



CASA DE AUDIT "CORVINIA" S.R.L. FILIALA PITEȘTI
Municipiul Pitești, B-dul Republicii, nr. 141, județul Argeș
J3/943/22.07.2014; C.U.I.: 33409541
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INDEPENDENT AUDIT REPORT

To,

ELECTROARGEȘ S.A. CURTEA DE ARGEȘ GENERAL MEETING OF SHAREHOLDERS

AUDIT REPORT ON THE FINANCIAL STATEMENTS

Opinion

We audited ELECTROARGEȘ S.A. Curtea de Argeș Stand Alone Financial Statements including Statement of Financial Position on 31.12.2016, Statement of Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement for the year ending on the abovementioned date, and explanatory notes, including a summary of the significant accounting policies.

The company's economic results, respectively the financial position and performance may be summarized as follows:

Indicators	2015 (lei)	2016 (lei)	2016/2015 (%)
Total equity	67,541,725	72,500,220	107.34
Turnover	167,883,750	193,660,811	115.35
Liquid assets	5,314,229	15,533,792	292.30
Net result of the financial year(profit)	7,730,926	16,577,153	214.42

In our opinion, the accompanying financial statements present fairly in all significant respects the financial position of Electroargeș S.A. Curtea de Argeș on 31.12.2016, its financial performance and cash flows for the financial year ending at the abovementioned date, in accordance with the International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under these standards are described in detail in the section *Auditor's Responsibilities in an audit of Financial Statements* in our report. We are independent of ELECTROARGEȘ S.A., according to the Code of Ethics for Professional Accountants (IESBA Code) issued by the Council for International Ethics Standards for Accountants in conjunction with the ethical requirements



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relevant to the audit of financial statements from Romania and we met the other ethical responsibilities under these requirements and IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Going concern:

Based on management representations, the auditor has concluded that there is no significant uncertainty regarding events or conditions that may cast significant doubt on the entity's ability to continue its activity, in accordance with ISA 570 (Revised).

Key audit issues

Key audit issues are those issues that, in our professional reasoning, had the greatest importance to the audit of the financial statements of the current period. These issues were addressed in the context of the overall financial statement audit and forming our opinion on them and we do not provide a separate opinion on these issues.

ELECTROARGEȘ S.A. has prepared accounting policies that have the following structure: principles and accounting policies, property inventory, internal control. The auditor recommends updating the accounting policies in accordance with the provisions of Ordinance no. 2844/2016 of the Public Finances Minister for the approval of accounting regulations compliant with International Financial Reporting Standards.

In the Electroargeș S.A.'s management report there is a separate section on corporate governance. We recommend to consider the development of this section with information provided in section 18 paragraph (1) of Ordinance no. 2844/2016 of the Public Finances Minister.

Management's Responsibility for preparing the Financial Statements

ELECTROARGEȘ S.A. Curtea de Argeș management is responsible for the preparation and accurate presentation of the Financial Statements in accordance with the IFRS and the internal control that management considers it necessary to enable the preparation of financial statements that are free from significant misstatement, whether due to fraud or error.

In preparing financial statements, management is responsible for assessing the capacity of Electroargeș S.A. Curtea de Argeș to continue work, presenting, if any, aspects of business



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continuity and using accounting on a going concern basis unless management either intends to liquidate the company or close down operations or has no other realistic alternative beyond.

People in charge of Electroargeș S.A.'s administration are in charge of overseeing the entity's financial reporting process.

