcing of mechanical processes at competitive costs, reinvesting profit, financing mainly from own sources, balanced diversification of activity and risk balancing.

The **VALUES** that define and model permanently the identity of our company and our organizational culture are:

- **Creativity**: we are innovative and we apply constantly the newest technologies and the most appropriate solutions;
- **Business ethics**: is the foundation of our commercial relationships, characterized by honesty, integrity, communication and mutual trust;
- **Cooperation**: we address proactively the needs of customers by offering them quality products and services that add value for long-term direct and indirect benefits;
- **Accountability**: we act responsibly to protect the environment, the safety, health and personal development of employees in order to create a fair and competitive business environment and to contribute to the social and cultural development of the community;
- **Self-confidence**: we believe that team work, together with our expertise and resources, ensure the strength required to achieve our mission and to secure the sustainable development of the company;
- **Adaptability**: we adapt permanently to market requirements, searching for and discovering new opportunities while remaining constantly focused on the needs and expectations of customers.

1.2. Description of the main activity

Electromagnetica has the following main business lines:

A. **PRODUCTS AND SERVICES AIMED AT INCREASING ENERGY EFFICIENCY**

B. **ELECTRICITY PRODUCTION AND SUPPLY**

C. **RENTAL OF PREMISES AND REAL ESTATE DEVELOPMENT**

D. **OTHER ACTIVITIES**

- Plastic injection molded subassemblies, electrical, electronic and metallic products for the domestic and external market
- Tools and molds
- Various machining and assembling operations
- Railway traffic safety components for CFR

Established in 1930, Electromagnetica manufactures products of its own conception, designed and developed by its research and development team, but it also works on orders to make metal and injection molded plastic subassemblies, electrical switchgear, tools and molds.

The Company has developed since 2010 its own concepts of LED lighting units and systems and now it is in a position to offer a wide range of products for street, industrial, commercial and residential lighting. The LED lighting products represent the highest share of Electromagnetica production, the Company being the main domestic producer.

The production of electrical meters has a long tradition and it has been developed into the implementation of energy measurement and remote management equipment designed to meet the highest standards in the field. The railway traffic safety components are also classical products of the Company portfolio. The Company owns a metrology laboratory (where the meters of distribution operators are verified as well), and an electromagnetic compatibility laboratory (accredited by RENAR) where the performance of LED lighting devices is evaluated and validated, and a technical lighting laboratory.

A parallel concern was to take full profit of the Company real estate by fitting out and renting surplus premises which underwent important modernization. The production of electricity takes place in 10 micro-hydro power plants (MHPs), located in Suceava County.

1.3. Merger and reorganization of the companies controlled by Electromagnetica in 2019

The group of companies for which Electromagnetica SA is the parent-company includes the companies Procetel SA, Electromagnetica Goldstar SRL, Electromagnetica Fire SRL and Electromagnetica Prestserv SRL and they mainly represent externalizations of some services. In **2019** there were no changes in the shareholding structure of the related companies. Except for Electromagnetica Goldstar SRL, the other companies carried out their activities in direct relation with their parent company.

1.4. Main purchases and/or alienations of assets

The Company did not purchase or alienated independent assets in 2019.

With the aim to maintain a high technical level and to increase production capacity and work productivity, in 2019 the company purchased technological equipment and measurement and control devices and systems, and invested in self-equipping and the modernization of headquarters buildings, which totaled approximately 1,874,000 EUR.

The value of the intangible assets purchased was low, consisting of several software licenses which were necessary for the supply and research and development activities.

During the reporting period, no significant alienations of tangible assets took place; the Company discarded a few items and made a few insignificant sales of old vehicles and equipment which had been put out of service.

1.5. Main events with significant impact on the operation of the Company

During 2019, the main events significantly impacting on the Company activity were the following:

- New highly efficient LED lighting units started to be manufactured, to maintain sales on the most dynamic market segments (street lighting and commercial lighting);
- Increasing the number of LED lighting projects taught turnkey that integrate several products and services offered by the company (lighting, design, installation, maintenance).
- A favorable hydrological regime, which led to a good yield of energy from renewable sources, comparable to the volume of 2018, but over the average of recent years.

1.6. Other important events

ELECTROMAGNETICA SA, a founding member of ARIR – the Association for Relations with the Investors on the Romanian Stock Exchange, participated actively in the meetings and conferences organized by this association (including the meetings with ASF), with the aim to improve its communication with investors and to keep up with the legislative amendments anticipated in the capital market (European regulations and draft laws in Romania). ARIR includes, among others, Transilvania Bank, Hidroelectrica, Nuclearelectrica, Transelectrica, ALRO, BVB, Franklin Templeton Management.

In 2019, case no. 12539/3/2015, Hidroelectrica vs. Electromagnetica, was finalized; in this case, our company was successful in front of all three courts of law (Bucharest Tribunal, Court of Appeal, High Court of Cassation and Justice), therefore the claims of Hidroelectrica amounting to more than 3 million EUR were dismissed.

1.7. Overall evaluation elements:

No.	Specification	2019	2018
1	Total revenue (lei)	277,137,118	332,138,816
2	Total expenses (lei)	272,155,915	324,138,766
3	Gross profit (lei)	4,981,203	8,000,050
4	Net profit (lei)	4,488,687	4,823,198
5	EBITDA margin	9.47%	7.43%
6	EBIT margin	1.79%	1.37%
7	Net profit ratio	1.75%	1.45%
8	Current liquidity	194%	192%
9	Capital solvency	82%	83%
10	ROE	1.34%	1.44%
11	Accounts receivable collection period (days)	111	76
12	Supplier payment period (days)	90	62
13	Average active employee headcount	454	479

The Company achieved operational profit, having a good capital solvency, and the net profit ratio increased to 1.75%.

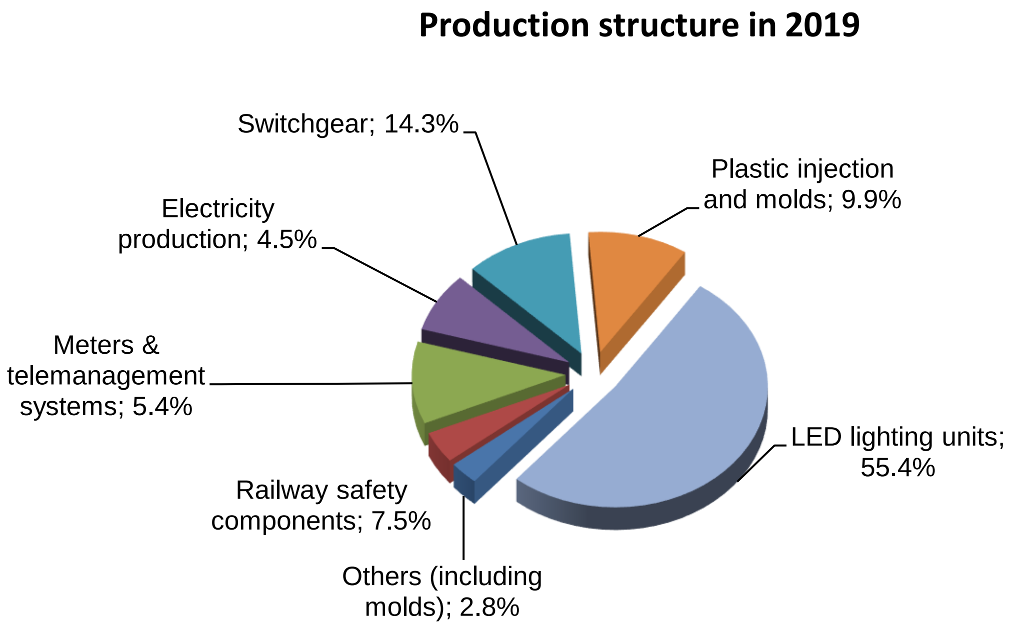
At the same time, EBITDA margin and EBIT margin indicators increased as compared to 2018, reaching 9.47%, and 1.79%, respectively.

The income from energy supply decreased by approximately 13%, due to the effects of GEO 114/2018, which determined a decrease in the trading activity (bilateral contracts between suppliers). The main increase was registered for railway traffic safety elements (50%), switchgear (6.4%) and rental services (6.2%). Electricity production decreased slightly (15,021 kWh as compared to 14,877 kWh), exceeding by far the multiannual average of recent years.

