

**Annual Report for the financial year 2016**

**in accordance with the C.N.V.M. Regulation**

**no. 1/2016**

**Reporting date: December 31, 2016**

**S.C. "E L E C T R O A R G E S" S.A.**  
**CURTEA DE ARGES**

Registered office: Curtea de Arges, strada Albesti, nr. 12

Telephone no. 0248/724000

Fax no. 0248/724 004

E-mail: [faxsectretariat@gmail.com](mailto:faxsectretariat@gmail.com)

Tax Registration Code: RO 156027

Trade Register Registration no. and date: J03/758/1991

Regulated market trading the securities issued by S.C. ELECTROARGES S.A.:

Bucharest Stock Exchange, second category: Shares.

Subscribed and fully paid share capital: 6,976,465 RON.

Main characteristics of the securities issued by the company:

- Shares: 69,764,650
- Value per share: 0.1 RON

## **1. THE COMPANY'S ACTIVITY ANALYSIS COMPANY**

### **1.1. a) Description of the company's basic activity:**

"ELECTROARGES" SA Curtea de Arges Trading Company's object of activity is the production and marketing of electrical consumer goods, portable electrical tools, execution of works and services for domestic and foreign economic agents with state-owned and private capital, according to the legislation in force.

### **1.1. b) Company formation:**

"ELECTROARGES" company was formed in 1973 as "ELECTROARGES" Factory, manufacturing electrical consumer goods operated by electric motors of its own production, as well as portable electrical tools, as a result of the investments made between 1970÷1973.

Production collaboration with "ROTEL" Switzerland began in 1975, and also the co-operation with several companies from Italy, France, Germany, USA, Lithuania etc.

Following the development and unification with "I.C.E.P." – Factory of Passive Electronic Components, built in the immediate vicinity, the factory was renamed Factory of Electronic and Electrical Products - "I.P.E.E. ELECTROARGES" Curtea de Arges, name by which it was known until 1990.

It was approved that, under the provisions of Law no. 15/1990 by the Government Decision no. 1224/23 November 1990, "I.P.E.E. ELECTROARGES" to split into two independent joint stock companies:

- "I.P.E.E." SA Curtea de Arges trading company, passive electronic component manufacturer ;
- "ELECTROARGES" SA Curtea de Arges trading company, electrical and electronic consumer goods manufacturer, a joint stock company, the shares being registered.

Beginning with December 27, 1995, the company was fully privatized under Law no. 55/1995 and Law no. 77/1994, keeping the same name.

**1.1. c) Description of any merging or significant reorganization of the company, its subsidiaries or controlled companies during the financial year:**

Not the case.

**1.1. d) Acquisitions or description of acquisitions and/or disposal of assets:**

In 2016, SC ELECTROARGES SA's priority has been to support and pay the trade liabilities – suppliers, and the current tax liabilities to the state budget.

The company experienced a financial stability which has allowed for the modernization of the existing buildings, of which finished are in the amount of 699,690 lei and in progress in the amount of 1,216,505 lei.

In 2016, the company scrapped assets in the amount of 255,540 lei, of which 254,190 lei are fully amortized and 1,350 are fully depreciated.

**1.1. e) Description of the main results of the company's activity evaluation:**

New versions of Kaercher vacuum cleaners were manufactured :

- 9 versions from the Home & Garden range of vacuum cleaners
- 23 versions from the Professional range of vacuum cleaners.

**1.1.1. Elements of general evaluation.**

- a) Net profit: 16,577,153 RON
- b) Net turnover: 193,660,811 RON
- c) Export: 185,880,357 lei
- d) CA expenses: 169,404,852 RON; for export = 162,594,777 RON
- e) % market share: 0.20% of the domestic market (for dust vacuum cleaners)
- f) Liquidity (available in accounts): 15,533,792 RON.

**1.1.2. Evaluation of the company's technical level:**

**Description of the main products manufactured and/or services provided:**

**a) Main markets and distribution methods:**

Products manufactured in 2016 were delivered both on the domestic and the foreign market, where we tried to consolidate the position as a manufacturer of electrical consumer goods, household appliances, professional semi-industrial and hotel appliances, industrial equipment and parts / sub-assemblies for industrial manufacturers.

Main markets for export were : Germany (vacuum cleaners), France (vacuum cleaners), Moldavia (incubators), Italy (incubators), Poland (incubators), Spain (incubators), Libya (incubators), Greece (incubators).

On the domestic market, Electroarges products were sold by our distributors and by direct sales. Electroarges has also had other collaborations : Steinel, Kober, Eximprod and others.

**b) The share of each product or service category to the company's revenue and total turnover for the past 3 years:**

Situation of sales by product category for the past three years is shown in the table below :

Item no.	Product group name	2016		2015		2014	
		Amount in thousand lei	%	Amount in thousand lei	%	Amount in thousand lei	%
1.	AP. KÄRCHER	184,732	95.39	161,262	96.05	147,992	95.35
2.	Vacuum cleaners	473	0.24	425	0.25	468	0.30
3.	Ash boxes	606	0.31	4	0.007	602	0.39
4.	Electrical consumer goods	227	0.12	240	0.14	54	0.03
5.	Tools	37	0.02	101	0.06	0	0
6.	Household appliances	952	0.49	577	0.34	651	0.42
7.	Products for hotels and institutions	88	0.05	165	0.09	169	0.11
8.	Spare parts	362	0.19	278	0.16	235	0.15
9.	Others	6,184	3.19	5,123	3.05	5,041	3.25

**c) New products considered that will affect the substantial volume of assets in the next financial year, and their stage of development**

In 2017, actions will be implemented to modernize the existing products according to the market demands (ie Incubator with external water supply system and with automatic egg turning system) and those of assimilation in the production of parts, sub-assemblies and finished products for various industrial manufacturers. The new investments in CNC machinery

will be used in production. Collaboration opportunities in production will be identified and initiated (ie Household Appliances).

New versions of Kaercher vacuum cleaners WD 2 and WD 3 will be manufactured. The production of Kaercher vacuum cleaners AD 2, AD 4 and WD 3 Battery will begin.

Also, the incubator version with external water supply system and the one with automatic egg turning system will be manufactured.

### **1.1.3. Evaluation of the technical-material supply (domestic and imported sources). Oferring information about the supply source safety, raw material prices and raw material and materials stock sizes:**

Acquisitions of raw material and materials necessary to achieve the production and the operation of the other company's activities were mainly made from domestic sources, and only when there were no domestic options or foreign clients demanded it, the acquisitions were imported from foreign market suppliers.

The main acquisitions of raw material and materials on the domestic market were provided under contracts and / or firm orders – signed with manufacturers or their distributors, such as: TOP ELECTRO Tg. Mures, RONDOCARTON Cluj, CONPHYS Rm. Valcea, ARMCOMP Budeasa, V.M.COMP Stefanesti, RESINEX Bucuresti, ULTRAPOLYMERS Bucuresti, EUROFOAM Sibiu, SAGAX Cluj Napoca, DUNAPACK Sfantu Gheorghe, etc.

A permanent priority when purchasing raw material and materials from suppliers was the selection, comparison, negociation and capitalization of the best offers for our company.

Important actions carried out within the company were the capitalization of the not or slow moving stocks, according to the manufacturing program or other emergencies in the company's activities, and minimizing orders to suppliers in order to prevent the formation of such stocks.

An important role in the acquisition programs is held by the foreign market acquisitions, determined by the beneficiaries' punctual demands, the domestic market not offering acceptable prices and the required quality.

Among the providers of raw materials in the EU and outside EU we shall mention:

- AMETEK, EDS si DOMEL – for vacuum cleaner motors;
- LAMPLAST, COSSA POLIMERI, GRAFE COLOR. SIRMAX.INNO COMP – for

plastics;

- RS, OMEC, TRECOLAN, HENGST, DUTEX, PEGASO, FELLER, FIERA, PEHA, URALAN, EVEREL, - for Kaercher vacuum cleaner parts.

Under these circumstances, there is concern and interest in assimilating raw material and materials produced by Romanian companies or Romanian subsidiaries of important foreign companies, even if the process of assimilation and taking over as a supplier is quite difficult.