The Auditor's responsibility in an audit of financial statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from significant misstatement, whether due to fraud or error, as well as issuing an auditor's report which includes our opinion. Reasonable assurance is a high level of assurance, but it is not the guarantee that an audit conducted in accordance with ISA will always detect a significant misstatement, if any. Distortions can be caused either by fraud or error and are considered significant if it can be expected, reasonably, that they, individually or in aggregate, will influence the users' economic decisions, taken on the basis of these financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. Also:

- We identify and assess the significant misstatement risks for the financial statements, due either to fraud or error, and design and perform audit procedures in response to such risks and obtain sufficient appropriate audit evidence to provide a basis for our opinion. Non-detection risk for a significant misstatement due to fraud is higher than the non-detection risk for a significant misstatement due to error because fraud may involve collusion, forgery, deliberate omissions, misrepresentations and avoiding internal control.
- We understand the internal control relevant to the audit, in order to design audit procedures appropriate to the circumstances, but not for the purpose of expressing an opinion on the Electroargeș S.A.'s internal control effectiveness.
- We assess the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



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- We form a conclusion on the appropriateness of the management's use of accounts on a going concern basis and determine, based on the audit evidence obtained, whether a significant uncertainty exists regarding events or conditions that may cast significant doubt on the unit's capacity to continue its activity. If we conclude that there is significant uncertainty, we must make notes in the auditor's report on the presentations related to the financial statement or, if these presentations are inadequate, change our opinion. Our conclusions are based on the audit evidence obtained until the auditor's report. However, future events or conditions may cause the company to no longer operate under the going concern principle.
- We assess the presentation, structure and general content of the financial statements, including disclosures, and whether the financial statements reflect the basic transactions and events in a manner that achieve fair presentation. We communicate to those in charge of the company's management, among other things, the planned scope and timing of the audit and the main audit findings, including any significant deficiencies in internal control that we identified during the audit.
- We also provide the management with a statement that we complied with the ethical requirements relevant to independence and that we notified them about all relationships and other matters which one might assume, reasonably, that affect our independence and, where appropriate, the related precautions.
- Of the matters communicated with those in charge from the management, we determine which is the most important data in the audit of the financial statements for the current period and is therefore key audit issues. We describe these issues in the auditor's report, unless laws or regulations prohibit public disclosure or where, in extremely rare circumstances, we believe that it should not be communicated in our report as we reasonably foresee the public interest to exceed the negative consequences of this communication.

REPORT ON OTHER LEGAL AND REGULATORY PROVISIONS



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ELECTROARGEȘ S.A. takes into consideration the accounting applicable rules of Romania, respectively the Accounting Law no. 82/1991, as republished and further amended, the Ordinance no. 2844 / 2016 of the Public Finances Minister for approval of Accounting Regulations in accordance with International Financial Reporting Standards, Ordinance no. 881 / 2012 of the Public Finances Minister on the application of the International Financial Reporting Standards by companies whose securities are admitted to trading on a regulated market and Law no. 297/2004 on the capital market, as further amended and supplemented.

Our responsibility is to express an opinion on the correctness of the information contained in the financial statements, based on the statutory audit carried out. We performed our audit in accordance with the auditing standards adopted by the Chamber of Financial Auditors of Romania, which are consistent with the International Standards on Auditing.

Company's administrators are responsible for preparing and presenting the Management Report in accordance with the requirements of Ordinance no. 2844 / 2016 of the Public Finances Minister for approval of Accounting Regulations in accordance with International Financial Reporting Standards, with no significant inaccurate information.

Management Report is presented from page 1 to page 65 and is not part of the Stand Alone Financial Statements.

Our opinion on the Stand Alone Financial Statements does not cover the Management Report.

Regarding our Report on the Stand Alone Financial Statements, we have read the Management Report attached to the Stand Alone Financial Statements and inform you that:

- we have not identified in the Management Report any information that is not consistent in all significant respects with the disclosures in the attached Stand Alone Financial Statements;

- the Management Report includes, in all the significant respects, the information required by the Ordinance no. 2844 / 2016 of the Public Finances Minister for approval of Accounting Regulations in accordance with International Financial Reporting Standards;



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-based on our knowledge and understanding acquired during the audit of the Stand Alone Financial Statements for the financial year ending on 31.12.2016 regarding the company and its environment, we have not identified any information contained in the Management Report to be significantly inaccurate;

In accordance with the financial statements of this financial year, there are also presented in the Management Report the main risks and uncertainties facing the company.