2. EVALUATION OF THE COMPANY TECHNICAL LEVEL. PRODUCTS AND SERVICES.

2.1. PRODUCTION STRUCTURE

The Company benefits from a wide range of technologies and equipment that enables it to obtain a rich diversity of products. The share of the main groups of products in the production-related turnover (excluding services) is as follows:



2.2. PRODUCTS AND SERVICES FOR INCREASED ENERGY EFFICIENCY

2.2.1. LED lighting units, systems and solutions

The production of LED lighting units has the largest share in the whole merchandise production of the Company (55.4% of sales). In 2019, sales decreased by 9.9% as compared to the previous year due to decreased export sales, as well as to the postponement of tenders by various contracting authorities (city halls). The product range covers the following:

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

The competitive advantage of LED lighting equipment is due to their high efficiency (over 130 lm/w), long service life and reduced maintenance costs. In addition, the LED lighting units provide high quality lighting, are environmentally friendly and can be integrated in telemanagement systems.

2.2.2. Electricity distribution and metering equipment

Measurement systems (meters and the EnergSys telemanagement system) used as part of the modernization works of street lighting networks, electric vehicles charging stations or of the modernization works of the low voltage distribution network represented approx. 5.4 % of the total merchandise production, cumulating more than RON 4 million . In 2019, emphasis was laid on extending the applications of the system in the urban/rural public lighting networks, by monitoring consumption in ignition points and the development within the existing system of functions specific to Smart-City platforms.

2.1.3. Low voltage electrical switchgear

The production of low voltage electrical switchgear (for ABB) was an element of continuity and stability in the production intended for export, being a range of products that increased in 2019 as compared to 2018 (+ 6.4%). Electrical switchgear represented in 2019 approximately 63.4% of the total exports.

Most of this activity is automated and robotized.

2.2. ELECTRICITY PRODUCTION AND SUPPLY

2.2.1. Electricity production from renewable sources

The electricity production is regulated by ANRE; the Company has been a licensed producer since 2007. There was no further need for investments in the 10 micro-hydro power plants (MHPs) along the Suceava River. In 2019 the electricity production significantly exceeded the average production of the last few years.

Approximately 40% of the green certificates necessary for energy supply were ensured by the green certificates related to the own energy production.

The production of energy in the company's micro-hydro power plants was higher by 1% in 2019 (15,021 MWh) than in 2018. The number of green certificates (GCs) granted in 2019 was 33,144, by 0.3% more than in the previous year.

2.2.2. Electricity supply activity

The electricity supply business is regulated by ANRE. The Company has been an authorized supplier since 2001; in 2013 the license was renewed for another 10 years, under the provisions of the new energy law (Law no. 123/2012).

A particular emphasis was laid on risk management by the precontractual review of the consumer, as well as by sustained actions in relation to customers that exceeded the payment deadline (including by disconnection notifications) so that the overdue amounts were insignificant (below 0.5% of receipts).

A significant part of the need of green certificates for the whole supply customer portfolio was covered in 2019 by the certificates obtained for the electricity produced by the company's own micro-hydro power plants.

The legislative amendments, such as GEO no. 114/2018, had a negative impact and led to a decrease in the income from this activity (-13%). This was compensated by a stronger emphasis on the supply of electricity to end consumers, by attracting new customers.

2.3. RENTAL OF PREMISES AND REAL ESTATE DEVELOPMENT

Electromagnetica administers approximately 33,900 sqm of rentable premises in Bucharest, as well as 3,500 sqm in Varteju commune, Ilfov County. At the end of 2019, the average occupation level for the headquarters located at 266-268 Calea Rahovei Street was 96.68%, for an average rental price of 7.28 euro/square meter. For the premises in Varteju commune (Magurele), the level of occupation was 81.60%, for an average rental price of 1.87 euro/square meter. As of 31 December 2019, the structure of the rentable premises by their destination was as follows:

Item no.	Destination of rentable premises at the headquarters	Share %	Destination of rentable premises in Varteju	Share %
1	Offices	48.21	Offices	3.99
2	Warehouses	25.40	Warehouses	13.45
3	Production	10.14	Production	57.32
4	Services	16.26	Services	25.25

The rental and utility supply activity increased by 2.92 % as compared to the previous year, in the context of a higher rented surface and the average Eur-Leu exchange rate which had a favorable evolution as compared to 2018. There is noticed a reduction in the rentable premises for offices in favor of service provision or production premises and the office tenants have increasing demands regarding the comfort level.

The pressure on rental revenues will continue as an result of the downsizing of some tenants or of their migration to spaces with additional facilities and low costs, in particular for the storage and production activity. The high level of delivery in the office market, in particular of modern offices, will exceed the office demand in Bucharest, possibly leading to a lower level of occupation, mainly in buildings which are old or located in hard-to-reach areas. According to the data communicated by the real estate consultancy company Colliers, "*the stock of modern office spaces in Bucharest will cumulate in 2019 and 2020 more than 500,000 sqm. In these conditions, the vacancy rate of 10% recorded at the end of 2019 could gradually increase to 13% at the end of 2020*."

2.4 OTHER DEVELOPED PRODUCTS

2.4.1. Plastic injection and molds

Electromagnetica benefits from a wide range of technologies, which enables the Company to manufacture plastic injection molded subassemblies for both the internal market and export. The Company currently owns 24 machines, the most part of the manufactured products being represented by auto parts.

The production of plastic injection molded subassemblies and molds decreased by 21.3% as compared to the previous year. This group of products has the second largest share of the total exports of the Company, i.e. 32.8% of total exports. The production of plastic injection molded subassemblies also benefits from the onsite manufacture and repair of the molds.

2.4.2. Railway traffic safety components

The sales of railway traffic safety components increased by more than 49.7% as compared to 2018, being the activity with the highest growth, in the context of increased orders from renowned companies (such as ALSTOM, SIEMENS) that are working on the maintenance and modernization of the railway infrastructure. The future evolution of this product category broadly depends on the timetable for the modernization of the railway infrastructure.

3. EVALUATION OF THE SOURCING ACTIVITY. STOCKS

3.1. Sourcing activity

The sourcing prices of raw materials and other had a positive evolution as compared to 2018. For ferrous and non-ferrous materials, prices were stationary, while for plastics and lighting bodies components (LEDs, lenses, power sources) prices decreased, mainly due to better planning and renegotiations with suppliers. Decreased costs were also recorded due to the introduction of new models of EVOcity cast housing street lighting units, which replaced the older product range Antilia.

The sourcing of raw materials and other materials was continuous and constant, in optimal batches, and there were no interruptions in the supply chain that could have affected the production plan.

The sources for the production supplies are reliable, suppliers being selected based in technical and commercial performance criteria and being assessed annually, with the objective to maintain a minimum number of 2 suppliers / product type.

3.2. Stocks

The stock of finished products (LED lighting units) decreased at the end of 2019 by RON 3,342,514 (RON 6,371,711 on 01.01.2019, and RON 3,029,197 on 31.12.2019, respectively) due to increased sales in the last period of the year.

4. EVALUATION OF THE SALE ACTIVITY

4.1. Evolution of sales on the domestic and external market and perspectives for medium- and long-term sales

The distribution on the market of the LED lighting units and systems is mainly done directly by the Company through its specialized division from the commercial directorate. The development of a larger number of turn-key projects ensured the sale of more products and services. One of our priorities for 2019 was to achieve a balanced structure of the production of LED lighting units by raising the lighting products for the commercial and office sectors to the level of the products for public lighting.

Export is traditionally sustained by the low voltage electrical switchgear and a large part of the plastic injection mold production. In the following period, the production of plastics will be progressively directed towards products with a higher level of complexity, a change that will also lead to a higher profitability. LED lighting units, representing 3.1% of total exports made in 2019, are the third range of products as share of exports, with a high potential for growth.

The licensed production and supply of electricity are only carried out on the domestic market. The production of meters, energy remote management systems, railway traffic safety components, as well as the rental services, are exclusively sold on the domestic market.

With respect to the assurance of medium- and long-term distribution, we mention that the average duration of rental agreements is approximately 2 years, while the average duration of electricity supply contracts is 1 year, while production is generally based on medium- and short-term orders, except for the production of meters and remote management equipment that are contracted annually. The contracts for the sale of LED lighting systems through supplier-credit are usually concluded for a period of 5 years.

4.2. Main competitors

The LED lighting technology is now the most efficient lighting solution, achieving more and more fame. Electromagnetica is the main domestic producer of products competing with those imported from other countries. Among Electromagnetica products, the most successful were the lighting units for commercial and industrial premises, as well as the street lighting units. The Company has a wide range of LED products competing on several price segments. The main competitors of the Company are Philips and Schreder (high price), Elba, Amiras, Electromax, Greentek (medium price) and Spot Vision, Urbio (low price segment).