#### **1.1.4. Evaluation of sales.**

**a). Sequential description of the evolution of sales on the domestic and foreign market and the sales prospects in the medium and long term:**

Item no.	Indicator	Sales figures 2012	Sales figures 2013	Sales figures 2014	Sales figures 2015	Sales figures 2016
1	Sales ( thousand lei)	137,274	160,814	155,212	167,884	193,725
2	Sales ( thousand EUR)	30,806	36,138	34,629	37,792	43,138
3	Domestic sales (thousand lei)	5,425	3,748	5,458	4,388	6,400
	of which products (thousand lei)	2,908	1,710	1,329	1,518	1,148
4	Domestic sales (thousand EUR)	1,217	842	1,218	987	1,425
5	Foreign sales (thousand lei)	131,848	157,066	149,754	163,495	187,325
6	Foreign sales (thousand EUR)	29,589	35,543	33,412	36,804	41,713

Compared to the total sales in previous years, in 2016 there was an increase of 15.39% compared to 2015, achieved by increasing the number of staff from 498 employees on 31.12.2015 to 549 employees on 31.12.2016, of whom 12 employees had their employment contract suspended.

Foreign sales increased in 2016 by 13.34% compared to 2015.

The greatest share in turnover is held by the commercial relationship with KAERCHER, Germany.

Against this background of increasing exports and the number of employers, in conjunction with the difficulties of operating on the Romanian market, domestic sales decreased, and currently the manufacturing of home appliances and household goods is being made at the level of existing or anticipated on short-term orders.

A particular importance was given to signing contracts and collaborations enabling products of the S.C. ELECTROARGES manufacturing profile to be delivered on foreign markets, such as Moldavia, Poland, Spain , Italy, Libya, Ukraine, Germany, etc.

"Currently, the integrated management system shows the implementation and certification of the quality and environmental management system.

The certifying companies carried out two audits in 2016 : a recertification audit by TUV Rheinland for the environmental management system and a supervising audit by TUV Rheinland for the quality management system.

During 2016, audits were carried out at Electroarges by CSA, TUV SUD, TUV Rheinland Hungary and CQC China. Each of the companies listed above carried out control audits for the product group processes and system manufactured for Kaercher.

All the actions listed above allow Electroarges to supply products manufactured for Kaercher on multiple markets, such as Europe (including specific products for UK, Switzerland and Russia), Australia, USA, Mexico, Japan, China, Argentina, Brazil, etc. Also, the existing certifications allowed the supply of products with the ARGIS Electroarges logo to distributors in Italy, Spain, Republic of Moldavia, Germany, Poland, Libya, France, Hungary."

**b). Description of the competitive situation in the trading company's business field, the market share of the trading company's products and services and the main competitors:**

In 2016, the competition in household appliances and home goods was further exacerbated by the European economic development, the change of the euro / dollar parity, for example. The market was flooded with brand products at comparable or even lower prices than those of ELECTROARGES products. Also, there is a great number of products of Asian made on the market, at prices lower than those of known domestic or western brands, and with a more attractive design, which are being offered for sale on very attractive payment terms.

Electroarges held its position as special manufacturer for a number of high-tech and practical application products, such as: incubators, wall fans, water pump, various household appliances.

Our repair services and the guarantee for the manufactured products evidenced by the absence of major complaints about the product quality is an important factor in guiding the customers to the products manufactured by ELECTROARGES.

Currently, ELECTROARGES products are in the customers' area of interest and acceptability, ensuring a balanced cost in relation to the market prices and the technical performance.

ELECTROARGES main competitors are the companies manufacturing under recognized brands, with sales in supermarket chains, with consistent marketing-sales budgets.

**c). Description of any significant dependence of the company to a single client or group of clients whose loss would have a negative impact on the company's earnings :**

Currently the company runs a very big contract with Karcher Germany, representing over 95% of turnover. Termination of this contract would have a negative impact on the company's evolution over time, with negative social implications. Clearly, SC ELECTROARGES SA is in this situation. The fact that over 96% of turnover is based on export, and over 98% of it is only to the KÄRCHER group of companies, shows a huge collaboration dependence to this company.

Conclusion is only one – the company must make a sustained effort in increasing and identifying new methods of development for the own range of products in order to achieve a balance of at least 50% of total turnover.

**1.1.5. Evaluation of the aspects related to the company's employees / staff**

**a). Number and training level of the company's employees, as well as the workforce's unionisation degree :**

On 31.12.2016 SC Electroarges S.A. had a total number of 549 employees, of which 511 were employees with indefinite employment contract; 38 employees with definite employment contract; 12 employees with suspended employment contract (5 employees – on maternity leave, 5 employees with the employment contract suspended on request; and 2 employees with the employment contract suspended-union leaders with removal from production).



Staff structure on 31.12.2016 was as follows:

Total staff	- 549 (255 women, 294 men)
Working staff	- 472 of which:
- direct workers	- 388
- indirect workers	- 84
Foremen:	- 2
TESA staff	- 75 of which:
- Engineers:	- 30
- Engineering assistants:	- 9
- Economists:	- 24
- Technicians:	- 2
- Other:	- 10

Regarding the training level of S.C. Electroarges S.A.'s employees, the need to develop professional skills for integration into a professional standard qualification differentiated by jobs and professions was taken into account.

Professional training in 2016 for S.C. ELECTROARGES employees was made according to the actual financial possibilities and in relation to the budget for the previous year approved in this regard.

Mainly in 2016 – the human resources development and training strategy - aimed at expanding the workforce to become more adaptable to the structural changes in the context of skills shortages identified in domestic labor with emphasis on qualification and requalification of the workforce directly at the workplace. In this regard, the development of professional skills for integration into a professional standard was taken into account, offering employees the knowledge necessary to master the trade or occupation based on their experience at work, manufacturing products to better meet the foreign partners' evolving needs and quality requirements.

Also in 2016, the testing program for specialized staff was organized for the trades of Fork-lift Drivers, Crane Drivers, Boiler Operators, Testers and Riggers in order to extend the work permits for the previous year. They passed the exam and were reauthorized by ISCIR for 2016.

On the same note, on 31.12.2016, of the 549 employees, 298 were union members and

251 employees are not union members.

The unionisation – not union members 45.72%

- union members 54.28%

Most labor jurisdiction issues were resolved amicably.

**b). Description of the relationship between manager and employees and any conflicting issues that characterize this relationship:**

Relations between manager and employees were and are governed by the Collective Labor Agreement and legislation.

The objectives set by the manager were always discussed with employees' union representatives and each time a common ground was found (ie collective labor agreement negotiation and establishment of the salary scale). Although there were also conflicting situations between management and union, they were settled by direct negotiation.

Starting from the company's development policy, the manager reviewed the way leaders exercise authority, the importance of applying the legal procedures and the individual or team results. These were the most important factors in applying structural changes which were not accepted every time by the union or the people involved.

To address these situations, the manager accepted opinions contrary to his personal views, encouraged expression of personal opinions with tolerance to others' ideas, accepting a way of solving issues and situations in the interest of company's stability.

**1.1.6. a). Evaluation of the issuer's basic activity impact on the environment:**

Electroarges SA's activity is carried out under the Environmental Permit no. 205 revised on 07.01.2015 issued by the Arges Environmental Protection Agency for manufacturing household appliances (manufacturing machinery and household appliances), CAEN code 2751, activity carried out in Curtea de Arges, str. Albesti, nr.12, judetul Arges and under Decision no. 714/09.12.2015 issued by the Arges Environmental Protection Agency for maintaining the Environmental Permit with changes/rectifications.

The status of compliance with the legal and other identifiable applicable requirements associated with the company's environmental aspects on environmental factors is as follows:

Environmental factor: AIR

Emissions and immissions of pollutants resulting from the company's activity are monitored.

The concentrations of pollutants released into the atmosphere are measured quarterly in

accordance with the requirements of the environmental permit and authorized laboratories of the Arges Environmental Protection Agency. The values of the emissions and immissions measured (analysis reports) are within the allowed limits provided by the regulatory acts Ordinance 462/1993 of the Ministry of Waters, Forests and Environmental Protection, Law 104/15.06.2011, respectively STAS 12574/1987

-Provisions of the Government Decision no. 699/2003, as further amended and supplemented by Government Decision no. 1902/2004 on establishing measures to reduce the emissions of volatile organic compounds (VOC) due to use of organic solvents in certain technological processes were followed.