The Management Report also provides information on: the company's likely development, the entity's use of the financial instruments, the entity's objectives and policies in terms of financial risk management and entity's exposure to market risk, credit risk, liquidity risk, flow treasury risk and bankruptcy risk.

STATUTARY AUDITOR,

SOCIETATEA CASA DE AUDIT CORVINIA S.R.L. PITEȘTI BRANCH, CAFR authorisation 1232/2014

FINANCIAL AUDITOR ȘENDRONI AUREL, CAFR authorisation 407/2001

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Tel : 0742018488

Date : 28.03.2017

Annexes

- I. Assets, liabilities and shareholders' equity balance on 31.12.2016;
- II. Profit and loss accounts on 31.12.2016;
- III. Statement of Changes in Equity on 31.12.2016;
- IV. Cash Flow Statement on 31.12.2016;
- V. Rules and accounting methods;
- VI. Additional information.



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ANNEX I

ASSETS, LIABILITIES AND EQUITY BALANCE ON 31.12.2016

Item no.	Item name	Balance		Dif 2016/2015	%
		31.12.2015	31.12.2016		
		Amounts (lei)	Amounts (lei)		
0	1	2	3	4	5
1.	ASSETS				
1.1.	Fixed assets:				
-	Intangible assets	317,929	364,606	46,977	114.68%
-	Tangible assets	26,448,627	24,749,148	-1,699,479	93.57%
-	Financial assets	16,268,295	18,354,184	2,085,889	112.82%
-	Total Fixed Assets	43,034,851	43,467,938	433,087	1.00%
1.2.	Current assets:				
-	Inventories	25,243,214	19,582,446	5,660,768	77.57%
-	Receivables	15,871,737	17,126,264	1,254,527	107.90%
-	Available cash	5,314,229	15,533,792	10,219,563	292.30%
-	Short-term investments	13,572,935	15,772,548	2,199,613	116.20%
-	Total Current Assets	60,002,115	68,015,050	8,012,935	113.35%
1.3.	Prepayments	9,979	8,152	-1,827	81.69%
-	Total ASSETS	103,046,945	111,491,140	8,444,195	108.19%

2.	LIABILITIES				
2.1.	Equity				
-	Share capital	8,085,027	6,976,465	-1,108,562	86.32%
-	Share premium	3,774,986	0	-3,774,986	0.00%
-	Other equity	5,849,655	5,849,655	0	100.00%
-	Revaluation reserves	1,781,471	1,769,778	-11,693	99.34%
-	Legal reserve	1,617,005	1,617,005	0	100.00%
-	Other reserves	25,967,754	25,831,074	-136,680	99.47%
-	Earnings related to equity		1,132,496	1,132,496	100.00%
-	Retained Earnings	12,734,901	12,746,594	11693	0.09%
-	Business Income	7,730,926	16,577,153	8,846,227	214.42%
-	Total Equity	67,541,725	72,500,220	4,958,495	107.34%
2.2.	Liabilities to be paid within a period of up to 1 year	25,991,598	29,313,158	3321560	112.80%
2.3.	Liabilities to be paid within a period exceeding 1 year	3,670,153	1,188,214	-2,481,939	32.37%
2.4.	Provisions for expenditure risks	106,409	3,710,324	3,603,915	3,486.85%
2.5.	investment subsidies	5,737,060	4,779,224	-957,836	83.30%
-	Total LIABILITIES	103,046,945	111,491,140	8,444,195	108.19%