On the market of electricity supply services, 2019 was more stable than 2018 and the market shares of the first 20 suppliers recorded slight changes.

On the local market of railway traffic safety systems, the number of purchase orders depends on the progress of the programs for the modernization of the railway infrastructure, provided that the Company takes the necessary steps to ensure the flexibility of its production and to be able to cope with the fluctuating orders.

4.3. Significant dependencies of the Company on a customer or group of customers

The products with a large share at the moment, such as LED lighting units, electrical switchgear and injection molded products are targeted at a wide customer portfolio and do not depend on a certain customer or group of customers. As regards the meters and telemanagement systems, the Company depends on the traditional beneficiaries, i.e. the electricity distribution companies, whose investment program is significantly different from year to year. The same applies to the railway traffic safety components intended for the ultimate beneficiary CFR Infrastructura. The possible difficulties encountered by these customers in the continuation or financing of their modernization programs could affect the level of orders received by the Company.

5. EVALUATION OF PERSONNEL-RELATED ISSUES

The high qualification level of employees enabled the Company to carry out not only production activities, but also research and development activities. In 2019, the average headcount was 454, i.e. 5% less than in the previous year, of which 38% employees with higher education and 35% with secondary education. The Company employees follow a continuing vocational training program, each of them benefiting, on average, from 31 hours/year internal and external professional training in quality, occupational health and safety, environment protection etc. In 2019 there was no case of occupational disease and no event with a major impact on human health. The management and employees interact in normal conditions. The unionization rate is approximately 74% and there were no labor conflicts between the management and the union. More information about the social and staff policy, the policies on occupational health and safety, respect for human rights and the related risks and key performance indicators is available in the non-financial declaration of the Board of Directors for 2019, published together with this report on the Company website www.electromagnetica.ro

6. COMPANY BUSINESS IMPACT ON THE ENVIRONMENT

We are fully compliant with the requirements of our Integrated Management System and continually improve its effectiveness, establishing, monitoring and reviewing our objectives. As a responsible organization, we aim to offer trust to our partners and consider that Quality, Health and Safety at work, as well as the Environment are important issues integrated in the culture of our Company.

The Company holds all the environmental permits required under the law for its business, and has in place an Environmental Management System compliant with SR EN ISO 14001:2015. The Company does not carry out activities with significant impact on the environment and there are no litigations related to breaches of the legislation on environmental protection.

We invite our staff, contractors and suppliers to actively participate in the fulfillment of our objectives concerning Quality of operations, Health and Safety at work, plus the Environment, through the implementation of all the relevant regulations and programs adopted.

The Company carries out an effective environmental risk control, implementing and complying with the waste management procedures, emergency procedures, production retrofitting, designing and testing new environmental-friendly products, standardizing and optimizing products. One of the research and development objectives is to implement new energy-efficient and less polluting manufacturing technologies and launch new products with reduced environmental impact during their service life. The production of electricity from renewable sources in micro-hydro power plants is considered an activity which has no impact on the environment.

Considering that certain low power hydro power plants are located in the network of Natura 2000 protected areas, in order to obtain the environmental permit we have requested and obtained the custodian's approval. The ecological network "Natura 2000" – the European ecological network of protected natural areas – includes areas of special protection of aquatic fauna, determined in accordance with Directive 79/409/EEC on the conservation of wild birds, and special conservation areas designated by the European Commission, and in accordance with Directive 92/43/EEC on the conservation of natural habitats and of wild fauna and flora. Natura 2000 is not a system of strictly protected reserves. Human activities are permitted to the extent they allow the conservation of the species or habitats.

Further information about the Company environmental policy, the risk factors and key performance indicators is available in the non-financial declaration of the Board of Directors for 2019, published together with this report on the Company website www.electromagnetica.ro.

7. EVALUATION OF THE RESEARCH AND DEVELOPMENT ACTIVITY

The research-design-development activity is carried out within the following departments: the Research and Design Department, which includes the Photometry and Electromagnetic Compatibility Laboratory, the Electrical Equipment Design and Communication Department, and also the Self-Equipping Design Workshop. Considering that most of the products manufactured by Electromagnetica are products of its own conception, 10.5 % of the Company staff worked in research-design-development in 2019.

7.1. LED lighting units and systems

In 2019, the main objective of technological and constructive research was to realize the prototype of the LED lighting unit (CIL) VIA2GR70 for street lighting, with plastic casing and thermal conductive plastic radiator. The product was validated and funding of approx. 250,000 EUR was approved for mass production, which consisted of the manufacturing of 9 plastic injection molds, 2 stamping tools, 3 bending tools and a semi-automated device for thermal riveting. The product will be certified and introduced in series production in 2020.

In the data base, 509 LED lighting units (CILs) are operational, organized in 46 families of products, of which 105 CILs and 8 charging stations for electrical vehicles entered the manufacturing process in 2019.

For street lighting we continued the modernization of units in aluminum cast casings by manufacturing the EVOCityeco product at lower costs, and the 700 W AQUILLA projector for the lighting of stadiums entered the manufacturing process.

The family of EVOCity street lighting units with powers between 20W and 160W was ENEC certified (an internationally recognized security certification) and the OICPE certification with brand license was extended to the same CIL family, these being requirements of public tenders. As in Romania there are no ENEC accredited laboratories, this certification was made by a laboratory abroad.

In 2020, the main goal is to start the manufacturing of a series of linear LED lighting bodies from extruded aluminum profiles and to outsource completely or partially the manufacturing of mechanical subassemblies for the existing unitd, in order to reduce manufacturing costs. For the same purpose of cutting down costs, the assembly flow of large series street lighting and linear units will be optimized by the realization of a semi-automatic line.

7.2. Measurement and remote management systems

In 2019, the developments of the ENERGSys remote reading and remote management system, a registered trademark of Electromagnetica SA, aimed to introduce new functionalities in order to adapt the existing system to installation in the ignition points of public lighting networks or in particular situations of modernization of the low and medium voltage distribution networks, as required by beneficiaries. Thus, remote control functions were introduced for the ON/OFF status of public street lighting units and the possibility of Wi-Fi radio communication in the 2.4GHz band between the modules composing the system was introduced, ensuring the installation of the system in rural areas with atypical architectures of the low and medium voltage distribution network. In this context, it is appropriate to continue the development program of the ENERGSys system in order to exploit the potential in the market.

7.3. Charging equipment for electric vehicles

The Company's development strategy has also considered the electro mobility infrastructure as a way to grow and exploit its experience in the field of energy and rectifiers.

The sale of AC and DC charging stations for electric vehicles increasingly requires that these be integrated in a remote management, administration and monitoring system. In 2019, a program was launched to develop a software for the management and administration of charging stations for electric vehicles, which would ensure online communication with stations via standardized protocols (OCPP), in order to provide monitoring, administration, technical assistance and user information services regarding the condition, availability and accessibility of charging stations and the services provided by means of these stations. The development of the management software started from the requirements of the tender specifications of potential beneficiaries and by taking into account the current situation in the electromobility market. The software application for the management of charging stations for electric vehicles will allow the future development of new services to be provided to users, as well as the integration of electric vehicle charging services into the current energy market and the creation of the proper conditions in order to adapt to the future amendments to the legislative framework in this field, both at the European and the national level.

As part of the research-development program of 50KW DC charging stations of the Fast-Charge type, we continued the program aimed at realizing at Electromagnetica a 10kW rectifier that could be integrated into the DC Fast-Charge stations as an alternative to imported rectifiers of this type. At the same time, other alternative solutions for the rectifiers used to date were sought and developed, so that the manufacturing of DC charging stations for electric vehicles would not depend on a single supplier. CAN bus communication modules were realized in order to ensure uniformity and the possibility of consistent use of several types of rectifiers from various manufacturers.

In 2020, the software applications for the 50kW DC charging station will be completed, with the main goal to start the series production of this station with rectifiers from 3 manufacturers, two imported models of 20 and 30 KW, and two models of 10 and 30 KW manufactured by Electromagnetica.

8. RISK MANAGEMENT OBJECTIVES AND POLICIES. RISK FACTORS.

The risk management policies are defined in such a way that they ensure the identification, monitoring and analysis of the risks which the Company faces, establishing, at the same time, the limits of exposure. The risk management policy provides effective means of control and a favorable environment where all employees understand their roles and obligations.