Environmental factor: WATER

The provisions of Water Law no. 107/1996 as further amended and supplemented, as well as the requirements of the Water Management Permit are known and implemented.

The rules implemented concern:

-Water Management Permit no. 290/09.2016 on “electrical consumer goods factory (portable electrical tools, low electric power motors and other electrical equipment) Curtea de Arges” issued by the National Administration of ROMANIAN WATERS – ARGES-VEDEA Water Basin Administration.

-permit no. 5/2016 to operate wastewater pre-treatment plants, issued by SC Aquaterm AG’98 SA.

-organization and functioning regulation of the neutralization station ;

-wastewater resulting from the metal plating workshop is treated locally at the neutralization station, before being released into the city sewer system ;

-water treated at the neutralization station is measured and monitored ;

-water flows and volumes obtained from own sources and those released are measured, monitored and reported to the water management and environmental authorities according to the law ;

-the frequency of determining the quality indicators of wastewater, treated and released in the city sewers is carried out in accordance with the conditions imposed in the water management and environmental permits ;

-maximum limits allowed for the quality indicators (provided by the water management and environmental permit) of the wastewater released in the city sewers established under regulation NTPA 002/2002, approved by the Government Decision no. 188/2002, as further

amended and supplemented, are followed. Following the imposed values is carried out by performing quarterly chemical tests of the water treated and released in the city sewers in authorized laboratories (Arges Environmental Protection Agency, SC Apa Canal 2000 SA Pitesti).

Environmental factor : SOIL and WASTE

- waste management records, according to the Government Decision 856/2002 as further amended and supplemented, are followed. There is waste coding and identification, the amount produced, storing, transport and elimination method.

- The provisions of Law 211/2011 on waste are followed.

Hazardous waste is collected selectively, stored, identified and managed by type (ie waste oil, galvanic slurry, etc.).

The formation of stocks of raw material, materials, products and by-products that may deteriorate or become waste due to expiry of shelf life is avoided.

- The provisions of Government Decision 235/2007 as further amended (ie Government Emergency Ordinance 15/2010) on the management of waste oil are applied by : providing collection of waste oil on types, use of appropriate collection containers, avoiding soil or groundwater contamination, their storage in specially designed premises, capitalization of the waste oil by authorized economic agents.

- primary and secondary packaging used for packing products placed on the domestic market were managed quantitatively and reported to the Arges Environmental Protection Agency as required by law.

The selective documented collection process is implemented (by packaging material type / range), management, reuse, recycling and management recording of the packaging and generated packaging waste of the materials introduced on and from the domestic market, in terms of environmental protection and compliance with the legal requirements. The traceability of the generated packaging and packaging waste was made by relevant accounting and extra-accounting documents, from entering the company to the recovery economic agent.

- transporting non-hazardous and hazardous waste to the economic operators is made based on the loading – unloading forms, or shipment – transport, in accordance with the Government Decision no. 1061/2008.

- the provisions of the Government Emergency Ordinance no. 196/2005 as further amended and supplemented (ie Ordinance 1032/2011) on the Environmental Fund are followed. The

annual recovery targets, respectively packaging waste recycling recovery by packaging type were met according to the requirements.

- the provisions of Government Decision 124/2003 as further amended and supplemented on prevention, reduction and control of environmental asbestos pollution are well known and implemented based on the gradual program of elimination of the asbestos tiles.

- the provisions of the Government Decision 1037/2010 on the electrical and electronic equipment waste are implemented as follows : on designing the products, the specialists of the Technical Department comply with the special environmental and /or security requirements, the requirements for facilitating the part dismantling and recovery ; provide options of reuse and recycling of the electrical and electronic equipment waste.

Management responsibility of the electrical and electronic equipment waste was transferred from 2009 to CCR Logistics Systems SRL Bucuresti by Transfer of Responsibility Contract on the the electrical and electronic equipment waste collection, recovery and recycling. Also, the company's electrical and electronic equipment waste are transferred to companies authorized in their reuse and recovery.

- introduction in the products' instructions of the special marking for the electrical and electronic equipment and environmental warnings in accordance with the requirements of Ordinance no. 556/2006.

## CHEMICAL SUBSTANCES

- the provisions of the Government Decision 173/2000 as further amended and supplemented on regulating the special regime for the management and control of the polychlorinated biphenyls (PCB) and similar compounds are being followed. The company is using power equipments with liquid which are not containing designated compounds in concentration higher than 50 ppm and are no environmental risks throughout the remanining useful life.

- Law no. 360/2003 as further amended and supplemented on the regime of hazardous chemical substances and compounds; Government Decision 1408/2008 on the classification, labelling and packaging of the hazardous chemical substances and compounds; Government Decision no. 937/2010 on the classification, labelling and packaging in the marketing of hazardous compounds, conditions: decisions on the personnel responsible for managing, storing and handling the hazardous chemical substances; permit for transportation, possession and use of toxic products and substances; the amounts of the toxic substances used are monitored through the "Records for the movment of toxic products and substances"; the need

to supervise the purchase of hazardous chemical substances accompanied by Safety Data Sheets in accordance with Regulation 453/2010; complying with the conditions provided in the Safety Data Sheets of the hazardous products on packaging transportation, storage, handling/use and management of these substances

- possession of classified substances must be in compliance with the obligations established in the Government Emergency Ordinance 121/2006 approved by Law no. 186/2007, Regulation no. 273/2004, Regulation no. 111/2005, Regulation no. 1277/2005 as further amended and supplemented on the legal regime of the precursors used in the illegal manufacture of drugs. The rules applied are: the strict registering of the precursor consumers in special registers; decisions on the personnel in charge of managing, storing, handling and use of the precursors; purchasing the substances is done in packaging according to the law, the daily track of the precursors is kept in special registers, the hazardous substances packaging are being managed (they are returned to the suppliers, for purchasing chemical substances).

- the provisions of the Government Decision 322/2013 on the limiting of use of certain hazardous substances in electrical and electronic equipment are met by the following implemented measures: changing the internal technologies for the production of parts, monitoring suppliers, including the introduction of the requirements of the RoHS Directive in contracts/orders,

- we aimed to maintain the implementation of the provisions of the European Regulation 1907/2006/EC (REACH) as further amended and supplemented (ie Regulation no. 1272/2008 CLP) on chemical products and their safe management according to the Safety Data Sheets prepared in accordance with Annex II of the Regulation, amended by Regulation no. 453/2010. The company's various duties and responsibilities under REACH were identified and we kept in touch with the companies which supply us with substances, mixtures, items (by category of materials). Declarations of compliance with the REACH requirements and Safety Data Sheets for certain substances, mixtures were requested/submitted from/by suppliers, and as downstream users, declarations of compliance were submitted (ie Karcher client , Steinel client).

**b). Summary description of the impact of the issuer's basic activity on the environment as well as any existing or expected disputes regarding the violation of the environmental protection legislation:**

Electroarges SA does not perform activities with significant environmental impact, has

no disputes regarding the violation of the environmental protection legislation.

I should also be noted that Electroarges SA has all the legal environmental permits necessary for operating its business.

Inspections were carried out during 2016 by the National Environmental Guard – Arges Regional Department. A measure related to the compliance with the provisions of the Government Decision 1037/2010 on the electrical and electronic equipment waste was identified. The measure was applied.

The fact that Electroarges location is in the industrial area of Curtea de Arges does not affect the quality of life, the population's health condition, or the vegetation and fauna;  
-the impact of Electroarges' activity in terms of social and economic environment is positive by creating new jobs.

**Pct. 1.1.7. Evaluation of research and development activity. Indication of research and development expenses for the financial year, as well as those expected in the next financial year :**

In 2016, new versions of Kaercher vacuum cleaners have been manufactured, derived from those in production, in the Home & Garden vacuum cleaner range type WD 2 and WD 3 and in the professional vacuum cleaner range (T 7/1 Classic, T 7 / T 10, T 12 / T 15, NT 20/1, ProNT 200 and Fein Systemintegration). Also, the manufacturing of the new range of professional vacuum cleaners T 8/1 have begun and the first pressing of new vacuum cleaners AD 2 / AD 4 was executed.