ANNEX II

PROFIT AND LOSS ACCOUNT

on 31.12.2016

Item name	31.12.2015	31.12.2016	Dif +/-	%
	lei	lei	lei	2016/2015
Income from sale of finished products	166,773,426	191,640,500	24,467,074	114.91%
Income from sale of goods	1,165,466	2,061,654	896,188	176.89%
Trade discounts granted	-55,14	-41,343	-13,799	74.97%
TURNOVER	167,883,750	193,660,811	25,777,131	115.35%
Income related to the product stocks costs	1,203,267	1,659,197	455,930	137.89%
Income generated by assets	0	9,767	9,767	0.00%
Income from operating subsidies	8,921	51,815	42,894	580.82%
Other operating income and from subsidies	1,067,833	861,471	206,362	80.67%
Operating income – Total	170,163,771	196,243,061	19,703,111	115.45%
Raw material and consumables expenses	130,105,819	146,057,764	15,951,945	112.26%
Other material expenses	205,716	160,045	-45,671	77.79%
Other external expenses (on energy and water)	2,348,377	2,457,371	108,994	104.64%
Expenses on goods	1,121,275	1,958,569	837,294	174.67%
Trade discounts received		19	19	0.00%
Expenses on personnel	15,281,908	16,766,906	1,484,998	109.71%
Depreciation and provisions expenses	2,418,343	2,920,977	502,634	120.78%



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Other operating costs	6,414,945	6,139,662	-275,283	97.70%
Operating costs – Total	158,417,006	180,065,026	21,648,020	113.66%
I. OPERATING PROFIT	11,746,765	16,178,035	4,431,270	137.72%
Financial income	3,260,038	4,430,004	1,169,966	135.88%
Financial expenses	5,221,731	648,717	-4,573,014	12.42%
II. FINANCIAL RESULT	-1,961,693	3,781,287	5,742,980	292.75%
TOTAL INCOME	173,423,809	200,673,065	27,249,246	115.71%
TOTAL EXPENSES	163,638,737	180,713,743	14,379,532	110.43%
IV. GROSS BUSSINES PROFIT	9,785,072	19,959,322	10,174,250	203.97%
Tax on income	2,054,146	3,382,169		
V. NET BUSINESS PROFIT	7,730,926	16,577,153	8,846,227	214.42%



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ANNEX III

Statement of changes in Equity on 31.12.2016

- LEI -

	share capital	share premium	legal reserve	other capital reserves	rezerve din reevaluare	Earnings onequity instruments	retained earnings	total equity
on 01.01.2016	8,085,027	3,774,986	1,617,005	25,967,754	7,828,699	0	20,268,254	67,541,725
profit /(loss) period							16,577,153	16,577,153
other elementsof the comprehensive income	-	-	-				-7,730,926	-7,730,926
increases	778,931				11,693	1,132,496		1,923,120
reductions	1,887,493	3,774,986		136,680	11,693			5,810,852
total comprehensive income	-1,108,562	-3,774,986	-	-136,680	0	1,132,496	8,846,227	4,958,495
on 31.12.2016	6,976,465	0	1,617,005	25,831,074	7,828,699	1,132,496	29,114,481	72,500,220

ANNEX IV

CASH FLOW STATEMENT

The transition from the general accounting principles locally accepted to IFRS has no significant effect on the cash flow statement.

- LEI -

Item name	Cash flow 01.01.2016	Cash flow 31.12.2016
A	2	4
+/- Business income	7,730,926	16,577,153
+ Depreciation included in cost	2,418,343	2,920,977
- Changes in inventories (+/-)	2,964,706	(-)5,660,768
- Changes in receivables (+/-)	(-)654,282	(+)1,254,527
+ Changes in suppliers and client lenders (+/-)	2,498,515	(-)4,154,171
- Changes in other asset items (+/-)	(-)4,560,675	(+)1,931,183
+ Changes in other liability items	(-)8,372,855	(-)8,199,928
A = Cash flow from operating activities	6,525,180	9,619,089
+ Amounts from sale of assets and fixed assets	70,740	2,618
- Acquisitions of tangible assets	4,927,277	699,690
+ =B Cash flow from investment activities	(-)4,856,537	(-)697,072
+ Changes in loans (+/-) of which:	(-)3,049,965	(-)2,481,939