Market risk (includes the price risk and implies the risk due to technological changes)

Price risk includes the risk of changes in acquisition prices, exchange rate and interest rate. Among the markets where the Company is present, the energy market has the highest level of price risk, given the volatility and significant increase in the last years of prices on the Day Ahead Market and the Balancing Market (the large producers have preferred to maximize profit by selling large quantities on these markets to the detriment of long-term contracts), as well as the absence of long-term risk coverage mechanisms. The behavior of the electric power producers, consisting in selling as much as possible on the spot market, increases the price risk on that market. To control the price risk on the energy market, the Company took action in order to reduce its exposure within short-term contracts and externalized its balancing services.

For 2020, we estimate a reduction by approximately 10% in the revenues from the energy supply activity, determined by the management of risks related to the purchase of energy from OPCOM centralized markets. In addition, in 2020, there is also a legislative risks determined by the removal of the 450 lei/MWh difference between the maximum deficit price on the balancing market and the DAM, which may determine in the 2nd Semester of 2020 an increase in the prices of purchased energy. It should be mentioned that, at the date of this Report, for the electricity supply activity, sales of approx. 90% and purchases of approx. 65% were contracted.

Exchange rate risk

The Company is exposed (to a limited extent) to an exchange rate risk because the sourcing of materials is largely based on imports. In order to limit the effect of the exchange rates, the payment calendar was correlated with that of receipts in foreign exchange, usually ensuring a cash-flow surplus. The change of the raw materials and materials prices imposed a continuous review of cost prices. To maintain some of the products profitable, a part of the prices were renegotiated and the related technological processes were improved.

Risk of default

Credit risk is the possibility that contracting parties breach their contractual obligations resulting in financial loss for the Company. When possible and allowed by market practices, the Company requests guarantees. Trade receivables derive from a wide range of customers operating in various fields of activity and different geographical areas. To counteract this risk factor, the Company applied restrictive policies to the delivery of products to doubtful customers. Insurance policies were contracted for foreign market receivables. Due to the increase of insolvency cases in the economy, there is a concrete risk related to the (non-)recovery of the equivalent value of products and/or services supplied prior to the declaration of insolvency. The Company is paying more attention to the creditworthiness and financial discipline of its contractual partners. In 2019, only three commercial partners applied for insolvency, but the value recorded in the insolvency estate is small: 12,796.11 lei.

The risk of changes in the interest rates is maintained under control by adopting an investment policy exclusively based on own funding sources, which allows for the use of credit lines only for the working capital.

Equity risk

Equity risk management aims to ensure the capacity of the Company to carry out its activity in good conditions through the optimization of the capital structure (equity and liabilities). The analysis of the capital structure is focused on the cost of capital and the risk associated to each category. To maintain an optimum capital structure and an appropriate debt ratio, in the last years the Company proposed to its shareholders an adequate dividend policy, able to secure own sources of funding. The absence of funding sources can limit the Company expansion on the market segments where the sale is supported through the commercial facilities offered.

Liquidity and cash flow risk

The Company cash flow department involves forecasts on the liquidity reserve and maintaining an appropriate level of credit facilities in order to be able to prudently manage the liquidity and cash flow risks. The Company has open credit lines and letters of bank guarantee within the limit of 40% of the total non-current assets, less receivables, to ensure the Company's capacity to perform its obligations in case of short-term cash deficit. At the same time, investments were limited to own sources of funding and to those with direct impact on the turnover. The liquidity and cash-flow risk management policy should be adapted to the new and more demanding commercial practices. This risk is closely related to the risks described above.

Risk related to the lack of qualified human resources

This risk has become important both for Electromagnetica and at national level. Due to factors such as: massive immigration, strong competition and the relatively high level of wages in Bucharest area, the Company was confronted following recruitment notices with a lack of qualified workers for production activities, such as locksmiths, milling machine operators, turners, etc. To counteract this situation, we focused on the reconversion and training of own employees where layoffs were made, as well as on the continuous training of new employees. We also consider the application of an internship program with the possibility of retaining in the Company these persons at the end of the internship period.

Risk related to data protection and processing

The risk can be generated by situations such as the loss or accidental modification of data, as well as by the unauthorized access to personal data.

Irrespective of the ground for processing, Electromagnetica complies with the obligations laid down by the **General Data Protection Regulation – Regulation (EU) 2016/679**, including the obligation to inform the data subject upon the collection of data.

Penalty risk

The company also manages these risks by preventive measures. This involves, among others, the monitoring of legislative amendments and the information of peers, the participation in trainings and seminars (labor law, competition law, GDPR – personal data protection, risk management and corporate governance) and, not in the least, compliance trainings with the involved employees.

Dispute-related risk

The disputes involving the Company have values not likely to affect the financial stability of the Company, especially that the main case (Hidroelectrica's claims) was won definitively by Electromagnetica in front of the High Court of Cassation and Justice.

Political and legislative risk

As two elections will take place in 2020, involving political instability and possible anticipated elections, a part of the budgeted investments could be reduced/postponed.

Risks covered by insurance policies

Such risks are: the risk of natural disasters, the risk of accidental damage, the risk of activity interruption, the risk of claims recovery from various debtors, the risk of accident of exposed employees, asset protection by insurance, liability to third parties, liability as manufacturer, professional liability for certain professions, directors' liability. The production of electricity in low power plants without dams is subject to the risk of destruction caused by floods. Under these circumstances, the Company concluded insurance policies to protect not only the MHPs, but also its headquarters against disasters.

Other risks

The new coronavirus COVID19 pandemic generates negative effects such as:

- the slowing down of sourcing activities, especially in relation with China
- the delay/reduction of export sales of LED lighting systems
- tenants who postpone the payment of rents or even become insolvent
- delayed payments from customers or even insolvency of smaller customers
- possible cases of disease among employees or employees taking leaves to care for their children

At this time, we cannot estimate the economic impact of this pandemic. For the first quarter of the year we estimate a normal operation (inclusively based on the stock of raw materials and products) but, if the situation of infections at global level escalates, with all the consequences deriving therefrom (closure of enterprises and stores, closure of borders), the effects on the operation of the Company will amplify. As the effects will be better known, we will provide details and estimations.

9. COMPANY BUSINESS PROSPECTS

9.1. Presentation and analysis of trends, elements, events or uncertainty factors that affect or could affect company profitability and liquidity compared to the same period of the previous year

Market trends

LED lighting technology is preferred within every large project for the modernization of lighting systems, so that the growth potential is maintained. To increase competitiveness it is necessary to improve the product quality up to a level that would allow for the extension of the warranty period and the reduction of replacement costs. Another market trend is the increase of revenues from activities relating to LED lighting unit production, for example through facility design and assembly services.

At the same time, in 2020 the implementation of street lighting management systems will continue, using IoT solutions and modern communication technologies: in LoRaWAN and Nb-IoT radio environment and by PLC supply circuits in Smart City applications.

The climatic factor is also important, as the hydrological and wind regime strongly influences energy prices.

In fact, the energy market is subject to the influence of several factors. Although Romania has a large installed capacity, this is only theoretical because, in fact, many groups are unavailable. There are periods when Romania is an energy exporter (in general in spring and autumn), but also periods when we are a net energy importer (in winter, in very cold periods, or in summer, in drought conditions, when the consumption required for climate control due to high temperatures increases). In both cases (energy import or export), the operation in connection with neighboring countries (and in particular the connection of the day ahead market) led to an important increase in energy prices, this trend being visible in 2020 as well.

Commercial policy trends

The large LED lighting systems, such as those designed for street lighting in municipalities were also promoted through credit-supplier facilities. For 2020, given the projects financed by EU funds accessed by municipalities, we estimate there will be less need to grant such supplier-credits for public lighting. The Company will continue to sell its LED lighting systems under supplier credit facilities for medium and large scale projects, if this confers it a competitive advantage. The application of this commercial policy requires a sufficient level of available cash; therefore, the Company intends to identify additional funding sources. At the same time, the Company's commercial policy seeks to monitor the number of days established by contract for the payment of debts by customers.

With regard to the sales of LED lighting systems, we estimate an increase by at least 5% as compared to this year, as it is possible that the number of tenders of contracting authorities increase (a part of these being postponed from 2019), in particular EU-funded tenders.

9.2. Investments planned for 2020

Investments will continue to be focused on the modernization of real estate assets, the purchasing of technological equipment and molds and the design/development of new greenfield projects on the land owned by the Company outside the main offices (Electromagnetica Business Park). The estimated value of investments for 2020 is 2,000,000 EUR.