In the second half of 2016, the production of professional vacuum cleaners was transferred to the new Kaercher factory. In order to cover the production capacities left available and also to increase the production efficiency and the turnover, action plans were set together with Kaercher representatives by preparing a new vacuum cleaner installation line, new moulds execution programs, existing moulds repair programs. Also, the basic elements for calculating prices were renegotiated.

During 2017, objectives for modernizing the ARGIS Electroarges brand products shall be included in the Technical Plan, in accordance with the requirements of domestic and foreign markets. There will also be assimilated into production new Kaercher vacuum cleaner groups and collaborations with industrial manufacturers and major distributors of household appliances shall be initiated.

**1.1.8. Evaluation of the company's activity regarding the risk management.**  
**Description of the company's exposure to price, credit, liquidity and cash flow risk.**

SC ELECTROARGEȘ is facing two major risks:

-over 95% of turnover represents production collaboration with KÄRCHER. Any syncope in the contract with this company can be immediately and severely felt;

The alternative to this dependence is increasing production for the domestic market and other customers so as to reach 50% of turnover.

-loan at one bank - Raiffeisen Bank, Pitesti branch- any change of the bank's policy in the current situation may also have consequences on the SC ELECTROARGEȘ possibility to support interest and reimbursement rates.

**Description of the company's policies and objectives regarding risk management.**

In order to reduce and even eliminate these risks, The Board of Directors has defined its approach for the coming years, consisting of :

- ensuring the profitability on the traditional market (increasing the competitiveness of products through redesign, manufacturing cost control, non-quality cost reduction, boosting sales by changing marketing policies) ;
- penetrating new markets and diversifying the range of services/products offered ;
- rendering of services and manufacturing products for third parties in related fields (for which there are insufficiently used technological capabilities) ;
- participation in inter-disciplinary programs at national and international level ; attracting structural grant funds.

**1.1.9. Prospects regarding the company's activity :**

**1.1.9.a). Presentation and analysis of uncertainty trends, items, events or factors that affect or could affect the company's liquidity compared to the same period of the previous year**

Based on the above, the approach applied within the company has as main objective the refocus of the activity on the profitability analysis under increasing turnover and running parallel activities enabling cost control and strengthening the market position.

In order to achieve these objectives and to eliminate uncertainty events or factors that may affect the company's liquidity, action is taken to :

- reduce dependence to the KÄRCHER's contract ;



- reduce and liquidize stocks ;
- reduce funding costs by renegotiating contracts with suppliers and clients ;
- refocus the sales from the need to ensure volume to ensuring profitability ;
- sales-production-acquisitions relational planning with consolidating all categories of stocks ;
- personnel management by optimizing the organizational chart and introducing efficiency criteria.

**1.1.9.b). Presentation and analysis of the effects of current or expected capital costs on the company's financial position compared to the same period of the last year.**

Since 2011, SC Electroarges SA has acquired shares through Bucharest Stock Exchange and is participating in the share capital of other companies, namely: Carbochim SA Cluj-Napoca - 12.40%, Lactate Natura SRL Targoviste - 15.95%, Artego SA Targu Jiu - 2.89%, Braiconf SA Braila - 17.64%, Iprolam SA Bucuresti - 5.65%, Mercur SA Fagaras - 98.41%, Amplo SA Ploiesti - 84.41%, Concifor SA Buzau - 67.02%, Conted SA Botosani - 0.88%, Mecanoenergetica SA Drobeta Turnu Severin - 28.85%, Tarnava SA Sighisoara - 3.99%, Uztel SA Ploiesti - 2.56%, Amonil Slobozia - 2.90%, Ceprochim Bucuresti 0.28%, Elars Ramnicu Sarat - 88.16%, Metalul Mesa Salonta - 16.68%, Romanofir Talmaciu - 14.67%, SIF3 Transilvania - 0.0001%, Sigstrat Sighetu Marmatiei - 7.67%.

Assets expected to be acquired in 2017 are presented in the Investment Program which led to the elaboration BVC / 2017.

**1.1.9.c). Presentation and analysis of the events, transactions, economic changes that significantly affect revenue from basic activity.**

Electroarges operates on the going concern principle, based on the Income and Expenditure Budget and the development programs evaluated in accordance with the commercial contracts underlying the economic collaborations.

There are no known events at this time that significantly affect income from the basic activity.

## **2. COMPANY'S TANGIBLE ASSETS**

### **2.1. Location and characteristics of the company's main production facilities**

S.C. "ELECTROARGES" S.A. is located in Curtea de Arges, str.Albesti, nr.12. Total area of the land owed by the company was 59,346 sqm, acquired with the Title Deed series M03, NO. 0674/08.12.1993, of which the land adjoining the Studio Block was sold to the tenants in 1995 and the land adjoining the Bachelors' Hostel was alienated by Court Order in 2001.

The remaining area of 57,702.12 sqm has been structured as follows:

- |   |                 |
|---|-----------------|
| 1. Total built area                         | = 31,313.15 sqm |
| of which:                                   |                 |
| - production and administrative departments | = 31,297.34 sqm |
| 2. Area related to the transport routes     | = 18,221.97 sqm |
| 3. Area related to the municipal networks   | = 932.00 sqm    |
| 4. Free area                                | = 7,235.00 sqm  |
| of which: suitable for construction         | = 2,104.25 sqm. |

Depending on the activities that take place within the company, the following classification may be used:

- production activity - takes place in 2 main units of production, such as: BLC and Karcher-Plastics, structured in workshops and working lines depending on the specific technological operations and 2 supporting workshops: Tool Room and Mechanical & Energy;
- quality assurance activity;
- research and development activity;
- marketing-sales and service activity;
- logistics, acquisitions and transportation;
- financial-accounting activity;
- production planning and monitoring;
- human resources and administrative management.

### **2.2. Analysis of the company's property wear**

The wear of all the company's capabilities is 50.29%, by category of assets fluctuating from minimum to maximum.

Accounting wear of the company's properties was calculated according to Law 15/1994 and Law no. 571/2003 regarding the Fiscal Code, the straight-line method, being influenced by the subsequent regulations on the utilization of fixed assets.

Regarding the moral and physical wear, it could be said to have a different level for each category of fixed assets. Fixed assets purchased in the past three years do not have a high obsolescence, on the date of purchase being some of the most efficient, unlike other facilities, which are mostly at the 1970-1980's level, and their performances were increased by upgrading.

### **2.3. Issues related to the property right on the company's tangible assets**

Not the case.

## **3. COMPANY-ISSUED SECURITY MARKET.**

**3.1. SC ELECTROARGEŞ SA** is registered at the National Commission of Transferable Securities with a number of 69,764,650 shares with a nominal value of 0.10 lei, representing 6,976,465 lei subscribed and fully share capital. This is stated in the SECURITIES REGISTRATION CERTIFICATE No. AC-2208-6/09.06.2016.

SC ELECTROARGES SA's securities (shares) are traded on the Bucharest Stock Exchange, Category II – Shares. Information on the market evolution of these shares can be found on the BSE website, [www.bvb.ro](http://www.bvb.ro), consulting the SC ELECTROARGES SA issuer's sub-site for the "ELGS" sign.

SC ELECTROARGEŞ SA's Shareholders Register records are carried out in accordance with the legal provisions by the SC DEPOZITARUL CENTRAL SA – Bucharest register company.

**3.2. SC ELECTROARGES SA** made a profit in 2005 and 2006, but due to the fact that in the previous years, respectively from 1999 to 2004, the Profit and Loss Account was negative, in accordance with Law 31/1990 and the Accounting Law the shareholders were forced to use the profit to cover the loss, and the profit of 2007 and 2008 was assigned as own funding sources, of which the amount of 636,006.20 lei in 2007 and the amount of 954,009.30 lei in 2008 were used to increase the share capital by allocating free shares without any change in previous ownership.

In 2008, gross dividends were distributed amounting to 0.0232 lei / share, and in 2009

the gross dividend distributed was 0.0595 lei / share.