10. TANGIBLE ASSETS OF THE COMPANY

10.1. The production facilities of the Company are mainly located at its headquarters at 266-268 Calea Rahovei Street, district 5, Bucharest, except for the facilities producing energy from renewable sources, which are located in Suceava river basin, Radauti area, over approximately 70 km. The production facilities of the Company include technologies such as plastic injection, manufacture of molds, technological assembling operations, etc. They are characterized by complexity, accuracy, flexibility, automation etc.
10.2. The Company is not involved in any litigation concerning the ownership of the land pertaining to its headquarters in Bucharest, 266 - 268 Calea Rahovei Street or to its micro-hydro power plants in Radauti area.

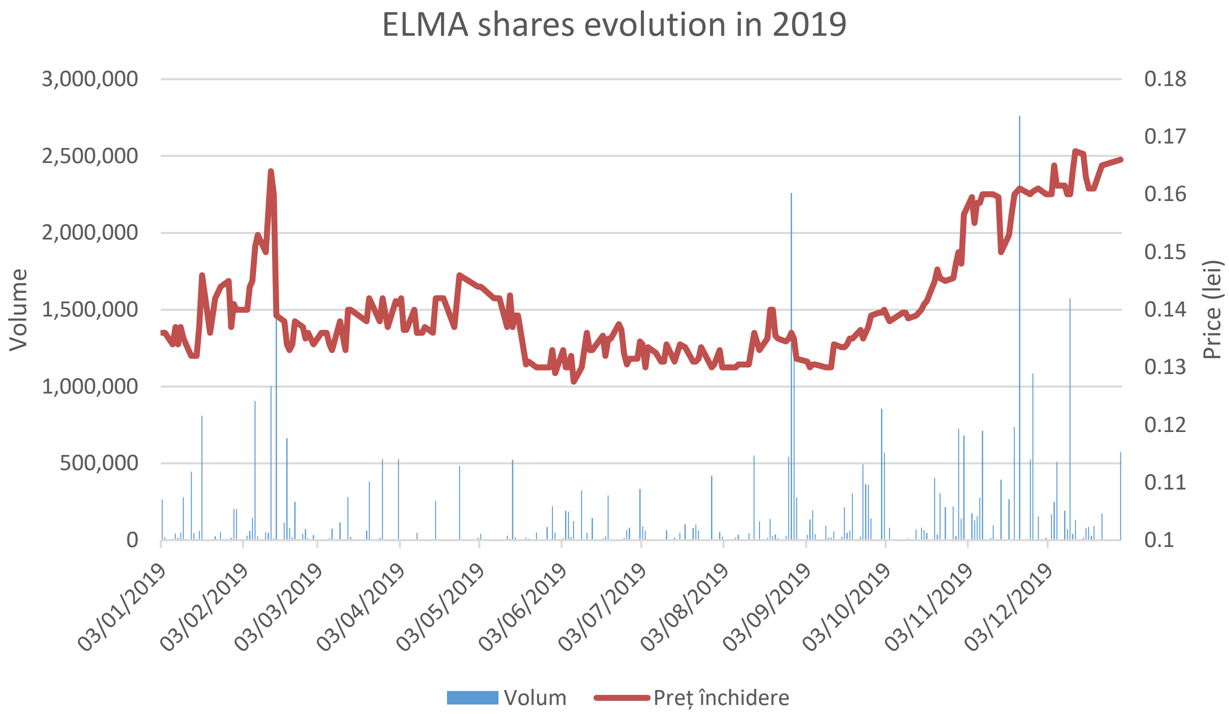
11. SECURITIES MARKET

11.1 Share price evolution:

Electromagnetica is listed on the Bucharest Stock Exchange (BVB), for Premium Category, with the following trading characteristics:

Stock symbol: ELMA
Ordinary, nominative, dematerialized shares
Number of issued shares: 676,038,704
Nominal value: 0.1000 lei
Share capital: 67,603,870.40 lei
ISIN code ROELMAACNOR2
Lei code: 254900MYW7D8IGEFRG38

The ELMA shares are part of the stock exchange indexes BET , BET-BK, BET-XT and BET-XT-TR



The shares traded in 2019 represented 5.75% of the total number of shares and totalized 8.32% of the Company share capital, at an average price of 0.1447 lei/share, higher by 6.4% (calculated for all market segments). The reference price varied between a minimum of 0.1275 lei/share and a maximum of 0.1675 lei/share. The closing settlement price at the end of 2019 was 0.166 lei/share, by 19% higher than at the end of the previous year, corresponding to a market capitalization of 112.22 million lei.

11.2. Dividends granted

Investors' interest has always been a top priority for Electromagnetica SA, in terms of both the continuous development of business lines and the granting of dividends. When permitted by financial results, Electromagnetica has distributed dividends to shareholders. For the last three years, the situation was as follows: 2017 – no dividends; 2018 – distributed dividends of 0.004 lei/share; 2019 – to be determined by the General Meeting of Shareholders held in 2020

12. INDIVIDUAL FINANCIAL AND ACCOUNTING STATEMENT AS OF 31 DECEMBER 2018 (ALL AMOUNTS EXPRESSED IN LEI, UNLESS OTHERWISE SPECIFIED)

12.1. Financial Position

	December 31, 2019	December 31, 2018
ASSETS		
Non-current assets		
Property, plant and equipment	277,545,153	284,669,256
Investment property	5,182,279	4,709,859
Intangible assets	466,487	702,025
Investments in related entities	3,967,606	3,967,606
Other long-term non-current assets	24,702,276	20,495,344
Assets related to the rights of use	1,480,078	-
Total non-current assets	**313,343,879**	**314,544,090**
Current assets		
Inventories	15,411,327	17,183,417
Trade receivables	55,114,158	41,275,588
Cash and cash equivalents	21,711,183	29,162,314
Other current assets	1,939,785	2,950,187
Current tax assets	760,012	-
Total current assets	**94,936,464**	**90,571,507**
Total assets	**408,280,342**	**405,115,597**
EQUITY AND LIABILITIES		
Equity		
Share capital	67,603,870	67,603,870
Reserves and other equity	176,697,881	177,706,613
Retained earnings	91,301,725	88,933,829
Total equity attributable to company's shareholders	**335,603,476**	**334,244,312**
Non-current liabilities		
Trade payables and other liabilities	1,265,003	1,311,019
Investment subsidies	4,410,306	4,573,525
Deferred tax liabilities	17,333,187	17,782,339
Leasing debts	728,164	-
Total non-current liabilities	**23,736,660**	**23,666,883**
Current liabilities		
Trade payables and other liabilities	46,268,240	43,092,649
Investment subsidies	163,219	163,219
Provisions	1,806,142	3,913,666
Current income tax liabilities	-	34,867
Leasing debts	702,605	-
Total current liabilities	**48,940,206**	**47,204,402**
Total liabilities	**72,676,866**	**70,871,285**
Total equity and liabilities	**408,280,342**	**405,115,597**

The comparative analysis of the balance sheet items revealed the following:

Non-current assets decreased by 0.4% mainly as a cumulated result of the decrease of tangible assets and other long-term non-current assets (receivables due to be collected within more than one year, mainly deriving from supplier credit contracts).

Real estate investments increased by 10%, but this increase was due to the new fair value of leased properties, 100% determined by evaluation reports.

12.2. The individual statement of profit and loss is as follows:

	12-month period ended December 31, 2019	12-month period ended December 31, 2018
Revenues	**256,169,132**	**290,123,223**
Investment income	1,018,418	676,404
Other net income and expenses	6,802,816	3,125,282
Changes in inventories of finished goods and work in progress	13,389,266	19,745,239
Own work capitalized	772,403	769,737
Raw materials and consumables used	(188,946,222)	(214,511,484)
Employee-related expenses	(36,494,887)	(32,896,983)
Expenses related to depreciation and impairment	(10,183,159)	(19,280,031)
Other expenses	(36,706,154)	(38,817,320)
Financial expenses	(840,410)	(934,017)
Profit before tax	**4,981,203**	**8,000,050**
Income tax	(492,516)	(3,176,851)
Profit of the period	**4,488,687**	**4,823,198**

The profit for 2019 was mainly due to the following factors:

- The sales of LED lighting units were maintained at a relatively constant level in the context of a reduction in costs
- The sustained increase in sales of railway traffic components
- A very good hydrological year, which determined an increase of the electricity production, combined with a profitable activity in the electricity supply segment
- The low level of provisions and write-offs;

12.3. Cash–Flow

	Anul 2019	Anul 2018
Net cash used in operating activities	(4,366,829)	13,728,575
Net cash used in investments	256,476	(928,282)
Net cash used in financing activities	(3,340,778)	(37)
Net (decrease)/ increase of cash and cash equivalents	(7,451,132)	12,800,257
Cash and cash equivalents at the beginning of the period	29,162,314	16,362,057
Cash and cash equivalents at the end of the period	21,711,183	29,162,314

Cash decreased by 26% due to the payment of liabilities previously secured by collateral cash. In strict relation to the operating activity of Electromagnetica, payment deadlines were optimally correlated with collection deadlines, therefore the Company recorded cash surplus.

Credit lines were used less than in 2019 and were fully reimbursed.

13. IMPORTANT EVENTS OCCURRED AFTER THE CLOSING OF THE FINANCIAL YEAR

The occurrence and globalization of the new coronavirus COVID19 infection will have negative effects on the activity of the Company, making difficult the imports of subassemblies from China and affecting to a certain extent the exports of LED lighting systems / electrical switchgear to Western European countries, as well as the capacity of customers/tenants to pay invoices in full and on time. Electromagnetica took all measures to ensure the normal conduct of business, inclusively by homeworking where necessary. In the electricity production and supply activity, processes (as well as data transmission) are automated, based on SCADA systems and the measurement and remote control systems, the activity being carried out within the required parameters.
At the same time, a decrease in the value of shares is visible on the stock exchanges across the world, which will also affect the market capitalization of ELECTROMAGNETICA.

14. STATEMENT OF CORPORATE GOVERNANCE

14.1 The relevant corporate governance code

The Company management considers that a high level of transparency as well as a good protection of investors are essential for its long-term support by its shareholders development in the long run and maximize the value of the shares.

The strict application of the relevant legislation (Law no. 31/1990 on trading companies, republished; Law no. 297/2004 on capital market, as further amended and supplemented; Law no. 24/2017 on issuers of financial instruments and market operations; Regulation no. 6/2009 on shareholders' rights; Regulation no. 1/2006 on issuers) as well as of the company's Articles of incorporation is a pre-requisite for compliance with the corporate governance requirements established at world level.

The Board of Directors decided to voluntarily apply the BVB Corporate Governance Code, except that, according to the specificity of the Company, some of the provisions thereof will be only partially. The current stage of compliance with the BVB Corporate Governance Code, the reasons for partial compliance and the measures adopted to achieve the corporate governance goals are specified in the Annex to the Statement of Corporate Governance, published with this report.

14.2. General meetings of shareholders and rights of shareholders

The rights of the shareholders and the procedure for participation in the general meetings of shareholders are described in the notice convening the general meeting and were summarized in a regulation available in the Corporate Governance section of the Company's website https://www.electromagnetica.ro/investitori-info/

14.3. Management system

The company is currently managed under the one-tier system, by a Board of Directors composed of 7 members.

14.4. Corporate governance structures

The main administration, management and supervisory structures of the Company are the Board of Directors, the Managers, the Audit Committee, the External Auditor and the Internal Auditor. The professional qualification and management experience of the members of the Board enables them to assess on a regular basis the aspects related to the review of the managers' activity, appointment and remuneration or internal audit.

In order to ensure compliance with the Audit Law no. 162/2017 and EU Regulation no. 537/2014 regarding the audit, the Board of Directors decided in its meeting of 7 March 2018 to establish an Audit Committee composed of 3 members. Two of the non-executive directors were initially nominated to be members of the Audit Committee, Mrs Elena Calitoiu and Mrs Cristina Hodea, while Mrs Ileana Roman was nominated subsequently (in accordance with the Resolution of the Ordinary General Meeting of Shareholders of April 2018).

14.4.1. Board of Directors and managers

The members of the Board of Directors were elected by majority vote in the ordinary meeting of shareholders on 19 September 2019, the candidates being proposed by the shareholders. The composition of the Board of Directors reflects faithfully the holdings in capital (more than 70% of the capital is represented in the BoD). No director stood as a candidate as an independent person. There are no family relationship between the directors or members of the executive management and third parties based on which they were elected or appointed.

Name	Position	Term of office	Profession, place of work	Individual ELMA share ownership	Positions held in other listed companies
Scheusan Eugen	BoD Chairman	18 oct 2019 – 18 oct 2023	Engineer, Electromagnetica	0.2428%	-
Stancu Traian	BoD Member	18 oct 2019 – 18 oct 2023	Engineer, Electromagnetica	0.0462%	-
Stancu Ioan	BoD Member	18 oct 2019 – 18 oct 2023	Technician, Electromagnetica	0.0027%	-
Macovei Octavian	BoD Member	18 oct 2019 – 18 oct 2023	Engineer, Electromagnetica	0%	-
Calitoiu Elena	BoD Member	18 oct 2019 – 18 oct 2023	Engineer, SIF Oltenia	0%	SIF Oltenia – head of Directorate for Placements, Transactions and Net Asset Value Calculation; Antibiotice Iasi - director
Sichigea Elena	BoD Member	18 oct 2019 – 18 oct 2023	Economist, SIF Oltenia	0%	Sif Oltenia – head of business department; Mercur SA Craiova - director
Hodea Cristina Ioana Rodica	BoD Member	18 oct 2019 – 18 oct 2023	CFA, MBA, Engineer, auditor	0%	Electroaparataj SA – chair of the Audit Committee

The diversity of the members of the Board enables the efficient use of supplementary skills and professional experience and knowledge in various fields. Most of the members of the Board are non-executive managers, which ensure the proper balance of authority. In 2019, the Board of Directors met every month in the presence of all the Board members, whether in person or by using the vote by correspondence. The level of the compensation for the Board members is established by decision of the general meeting of shareholders.

14.4.2. Managers

According to the provisions of the Company's Articles of Incorporation, the Chairman of the Board of Directors also exercises the function of Managing Director and duly represents the Company. The Board of Directors can delegate certain powers to one or more managers, based on mandate agreements, and establish the tasks of each manager who is subject to such delegation. In 2019, the executive management was carried out by 4 managers, as follows:

No.	Surname/ Name	Capacity	Individual share ownership as of 31 Dec 2019	Other positions held in listed companies
1	Scheusan Eugen	Managing Director	0.2428%	-
2	Macovei Octavian	Technical Manager	0%	-
3	Florea Cristina	Chief Financial Officer	0%	-
4	Stoica Mihail	Commercial Manager	0%	-

14.4.3. Independent External Auditor

Following the Ordinary General Meeting of Shareholders of April 2019, it was decided to contract with Deloitte Audit SRL the auditing of the financial statements for the financial years 2018 and 2019. The audit company is represented by Mr. Zeno Caprariu – Audit Partner, while the audit mission is run by Mrs. Oana Ionica - audit manager.

The identification data of **Deloitte Audit SRL** are the following:

Tax ID: 7756924
Trade Register no.: 40/6775/1995
License issued by the Chamber of Financial Auditors of Romania: no. 25/25.06.2001
Company head office: Bucharest, sector 1, Calea Grivitei 82-98, "The Mark" Building
Tel 021/222.16.61
Fax 021/319.51.00

14.4.4. Internal audit

The Board of Directors works closely with the Audit Committee, the internal auditor and the financial control service on issues relating to financial reporting, internal audit and risk management. The managerial experience and professional training of the BoD members allows them to evaluate the effectiveness of the internal audit system.

The company has in place an internal control/management review system designed and implemented to enable the executive management and the Board of Directors to provide reasonable assurance that the company funds allocated to the achievement of general and specific objectives were used lawfully, regularly, efficiently, effectively and economically. The internal control / management review system comprises both self-control and subsequent control mechanisms applied by the Budgetary Surveillance and Execution Office, the internal auditor and the Audit Committee; the implementation of the measures aimed at increasing its efficiency is also based on the assessment of risks.

The company applied the internal accounting and financial review to ensure the accounting management and the surveillance of the Company activity from the financial perspective.

The internal audit activity was focused on:

- ensuring compliance with applicable legislation;
- implementing the decisions made by company management;
- the smooth conduct of the company internal activity;
- the reliability of financial information;
- the efficient use of resources;
- risk prevention and control.

The control activity was carried out together with the Internal Auditor, taking into account his recommendations and remarks.

14.4.5. Audit Committee

In accordance with the Audit Law no. 162/2017 and the Regulation (EU) no. 537/2014 on audit and the recommendations of BVB for listed companies, the Board of Directors decided in 2018 to establish an Audit Committee. It is composed of three members: two non-executive directors, Mrs Elena Calitoiu and Mrs Cristina Hodea, as well as Mrs Ileana Roman. The Audit Committee is an important structure, ensuring in many cases the interface with the financial auditor and having a very important role in the preparation of annual audit reports and the proper operation of the company.