Profit of 2010 remaining after setting up the legal reserve was fully distributed as own funding source.

In 2011, SC Electroarges SA's share capital was increased by the amount of 3,335,506 lei, through subscription of shares at a nominal value of 0.1 lei / share to the existing shareholders according to the Shareholders Register issued by the Depozitarul Central.

Profit of 2011 in the amount of 6,874,531 lei, remaining after setting up the Legal Reserve of 436,035 lei, was assigned as "Other reserves- own development sources".

In 2012, with the General Ordinary Meeting of Shareholders Decision no. 82/21.04.2012, it was approved to cover the loss from the previous years, in the amount of (-) 8,156,411 lei, loss resulted from the increases and penalties accumulated between 1999-2004 for overdue tax debts. We mention the fact that by rescheduling the payment of these debts registered on 31.12.2004, the company benefited from increase and penalty cancellations and reductions in the amount of 9,172,397 lei, which are found in the group "Other reserves-**tax reserve** from rescheduled tax debts cancellations and reductions". Coverage of the accounting loss was made using "Other reserves-own funding&development sources" set up from the profit of 2010 and partially of 2009.

In 2015, by applying Court Sentence no. 225/CC, the share capital was increased with a number of 7,789,310 shares, representing 778,931 lei, by approving the shareholders Tudor Dumitru and Vidraru S.A.'s subscriptions. Also in 2015, by applying the Court Sentence no. 474/CC the share capital was decreased with 18,874,931 shares, representing 1,887,493.10 lei, by cancelling the share capital increase of 2012. The same was applied when refunding shareholders participating in subscription, with 0.30 lei/share, respectively.

In 2015, gross dividends were distributed with a value of 0.095 lei/share.

**3.3. SC ELECTROARGES SA's Board of Directors** was not in the position to approve the acquisition by the company of its own shares, but under the General Extraordinary Meeting of Shareholders Decision no 80/11.06.2011 and General Ordinary Meeting of Shareholders Decision no. 82/21.04.2012, the shares subscribed and unpaid following the action to increase the share capital were canceled.

**3.4. SC ELECTROARGEŞ SA has no branches.**

**3.5. SC ELECTROARGEŞ SA has not issued bonds or other debentures.**

#### 4. COMPANY MANAGEMENT.

##### 4.1. a). List of SC ELECTROARGEŞ SA's administrators

Based on the AGOA Decision no. 101 of 07.09.2016, *the structure of the SC Electroarges SA's Board of Directors* is as follows:

Item no.	Surname	Given names	Age - years -	Qualification	Professional experience. (years)	Position	Seniority - years -
1.	Stefan	Constantin	33	Economist	2	President	0
2.	Gavrilă	Ion	62	Engineer	42	Vice-President	10
3.	Vasilachi	Valentin-Marius	32	Engineer	32	Member	0
4.	Tudor	Dumitru	68	Chemist	44	Member	0
5.	Mihalcea	Petru	68	Jurist	47	Member	0

##### 4.1.b). Not the case.

##### 4.1.c). Administrators' participation to the share capital.

Item no.	Surname	Given names	Position	No. of shares
1.	Stefan	Constantin	President	0
2.	Gavrilă	Ion	Vice-President	6,016,191
3.	Vasilachi	Valentin-Marius	Member	0
4.	Tudor	Dumitru	Member	8,942,193
5.	Mihalcea	Petru	Member	0

##### 4.1. d). Not the case.

##### 4.2. a). The list of the executive management:

Item no.	Surname	Given Names	Position	Period as a member of the executive management
1.	Gavrila	Ion	General Director	19.01.2016-19.01.2020
2.	Albu	Valeria	Deputy General Director	15.06.15-indefinite
3.	Scarlat	Roxana	Economic Director	28.03.14-indefinite
4.	Ghita	Flavius-Lucian	Production Director	01.04.16-indefinite
5.	Barbu	Marin	Technical Director	01.11.06-indefinite
6.	Golescu	Vasile	Quality Director	01.09.06-indefinite

##### 4.2. b). Not the case.

**4.2.c). Participation of the executive managers to the company's share capital :**

Item no.	Surname	Given Names	Position	No. of shares held
1.	Gavrila	Ion	General Director	6,016,191
2.	Albu	Valeria	Deputy General Director	1,800
3.	Scarlat	Roxana	Economic Director	535
4.	Ghita	Flavius-Lucian	Production Director	0
5.	Barbu	Marin	Technical Director	20,188
6.	Golescu	Vasile	Quality Director	39,205

**4.3. List of the disputes or administrative procedures for the last 5 years involving members of the administrative management.**

**Not the case.**

**5. STATEMENT OF FINANCIAL ACCOUNTING**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The company's accounting records are being kept in RON in accordance with the Romanian Accounting Regulations (RCR). These accounts have been restated to reflect the differences between the accounts according to RCR and the accounts according to IFRS. Accordingly, the accounts according to RCR were adjusted, where necessary, to bring the separate financial statements, in all material respects, in line with IFRS.

The most significant changes to the financial statements prepared in accordance with RCR in order to align them with the IFRS requirements adopted by the European Union are:

- Adjustments of the assets, liabilities and equity in accordance with IAS 29, due to the fact that the Romanian economy was a hyperinflationary economy until December 31, 2003; 33

### 5.a. Balance elements in the last 3 years:

Item no.	Item name	31.12.2014		31.12.2015		31.12.2016		2016	2016
		Amounts	Share in total balance	Amounts	Share in total balance	Amounts	Share in total balance	/ 2015	/ 2014
	0	1	2	3	4	5	6	7	8
1.	<b>ASSETS</b>								
1.1	Fixed assets								
	Intangible assets	289,690	0.3	317,929	0.3	364,606	0.3	114.7	125.9
	Tangible assets	24,004,076	24.4	26,448,627	25.7	24,749,148	22.2	93.6	103.1
	Financial assets	6,819,871	6.9	16,268,295	15.80	18,354,184	16.5	112.8	269.1
	<b>Total fixed assets</b>	<b>31,113,637</b>	<b>31.6</b>	<b>43,034,851</b>	<b>41.8</b>	<b>43,467,938</b>	<b>39.0</b>	<b>101.0</b>	<b>139.7</b>
1.2	Current assets								
	Inventories	22,278,508	22.6	25,243,214	24.5	19,582,446	17.6	77.6	87.9
	Receivables	16,526,019	16.8	15,871,737	15.4	17,126,264	15.4	107.9	103.6
	Available cash	3,379,085	3.4	5,314,229	5.2	15,533,792	13.9	292.3	459.7
	Short-term financial investments	25,129,133	25.5	13,572,935	13.2	15,772,548	14.1	116.2	62.8
	<b>Total current assets</b>	<b>67,312,745</b>	<b>68.4</b>	<b>60,002,115</b>	<b>58.2</b>	<b>68,015,050</b>	<b>61.0</b>	<b>113.4</b>	<b>101.0</b>
1.3	Prepayments	8,393	0.0	9,979	0.0	8,152	0.0	81.7	97.1
	<b>TOTAL ASSETS</b>	<b>98,434,775</b>	<b>100.0</b>	<b>103,046,945</b>	<b>100.0</b>	<b>11,491,140</b>	<b>100.0</b>	<b>108.2</b>	<b>113.3</b>
2.	<b>LIABILITIES</b>								
2.1	Equity								
	Share capital	8,085,027	8.2	8,085,027	7.8	6,976,465	6.3	86.3	86.3
	Other equity elements- IFRS Adjustments	70,518,311	71.6	5,849,655	5.7	5,849,655	5.2	100.00	8.3
	Share premium	3,774,986	3.8	3,774,986	3.7	0	0	*	*
	Revaluation reserves	1,854,077	1.9	1,781,471	1.7	1,769,778	1.6	99.3	95.5
	Reserves	30,733,919	31.2	27,584,759	26.8	27,448,079	24.6	99.5	89.3
	Earnings related to equity	0	0	0		1,132,496	1.0	0	0
	Retained earnings	12,662,295	12.9	12,734,901	12.4	12,746,594	11.4	100.1	100.7
	Retained earnings arising from applying IFRS	-70,67,173	-71.8	0	0	0	0	0	0
	Business income	7,704,493	7.8	7,730,926	7.5	16,577,153	14.9	214.4	215.2
	Distribution of profit	0	0	0	*	*	*	*	*
	<b>Total equity</b>	<b>64,660,935</b>	<b>65.7</b>	<b>67,541,725</b>	<b>65.5</b>	<b>72,500,220</b>	<b>65.0</b>	<b>107.3</b>	<b>112.1</b>

2.2.	Liabilities to be paid within a period of up to 1 year	28,630,413	29.1	25,991,598	25.2	29,313,158	26.3	112.8	102.4
2.3	Liabilities to be paid within a period exceeding 1 year	1,089,555	1.1	3,670,153	3.6	1,188,214	1.1	32.4	109.1
2.4	Provisions for expenditure risks	41,828	0	106,409	0.1	3,710,324	3.3	3,486.9	8,870.4
2.5	Advance income	4,012,044	4.1	5,737,060	5.6	4,779,224	4.3	83.3	119.1
	<b>TOTAL LIABILITIES</b>	<b>98,434,775</b>	<b>100.0</b>	<b>103,046,945</b>	<b>100.0</b>	<b>111,491,140</b>	<b>100.0</b>	<b>108.19</b>	<b>113.26</b>

## **ASSETS:**

Fixed assets represent 39.0% of total assets, tangible assets represent 22.2% of those, intangible assets 0.3% and financial assets 16.5%. Compared to the previous year, tangible assets have decreased slightly due to the amortization of activity-specific purchased equipment. Intangible assets recorded an increase compared to the previous years by acquiring new software, and the financial assets increase represents the acquisition of shares on the capital market, as well as the cancellation of the impairment adjustments made in the previous years.

Current assets, representing 61.0% of total assets, consist of inventories with 17.6%, receivables with 15.4%, available cash with 13.9% and short-term financial investments (Cheques to be cashed submitted to the bank representing 14.1% and shares acquired on the capital market through BSE, available for sale). Compared to the previous year, the current assets are increasing due to the revaluation of shares at the end of 2016. The advance expenses, with a insignificant percentage of total assets, represent the equivalent value of magazine subscriptions and the RAR (*Romanian Register of Road Vehicles*) insurance for the car fleet.

## **LIABILITIES:**

Equity, increasing year by year, represents 65.0% of total liabilities, consists of reserves with a share of 24.6%, revaluation reserves 1.6%, share capital 6.3%, other equity elements - IFRS adjustments (+) 5.2%, retained earnings 11.4% and business income 14.9%.

Liabilities to be paid within a period of up to 1 year represent 26.3% of total liabilities and



have increased compared to previous years. The greater share is represented by the trade payables - suppliers at 55.9%, current tax liabilities and settlements with staff at 1.6% and liabilities (dividends, settlement with shareholders) - 32.6%.

Liabilities between 1 and 5 years - on 31.12.2016 the company recorded liabilities between 1 and 5 years in the amount of 1,188,214 lei, representing 1.1% of total balance.

Provisions for expenditure risk - on 31.12.2016 the company recorded provisions for holidays not taken in the amount of 55,717 lei and provisions for litigation in the amount of 3,654,607 lei.

Advance income at the 4.3 % share of total liabilities, represents the undepreciated value of tangible assets made from subsidies received from A.P.A.P.S. (FPS) for the 60% share of the rates paid by PAS Electroargeş'94 Association under the Sales & Purchase of Shares Agreement, and registering the requests for funding the POSCCE project, implemented at SC Electroarges S.A.

#### 5. b. Profit and loss account for the last 3 years.

Item no.	Item name	31.12.2014		31.12.2015		31.12.2016		2016 / 2015	2016 / 2014
		Amounts	Share in total income	Amounts	Share in total income	Amounts	Share in total income		
	0	1	2	3	4	5	6	7	8
1.	<b>NET TURNOVER</b>								
1.1	Production sold								
	Revenue from sale of finished products	151,787,461	93.4	165,025, 178	95.2	189,486,142	94.4	114.8	124.8
	Revenue from work performed and services rendered	547,603	0.3	676,978	0.4	964,168	0.5	142.4	176.1
	Revenue from royalties, location management and rents	868,809	0.5	916,085	0.5	962,796	0.5	105.1	110.8

	Revenue from various activities	134,571	0.1	155,185	0.1	227,394	0.1	146.5	169.0
	<b>TOTAL production sold</b>	<b>153,338, 443</b>	<b>94.4</b>	<b>166,773, 426</b>	<b>96.2</b>	<b>191,640,500</b>	<b>95.5</b>	<b>114.9</b>	<b>125.0</b>
1.2	Trade discounts received	- 51,809	-0.1	-55,142	-0.1	-41,343	-0.1	*	*
1.3	Revenue from sale of goods	1,925,849	1.2	1,165,466	0.7	2,061,654	1.0	176.9	107.1
	<b>TOTAL net turnover</b>	<b>155,212, 484</b>	<b>95.5</b>	<b>167,883, 750</b>	<b>96.8</b>	<b>193,660,811</b>	<b>96.5</b>	<b>115.4</b>	<b>124.8</b>
2	<b>OPERATING INCOME</b>								
2.1	Net turnover	155,212, 484	95.5	167,883, 750	96.8	193,660,811	96.5	115.4	124.8
2.2	Inventory variation	2,017,622	1.2	1,203,267	0.7	1,659,197	0.8	137.9	82.2
2.3	Revenue from production of assets	0	0	0	0	9,767	0.1	*	*
2.4	Revenue from operating subsidies	144,265	0.1	8,921	0	51,815	0.1	580.8	35.9
2.5	Other operating income	1,064,987	0.7	1,067,833	0.6	861,471	0.4	80.7	80.9
	<b>TOTAL operating income</b>	<b>158,439, 358</b>	<b>97.5</b>	<b>170,163, 771</b>	<b>98.1</b>	<b>196,243,061</b>	<b>97.8</b>	<b>115.3</b>	<b>123.9</b>
3.	<b>OPERATING COSTS</b>								
3.1	Raw material and consumables expenses	118,673, 174	73.0	130,105, 819	75.0	146,057,764	72.8	112.3	123.1
3.2	Other material expenses	359,661	0.2	205,716	0.1	160,045	0.1	77.8	44.5
3.3	Other external expenses (on energy and water)	2,267,309	1.4	2,348,377	1.4	2,457,371	1.2	104.6	108.4