14.5. Capital structure and major shareholders

The company did not issue shares that grant special controlling rights or other types of rights. During 2019 there were no suspensions of voting rights or restrictions related to the ownership of shares. Some of the members of the executive management are also members of the Electromagnetica Association of Shareholding Employees (PAS); this association is not controlled by a single person. At the date of 31.12.2019, the Company had 6,186 shareholders (by 1.68% more than in 2018). According to the Central Securities Depositary, the capital structure as at 31 December 2019 was the following:

Shareholder	Ownership	Number of shares
SIF Oltenia SA	26.1402%	176,717,594
PAS Electromagnetica	25,3069%	171,084,540
Natural persons	36.9256%	249,631,166
Legal persons	11.6274%	78,605,404
TOTAL	100%	676,038,704

14.6. Conflicts of interests management, transactions with stakeholders and treatment of confidential information

The directors involved in potential conflicts of interests must inform the Board and abstain from the debates and voting on those matters. Transactions with stakeholders are concluded in fair conditions and are negotiated by the management members who are not related to the stakeholders concerned and are reported to ASF and BVB if necessary. The external auditor must signal and analyze accordingly these transactions in the audit report. The company will prepare and update the list of persons that are deemed to have access to insider information. Annually, the directors and managers of the company and the other affiliated parties make solemn declarations that they are not in a situation of conflict of interests and do not carry out any competing activities.

14.7. Own shares repurchase

There is no approved program for the repurchase of share or price stabilization and there is no scheme for the granting of shares to employees or management members.

14.8. Reporting share transactions by directors and other stakeholders

The company does not apply additional rules, other than those provided for by legislation, to the transactions conducted with the shares of the Company by its directors or other stakeholders. In 2019, no such transactions were notified to ASF.

14.9. Changes of the Articles of Incorporation

The Articles of Incorporation were updated on 19 September 2019 by amending point 16.1 of article 16 and mentioning the new directors elected in the General Meeting of Shareholders (see point 14.4.1).

14.10. Disclosure of corporate information

Every year, the Company establishes and publishes a financial reporting calendar. The Company regularly and permanently prepares and discloses information that is relevant for investment decisions, which information is published both on the Company website and on the BVB website („ELMA" symbol). The staff dedicated to this activity is trained on a continuous basis, educated and instructed in issues related to the company's relation with its shareholders and the corporate governance principles. In 2019, the information was disclosed in Romanian and in English for those categories of documents envisaged by the applicable legislation. Two meetings with investors and analysts were organized on 12.04.2019 and 14.09.2019. The Company encourages communication with shareholders the **Investors** section on its web page available at https://www.electromagnetica.ro/investitori-info/; for further information, investors can either call to 021.404.21.31, use the fax no. 021.404.21.95 or the e-mail address: juridic@electromagnetica.ro.

Board of Directors Chairman/Managing Director
Eugen Scheusan

Chief Financial Officer
Cristina Florea

Annex to the Statement of Corporate Governance

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
A.1. All companies must have an internal regulation of the Board to include the key terms/responsibilities of the Board and the Company's key management positions and to enact, among others, the General Principles under Section A.		Partially compliant	The Company has not adopted an operating regulation for the BoD, given that the articles of incorporation clearly differentiate the powers and attributions of BoD from those of GMS and those of the managers. The BoD's responsibilities, key positions and means of operation are sufficiently detailed in the articles of incorporation and comply with the general principles of CGC of BVB under section A regarding responsibilities. The results so far indicate that this means of operation is functional.
A.2. Provisions for the management of conflicts of interest must be included in the Board's regulation. In any case, the members of the Board must notify the Board with regard to any conflicts of interest which have occurred or may occur and abstain from attending talks (even by absence, except when the absence prevents the formation of the quorum) and from voting to adopt a resolution on the matter giving rise to the respective conflict of interest.		Partially compliant	The Company has not adopted an operation regulation for BoD that contains provisions for the management of conflicts of interest. However, the Board of Directors takes measures to comply with the applicable legal provisions, and the Company's and subsidiaries' directors and managers regularly give sworn statements regarding non-competition and conflicts of interest. The adopted measures have proven to be effective for managing conflicts of interest.
A.3. The Board of Directors or the Board of Surveillance must be comprised of at least five members.	Compliant		

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
A.4. The majority of the members of the Board of Directors must not have an executive position. At least one member of the Board of Directors or the Board of Surveillance must be independent, in the case of companies in the Standard Category. In the case of companies in the Premium Category, at least two non-executive members of the Board of Directors or the Board of Surveillance must be independent. Each independent member of the Board of Directors or Board of Surveillance, as the case may be, must file a statement at the time of their nomination for election or re-election, as well as when any change of status occurs, thereby indicating the elements based on which they consider themselves independent in terms of character and judgment and according to the following criteria:		Partially compliant	Of the 7 BoD members, 2 are executive directors and 5 are non-executive, but none of them declared themselves at the beginning of their mandate as being independent directors according to the criteria stated by CGC of BVB under items A.4.1- A.4.9
A.4.1. he/she is not a Managing Director/executive manager of the Company or of a company under the control thereof and has not held such office in the past five (5) years;	Compliant		
A.4.2. he/she is not an employee of the Company or of a company under the control thereof and has not held such office in the past five (5) years;	Compliant		
A.4.3. he/she does not and has not received additional remuneration or other advantages from the Company or a company under the control thereof, other than those pertaining to his/her capacity as non-executive director;	Compliant		
A.4.4. he/she is not or was not an employee, or does not or did not have over the previous year a contractual relationship with a significant shareholder of the Company, such shareholder controlling more than 10% of the voting rights, or with a company controlled by the latter;	Compliant		

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
A.4.5. does not and did not have over the previous year any business or professional relationship with the Company or with a company controlled by it, either directly or as client, partner, shareholder, member of the Board/Director, Managing Director /executive manager or employee of a company if, due to its substantial nature, such relationship may affect his/her objectivity;	Compliant		
A.4.6. he/she is not and was not over the past three years an external or internal auditor or partner or remunerated associate to the current external financial auditor or to the internal auditor of the Company or of a company controlled by it;	Compliant		
A.4.7. he/she is not a Managing Director/executive manager of another company where another Managing Director/executive manager of the Company is a non-executive director;	Compliant		
A.4.8. he/she was not a non-executive director of the Company for a period longer than twelve years;	Compliant		
A.4.9. he/she does not have family connections to a person who is in the situations mentioned under items A.4.1. and A.4.4.	Compliant		
A.5. Other relatively permanent professional commitments and obligations of a Board member, including executive and non-executive positions on the Board of not-for-profit companies and institutions must be disclosed to shareholders and potential investors prior to nomination and during their mandate.	Compliant		
A.6. Any member of the Board must present to the Board information on a relationship to a shareholder holding directly or indirectly shares representing more than 5% of all voting rights. This obligation refers to any kind of relationship that may affect the position of the member with regard to matters decided by the Board.	Compliant		

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
A.7. The Company must appoint a secretary of the Board, in charge of supporting the Board's activity.	Compliant		
A.8. The Statement on Corporate Governance will inform as to whether there has been an evaluation of the Board under the leadership of the Chairman or of the nomination committee and, if appropriate, it will summarize the key measures and changes derived from such evaluation. The Company must have a policy/guide on Board evaluation, containing the purpose, criteria and frequency of the evaluation process.		Partially compliant	The Board of Directors has not adopted a policy/guide on Board evaluation. On an annual basis, within the general balance meeting, the ordinary general meeting of the shareholders is required to decide on granting incentives depending on the achievement of the performance indices and in accordance to the provisions of the articles of incorporation.
A.9. The Statement on Corporate Governance must contain information regarding the number of meetings of the Board and committees throughout the past year, the attendance of directors (personally and in absentia) and a report of the Board and the committees concerning their activities.	Compliant		
A.10. The Statement on Corporate Governance must contain information regarding the exact number of independent members on the Board of Directors or o the Surveillance Board.	Compliant		
A.11. The Board of companies in the Premium Category must establish a nomination committee comprised of non-executive members, which will lead the procedure for nomination of new members on the Board and will make recommendations to the Board. The majority of the members of the nomination committee must be independent.		Partially compliant	A nomination committee composed of non-executive directors who are, as a majority, independent directors, could not be established The Board of Directors is, as a whole, the one who nominated interim members and makes recommendations to the ordinary general meeting of the shareholders on the election of new BoD members.

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
B.1. The Board must establish an audit committee in which at least one member must be an independent non-executive director. The majority of the members, including the chairman, must have proven they hold relevant adequate qualification for the attributes and responsibilities of the committee. At least one member of the audit committee must have proven and adequate audit or accounting experience. In the case of companies in the Premium Category, the audit committee must be comprised of at least three members, and the majority of the audit committee members must be independent.		Partially compliant	The Audit Committee is composed of three members, of whom two are non-executive directors, and the third independent person, Mrs. Ileana Roman, is a chartered accountant.
B.2. The chairman of the audit committee must be an independent non-executive member.	Compliant		
B.3. Within its responsibilities, the audit committee must conduct an annual evaluation of the internal control system.	Compliant		
B.4. The evaluation must take into account the effectiveness and span of the internal audit function, the adequacy of the risk management and internal control reports presented to the Board's audit committee, the timeliness and effectiveness employed by the executive management in solving deficiencies or weaknesses identified pursuant to the internal control and presenting relevant reports to the attention of the Board.	Compliant		
B.5. The audit committee must evaluate conflicts of interest regarding the transactions of the Company and its subsidiaries with affiliated parties.	Compliant		
B.6. The audit committee must evaluate the effectiveness of the internal control system and the risk management system.	Compliant		

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
B.7. The audit committee must monitor the enactment of generally accepted legal standards and internal audit standards. The audit committee must receive and evaluate the reports of the internal audit team.	Compliant		
B.8. Anytime the Code mentions reports or analyses initiated by the Audit Committee, these must be followed by periodical (at least annually) or immediate reports which must be subsequently forwarded to the Board.	Compliant		
B.9. No shareholder may receive preferential treatment compared to other shareholders with regard to transactions and agreements concluded by the Company with the shareholders and their affiliates.	Compliant		
B.10. The Board must adopt a policy by which to ensure that any company transaction with any of the companies with which it has close ties, the value of which is equal to or greater than 5% of the Company's net assets (according to the latest financial report) is approved by the Board following a mandatory opinion of the Board's audit committee, accurately disclosed to shareholders and potential investors, to the extent that such transactions fall into the category of events subject to reporting requirements.	Compliant		
B.11. Internal audits must conducted by a structurally separate division (the internal audit department) within the Company by hiring an independent third party.	Compliant		
B.12. In order to ensure the fulfillment of the main functions of the internal audit department, it must functionally report to the Board by means of the audit committee. For administrative purposes and within the management's obligations to monitor and decrease risks, it must report directly to the Managing Director.	Compliant		

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
C.1. The Company must publish on its website the remuneration policy and include in the annual report a statement on the implementation of the remuneration policy during the annual period subject to analysis. The remuneration policy must be expressed so that it allows the shareholders to understand the principles and arguments underlying the remuneration of the members of the Board and of the Managing Director, as well as the Management members in the dual system. It must describe the method of leading the process and of making decisions regarding remuneration, detail the elements of the remuneration of the executive management (such as salaries, annual bonuses, long-term incentives related to the value of shares, benefits in kind, pensions and others) and describe the purpose, principles and presumptions underlying each element (including the general performance criteria related to any form of variable remuneration). Moreover, the remuneration policy must indicate the duration of the executive manager's contract and the notice period mentioned in the contract, as well as the potential compensation for wrongful dismissal. The report regarding remuneration must present the implementation of the remuneration policy for persons identified in the remuneration policy during the annual period subject to analysis. Any essential change having occurred in the remuneration policy must be promptly published on the Company's website.		Partially compliant	The Company has not adopted or published on its website a remuneration policy but the notes to the annual financial statements contain information on the remuneration of directors and managers for the analyzed period. The Company's articles of incorporation provides for general limits for profit participation on the part of employees and directors, or directors and managers, taking into consideration the achieved profit criterion, that is, depending on exceeding the budgeted profit.

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
D.1. The Company must organize an Investor Relations service – thereby indicating to the public the person/persons in charge or the organizational unit. Aside from the information required by legal provisions, the Company must include on its website a section dedicated to Investor Relations, in Romanian and English, containing all relevant information that may be of interest to investors, including: D.1.1. Main corporate regulations: articles of incorporation, procedures concerning general meetings of shareholders; D.1.2. Professional resumes of the members of the Company's management bodies, other professional commitments of the Board members, including executive and non-executive positions in boards of directors in companies or not-for-profit institutions; D.1.3. Current reports and periodical (quarterly, semester and annual) reports – at least those set forth under item D.8 – including current reports containing detailed information regarding non-compliance with this Code; D.1.4. Information regarding general meetings of shareholders: agenda and information materials; procedure for election of Board members; arguments backing candidate proposals for Board election, along with their professional resumes; shareholders' questions with regard to items on the agenda and company's answers, including resolutions adopted; D.1.5. Information on corporate events, such as payment of dividends and other distributions to shareholders, or other events leading up to the acquirement or limitation of a shareholder's rights, including deadlines and principles applied to such operations. The respective information will be published soon enough so as to allow investors to make investment decisions; D.1.6. The name and contact details of a person who is able to provide relevant information upon request; D.1.7. Company's presentations (for instance, presentations for investors, presentations on quarterly results, etc.), financial statements (quarterly, semester, annual), audit reports and annual reports.	Compliant		

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
D.2. The Company will have a policy on the annual distribution of dividends or other benefits to the shareholders, proposed by the Managing Director or by the Management and adopted by the Board, in the form of a set of guidelines which the Company intends to follow with regard to net profit distribution. The principles of the annual policy of distribution to shareholders will be published on the Company's website.		Partially compliant	The Company has not adopted and has not published on its own website a policy on the annual distribution of dividends. However, through the resolutions adopted in recent years, the Company has proven consistency and predictability in the allotment of dividends when the Company's profit allowed for it.
D.3. The Company will adopt a policy on forecasts, regardless of whether they are made public or not. The forecasts refer to quantified conclusions of surveys aiming at establishing the global impact of a number of factors concerning a future period (the so-called hypotheses): by its nature, this projection is highly uncertain, and the actual results may differ significantly from the initially presented forecasts. The policy on forecasts will establish the frequency, the envisioned period and the content of the forecasts. If published, the forecasts may be included only in the annual, semester or quarterly reports. The policy on forecasts will be published on the Company's website.		Partially compliant	The Company has not adopted a policy on forecasts to establish the frequency, period and content thereof, whether to be made public or not. Forecasts with a certain level of uncertainty are included each time in the annual reports of directors.
D.4. The rules of the general meetings of shareholders must not limit the shareholders' participation in the general meetings and the exercise of their rights. Amendments to the rules will come into force, at the earliest, starting from the following meeting of shareholders.	Compliant		
D.5. The external auditors will be present in the general meeting of shareholders when their reports are presented within such meetings.	Compliant		
D.6. The Board will present to the annual general meeting of shareholder a short assessment of the internal control systems and significant risk management systems, as well as opinions on certain matters subject to the decision of the general meeting.	Compliant		

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
D.7. Any financial specialist, consultant, expert or analyst may attend the meeting of the shareholders based on a prior invitation by the Board. Accredited journalists may also attend the general meeting of shareholders, unless the Chairman of the Board decides otherwise.		Non-compliant	The Company's bylaws do not provide for the participation in the GMS, as invited parties, of analysts, accredited journalists, experts, consultants, specialists. On a regular basis, aside from shareholders, the GMS is attended by directors, managers, auditors and other guests only when their presence is justified by the agendas containing reports or analyses drawn up by them.
D.8. The quarterly and semester financial reports will include information both in Romanian and in English with regard to the key factors influencing changes in the level of sales, operational profit, net profit and other relevant financial indices, both from one quarter to another, and from one year to another.		Partially compliant	The requirements are met, noting that the information are presented only compared to the similar period of the previous year, not from one quarter to another.
D.9. A company will organize at least two meetings/teleconferences with the analysis and investors every year. The information presented on such occasions will be published under the section "investor relations" on the Company's website on the date of the meetings/teleconferences.	Compliant		
D.10. If a company supports various forms of artistic and cultural expression, sporting activities, educational or scientific activities and considers that the impact thereof on the Company's innovative nature and competitiveness are part of its development mission and strategy, it will publish the policy on its activity in such area.		Partially compliant	The Company has not adopted and has not published a policy on supporting forms of artistic and cultural expression, sporting activities, educational or scientific activities. However, the numerous actions carried out in the past for supporting the above-mentioned areas were accompanied by press releases and promoted on the Company's website.