3.4	Expenses on goods	1,847,917	1.1	1,121,275	0.6	1,958,569	1.0	174.7	106.0
3.5	Trade discounts received	0,00	0.0	0	*	-19	0.00	*	*
3.6	Expenses on personnel	14,792,906	9.1	15,281, 908	8.8	16,766,906	8.3	109.7	113.3
3.7	Depreciation and provisions	2,431,399	1.5	2,875,901	1.7	2,920,977	1.5	101.6	120.1
3.8	Other operating costs	6,862,346	4.2	6,414,945	3.7	6,139,662	3.1	95.7	89.5
3.9	Adjustments for provisions	41,828	0.1	63,065	0.1	3,603,751	1.8	5,714.3	8,615.6
	<b>TOTAL operating costs</b>	<b>147,276, 540</b>	<b>90.6</b>	<b>158,417, 006</b>	<b>91.3</b>	<b>180,065,026</b>	<b>89.7</b>	<b>113.7</b>	<b>122.3</b>
4.	<b>OPERATING INCOME</b>	<b>11,162,818</b>	<b>6.9</b>	<b>11,746, 765</b>	<b>6.8</b>	<b>16,178,035</b>	<b>8.1</b>	<b>137.7</b>	<b>144.9</b>
5.	<b>FINANCIAL INCOME</b>	<b>4,076,224</b>	<b>2.5</b>	<b>3,260,038</b>	<b>1.9</b>	<b>4,430,004</b>	<b>2.2</b>	<b>135.9</b>	<b>108.7</b>
6.	<b>FINANCIAL EXPENSES</b>	<b>5,351,689</b>	<b>3.3</b>	<b>5,221,731</b>	<b>3.0</b>	<b>648,717</b>	<b>0.3</b>	<b>12.4</b>	<b>12.1</b>
7.	<b>FINANCIAL RESULT</b>	<b>- 1,275,465</b>	<b>- 0.8</b>	<b>1,961,693</b>	<b>-1.1</b>	<b>3,781,287</b>	<b>1.9</b>	<b>192.8</b>	<b>*</b>
8.	<b>TOTAL INCOME</b>	<b>162,515, 582</b>	<b>100.0</b>	<b>173,423, 809</b>	<b>100.0</b>	<b>200,673,065</b>	<b>100.0</b>	<b>115.7</b>	<b>123.5</b>
9.	<b>TOTAL EXPENSES</b>	<b>152, 628,229</b>	<b>93.9</b>	<b>163,638, 737</b>	<b>94.4</b>	<b>180,713,743</b>	<b>90.1</b>	<b>110.4</b>	<b>118.4</b>
10.	<b>GROSS INCOME</b>	<b>9,887,353</b>	<b>6.1</b>	<b>9,785,072</b>	<b>5.6</b>	<b>19,959,322</b>	<b>9.9</b>	<b>204.00</b>	<b>201.9</b>
11.	<b>TAX ON PROFIT</b>	<b>2,182,860</b>	<b>1.3</b>	<b>2,054,146</b>	<b>1.2</b>	<b>3,382,169</b>	<b>1.7</b>	<b>164.7</b>	<b>154.9</b>
12.	<b>NET INCOME</b>	<b>7,704,493</b>	<b>4.7</b>	<b>7,730,926</b>	<b>4.5</b>	<b>16,577,153</b>	<b>8.3</b>	<b>214.4</b>	<b>215.2</b>
13.	<b>PROFIT DISTRIBUTION</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>-</b>	<b>*</b>	<b>*</b>
14.	<b>DIVIDENDS DISTRIBUTED</b>	<b>4,850,135</b>	<b>3.0</b>	<b>6,626,247</b>					

15.	LEGAL RESERVES	0		0			0.4	*	*
16.	OWN DEVELOPMENT SOURCES	2,854,358	1.8	330,679					
17.	PROFIT PARTICIPATION/EMPLOYEES AND ADMINISTRATORS			774,000					

In 2016 the result was very good, increasing compared to 2015 and 2014. In 2016, most indicators were rising, although costs were affected by higher prices of raw material, by the structure of the manufacturing program, by amortization due to the commissioning of fixed assets. The operating income of the financial year increased by 37.7%.

SC Electroarges SA achieved very good results in 2016 due to increased production volumes and by tight cost control.

Operating income represents 97.8% of total income and net turnover 96.5%, achieved by: the sale of finished products 94.4%, income from sale of goods 1.0%, income from services rendered 0.5%, rental income 0.5% and income from various activities 0.1%.

The share of operating expenses in total income is 89.7% of raw material and materials is 72.8%, while expenses on personnel is 8.3%.

Profit recorded in the financial activity represents the cancellation of value adjustments in the evaluation on 31.12.2016 of the financial assets and the fair value measurement of the short-term securities held by SC Electroarges SA in companies traded on the stock market

### 5. c. CASH-FLOW STATEMENT for the last 3 years.

#### Indirect method:

Item name	CASH FLOW		
	31.12.2014	31.12.2015	31.12.2016
+/- Business income	7,704,493	7,730,926	16,577,153
+ Depreciation included in cost	2,437,516	2,418,343	2,920,977

- Changes in inventories (+/-)	576,503	2,964,706	(-) 5,660,768
- Changes in receivables (+/-)	(-) 3,500,413	(-) 654,282	(+) 1,254,527
+ Changes in suppliers and client lenders (+/-)	(-) 4,538,664	2,498,515	(-) 4,154,171
- Changes in other asset items (+/-)	529,178	(-) 4,560,675	(+) 1,931,183
+ Changes in other liability items	(-) 2,481,159	(-) 8,372,855	(-) 8,199,928
<b>A = Cash flow from operating activities</b>	<b>5,516,918</b>	<b>6,525,180</b>	<b>9,619,089</b>
+ Amounts from sale of assets and fixed assets	59,295	70,740	2,618
- Acquisitions of tangible assets	279,246	4,927,277	699,690
<b>+ =B Cash flow from investment activities</b>	<b>(-) 219,951</b>	<b>(-) 4,856,537</b>	<b>(-) 697,072</b>
+ Changes in loans (+/-) of which: * Short-term loans	(-) 3,674,174 (-) 1,668,234	(-) 3,049,965 (-) 5,630,563	(-) 2,481,939 0
+ Paid dividends	167	3,316,466	3,779,485
<b>+ = C Cash flow from financial activities</b>	<b>(-) 3,674,007</b>	<b>266,501</b>	<b>(+) 1,297,546</b>
+Liquid assets at the beginning of	1,756,125	3,379,085	5,314,229
+ Net cash flow (A+B+C)	1,622,960	1,935,144	(+)10,219,563
<b>= Liquid assets at the end of the period</b>	<b>3,379,085</b>	<b>5,314,229</b>	<b>15,533,792</b>

To analyze the company's economic and financial situation, a regrouping of the balance items is performed, as follows

Lei RON

Item no.	Item name	Sign	31.12.2014	31.12.2015	31.12.2016
1.	Fixed assets	AI	31,113,637	43,034,851	43,467,938
2.	Current assets (excluding liquid assets)	Acext	63,933,660	54,687,886	52,481,258
3.	Liquid assets	Db	3,379,085	5,314,229	15,533,792
4.	Settlement accounts	Creg	8,393	9,979	8,152
	<b>TOTAL ASSETS</b>		<b>98,434,775</b>	<b>103,046,945</b>	<b>111,491,140</b>

5.	Permanent capital	Cpe	64,660,935	67,541,725	72,500,220
6.	Short-term operating liabilities and off operation (without short-term loans)	Dex	22,999,850	25,991,598	29,313,158
7.	Medium and long-term liabilities	Dtl	1,089,555	3,670,153	1,188,214
8.	Short-term loans	Crt	5,630,563	0	0
9.	Settlement accounts	Creg	4,012,044	5,737,060	4,779,224
10.	Other provisions	Prov	41,828	106,409	3,710,324
	<b>TOTAL LIABILITIES</b>		<b>98,434,775</b>	<b>103,046,945</b>	<b>111,491,140</b>

The indicators reflecting as accurately as possible the company's economic and financial situation are the following:

### 1. Net situation (NS)

Also called shareholders' net worth, net situation is the difference between the company's total assets and total liabilities:

$$NS = A - (Dex + Crt)$$

$$NS_{31.12.2014} = 98,434,775 - (22,999,850 + 5,630,563) = 69,804,362 \text{ RON}$$

$$NS_{31.12.2015} = 103,046,945 - (25,991,598 + 0) = 77,055,347 \text{ RON}$$

$$NS_{31.12.2016} = 111,491,140 - (29,313,158 + 0) = 82,177,982 \text{ RON}$$

One could see the positive net situation which represents a sound economic management.

### 2. Working capital (WC)

Working capital results from the confrontation between the liquidity of the short-term assets and the chargeability of the short-term liabilities, being the expression of short-term financial balance.

$$WC = (Cpe + Dtl) - AI$$

$$WC_{31.12.2014} = 64,660,935 + 1,089,555 - 31,113,637 = 34,636,853 \text{ RON}$$

$$WC_{31.12.2015} = 67,541,725 + 3,670,153 - 43,034,851 = 28,177,027 \text{ RON}$$

$$WC_{31.12.2016} = (72,500,220 + 1,188,214) - 43,467,938 = 30,220,496$$

Working capital increased compared to the previous year due to reduced long-term investment loan.

### **3. Need for working capital (NWC)**

The need for working capital is the amount of money that must be provided to finance the unit in addition to the one necessary to finance the assets to function normally. This indicator highlights the qualitative aspects of the operating cycle, its ability to balance the cyclical needs from cyclical capital sources. The remaining uncovered part must be equal to or lower than the working capital, otherwise the poor quality of the operating assets leads to a financial imbalance that would affect the future financial exercises or would jeopardize the integrity of equity.

$$\text{NWC} = (\text{Acext} + \text{Creg}) - (\text{Dex} + \text{Crt} + \text{Creg} + \text{Provisions})$$

$$\text{NWC}_{31.12.2014} = (63,933,660 + 8,393) - (22,999,850 + 5,630,563 + 4,012,044 + 41,828) = 31,257,768 \text{ RON}$$

$$\text{NWC}_{31.12.2015} = (54,687,886 + 9,979) - (25,991,598 + 0 + 5,737,060 + 106,409) = 22,862,798 \text{ RON}$$

$$\text{NWC}_{31.12.2016} = (52,481,258 + 8,152) - (29,313,158 + 0 + 4,779,224 + 3,710,324) = 14,686,704 \text{ RON}$$

NWC is positive and lower compared to 2015.

### **4. Net cash (NC)- Cash Flow**

Net cash is calculated as the difference between working capital and the need for working capital.

$$\text{NC} = \text{WC} - \text{NWC}$$

$$\text{NC}_{31.12.2014} = 34,636,853 - 31,257,768 = 3,379,085 \text{ RON}$$

$$\text{NC}_{31.12.2015} = 28,177,027 - 22,862,798 = 5,314,229 \text{ RON}$$

$$\text{NC}_{31.12.2016} = 30,220,496 - 14,686,704 = 15,533,792 \text{ RON}$$

The company has not had to resort to additional credit lines to pay current and overdue liabilities, the receivables being collected at the beginning of 2016.

### **5. The company's liquidity**

Liquidity indicators measure the ability of a company to meet its short-term obligations from current assets.

#### **a) Global or general liquidity (GI)**

$$\text{GI} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$GI_{2014} = \frac{67,312,745}{28,630,413} = 2.35$$

$$GI_{2015} = \frac{60,002,115}{25,991,598} = 2.31$$

$$GI_{2016} = \frac{68,015,050}{29,313,158} = 2.32$$

This indicator has a value close to the maximum allowable one, which shows that in the company there is a stable global liquidity and continuous improvement by reducing liabilities.

#### **b) Reduced liquidity (RI)**

$$RI = \frac{\text{Current assets} - \text{Inventories}}{\text{Current liabilities}}$$

$$RI_{2014} = \frac{45,034,237}{28,630,413} = 1.57$$

$$RI_{2015} = \frac{34,758,901}{25,991,598} = 1.34$$

$$RI_{2016} = \frac{48,432,604}{29,313,158} = 1.65$$

Low liquidity is considered good when is greater than 1, the coverage of short-term liabilities being assured.



### c) Immediate liquidity (II)

$$II = \frac{\text{Treasury(desk cash, liquid assets)}}{\text{Short-term liabilities}}$$

$$II_{2014} = \frac{3,379,085}{28,630,413} = 0.12$$

$$II_{2015} = \frac{5,314,229}{25,991,598} = 0.20$$

$$II_{2016} = \frac{15,533,792}{29,313,158} = 0.53$$

Immediate liquidity needs to strive for a uniform size in order to cope with short-term liability payments, which under the circumstances is not achieved, but at the due date of the short-term liabilities (liabilities related to salaries) the company had the necessary cash for their payment.

### Financial solvency (Fs)

Financial solvency reflects the degree to which the unit can handle payment obligations and is calculated as follows:

$$Fs = \frac{\text{Equity} \times 100}{\text{Total liabilities}}$$

$$Fs_{2014} = \frac{64,660,935 \times 100}{98,434,775} = 65.69\%$$

$$Fs_{2015} = \frac{67,541,725 \times 100}{103,046,945} = 65.54\%$$

$$Fs_{2016} = \frac{72,500,220 \times 100}{111,491,140} = 65.03\%$$

Financial solvency in 2016 was at approximately the same value compared to 2014 and 2015.

## **7. Rate of return**

### **a) Financial rate of return (Frr)**

Reflects the ability of equity to produce profit, it is the indicator that expresses the efficiency of investments, and is calculated as follows:

$$\text{Frr} = \frac{\text{Net profit} \times 100}{\text{Equity}}$$

$$\text{Frr}_{2014} = \frac{7,704,493 \times 100}{64,660,935} = 11.92\%$$

$$\text{Frr}_{2015} = \frac{7,730,926 \times 100}{67,541,725} = 11.45\%$$

$$\text{Frr}_{2016} = \frac{16,577,153 \times 100}{72,500,220} = 22.86\%$$

The results in 2016 are good, showing the ability of equity to produce profit.

### **b) Profit rate (Pr)**

$$\text{Pr} = \frac{\text{Gross profit} \times 100}{\text{Turnover}}$$

$$\text{Pr}_{2014} = \frac{9,887,353 \times 100}{155,212,484} = 6.37\%$$

$$\text{Pr}_{2015} = \frac{9,785,072 \times 100}{167,883,750} = 5.83\%$$

$$Pr_{2016} = \frac{19,959,322 \times 100}{193,660,811} = 10.31\%$$

The result in 2016 is higher than the previous years.

### **c) Return on share capital (Rsc)**

$$Rsc = \frac{\text{Net profit} \times 100}{\text{Share capital}}$$

$$Rsc_{2014} = \frac{7,704,493 \times 100}{8,085,027} = 95.29\%$$

$$Rsc_{2015} = \frac{7,730,926 \times 100}{8,085,027} = 95.62\%$$

$$Rsc_{2016} = \frac{16,577,153 \times 100}{6,976,465} = 237.62\%$$

Return on share capital is much higher than in 2015 and 2014 and shows the ability of the share capital to produce profit.

### **d) Return on sales (Rs)**

$$Rs = \frac{\text{Net profit} \times 100}{\text{Turnover}}$$

$$Rs_{2014} = \frac{7,704,493 \times 100}{155,212,484} = 4.96\%$$

$$Rs_{2015} = \frac{7,730,926 \times 100}{167,883,750} = 4.60\%$$

$$Rs_{2016} = \frac{16,577,153 \times 100}{193,660,811} = 8.56\%$$

Sales increased in 2016 compared to 2015, the company recorded a good profit and so, the return on sales is good. In order to maintain its growth, costs should be optimized, the inventory turnover speed increased and prices maximized.

#### **e) Economic rate of return (Err)**

$$Err = \frac{\text{Operating profit} \times 100}{\text{Total assets}}$$

$$Err_{2014} = \frac{11,162,818 \times 100}{98,434,775} = 11.34\%$$

$$Err_{2015} = \frac{11,746,765 \times 100}{103,046,945} = 11.40\%$$

$$Err_{2016} = \frac{16,178,035 \times 100}{111,491,140} = 14.51\%$$

Economic rate of return expresses the company's ability to produce profit from the basic business activity and measures the effectiveness of the material and financial means allocated. This rate is influenced by the financial mechanism so that in 2016 € rate exchange developments influenced the current activity.

## **6. CORPORATE GOVERNANCE**

SC ELECTROARGES SA, in its capacity as issuer listed on BSE Main Market Category II - Shares, always has in mind the compliance with the corporate governance principles of the BSE Corporate Governance Code.

The company is considering developing a Corporate Governance Regulations to describe the

main aspects of corporate governance, which will be posted on the company website [www.electroarges.ro](http://www.electroarges.ro).

In the Corporate Governance Regulations shall be detailed the corporate governance structures, the Board of Directors and executive management's functions, powers and responsibilities, transparency, financial reporting, the corporate information system and the company's social responsibility for its activities.

SC ELECTROARGES SA respects the shareholders rights, providing them fair treatment.

For the General Meetings of Shareholders, on the company's website, were posted details of business meetings, Summons, materials related to the agenda, Special Power of Attorney and Absentee Ballot forms, the participatory and voting procedures that ensure efficient meeting sessions and entitle any shareholder to freely express their opinion on the issues under discussion, the decisions adopted by the shareholders.

For the financial year 2016, information on the financial calendar, annual, half-yearly, quarterly and current reports were posted.

## **7. Annexes**

- a) Not the case.**
- b) Not the case.**
- c) Not the case.**
- d) Not the case.**
- e) Not the case.**

## **8. Signatures**

**CHAIRMAN OF THE BOARD OF DIRECTORS,  
STEFAN CONSTANTIN**