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* Short-term loans	(-)5,630,563	0
+ Paid dividends	3,316,466	3,779,485
+ = C Cash flow from financial activities	266,501	1,297,546
+Liquid assets at the beginning of 2013	3,379,085	5,314,229
+ Net cash flow (A+B+C)	1,935,144	10,219,563
= Liquid assets at the end of the period	5,314,229	15,533,792



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ANNEXV

Rules and accounting methods

1. General information

S.C. "ELECTROARGEȘ" S.A. Curtea de Argeș was established as a joint stock company following the reorganization and the concomitant division under Law 15/1990 and in accordance with the Government Ordinance no. 1224/22 from November 1990 of IPEE ELECTROARGES Curtea de Argeș into two separate companies: S.C. ELECTROARGES S.A – electrical consumer goods manufacturer and IPEE S.A. - passive electronic components manufacturer.

The company's registered office is in Romania, city - Curtea de Argeș, Argeș County. The company is registered in the Trade Register with no. J03/758/23.10.1991, having the Tax Number 156027, RO fiscal attribute.

S.C.ELECTROARGES S.A.'s object of activity:

- manufacturing electrical consumer goods;
- manufacturing electronic machinery and devices;
- executing industry-specific tools, devices, checkers.

Subscribed and fully paid capital on 30.12.2016 is **6,976,465 lei**, representing **69,764,650** shares with nominal value of 0.10 lei/share.

Conducerea societății :

a) Following the Decision no. 101 of the Ordinary General Meeting of Shareholders on 07.09.2016, Electroarges SA's Board of Directors has the following structure:

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



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5.	Mihalcea	Petru	68	Jurist	47	Member	0
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b) Executive Managers:

Item no.	Surname	Given Names	Position	Period as a member of the executive management
1.	Gavrila	Ion	General Director	Mandated Contract 19.01.2016-19.01.2020
2.	Albu	Valeria	Deputy General Director	15.06.15-indefinite
3.	Scarlăt	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

2. Basis of presentation

The company adopted the reporting in accordance with IFRS on 31.12.2012, taking into consideration the provisions of art. no. 1 of the Deputy Prime Minister Ordinance, Ordinance of the Public Finances Ministry no. 881/2012 on the application of International Financial Reporting Standards by companies whose securities are admitted to trading on a regulated market.

Accounts presented in annex I – IV are in lei, the national currency. The company has its accounting organized in accordance with the accounting principles and practices required by the legislation in force in Romania at the reporting date, respectively:

-Accounting Law no. 82/1991 as republished and amended;

-Ordinance no. 2844/2016 of the Public Finances Ministry on approving the Accounting Regulations compliant with International Financial Reporting Standards, applicable to trade companies whose securities are admitted to trading on a regulated market, as amended;



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- Ordinance no. 881/2012 of the Public Finances Ministry on the application of International Financial Reporting Standards by companies whose securities are admitted to trading on a regulated market, as amended.

3. Accounting principles

The accounting principles applied by the company are:

Going concern principle – the company operated normally carrying out activities provided by the company's Articles and Memorandum of Association, without going into liquidation or significant reduction in activity. At this time there is no element of uncertainty related to events that can lead to its inability to continue the activity.

Consistency principle – the evaluation methods are applied consistently from one financial year to another.

Prudence principle – the evaluation was made on a prudent basis, respectively: on the balance was entered only the profit made, were recorded only the secure income and liabilities incurred during the current financial year or a previous one.

Matching principle - income and expenses for the financial year are taken into account regardless of the date of receipt or payment of such income and expenses.

Principle of separate evaluation of components of asset and liability items – components of assets or liabilities are evaluated separately.

Opening balance principle - opening balance for each financial year corresponds to the closing balance of the previous financial year.

Principle of non-compensation - compensation is not made between items of assets or liabilities or between items of income and expenses.

Substance over form principle – entering the amounts in the balance sheet and profit and loss account is made taking into consideration the substance of the reported transaction or arrangement and not just their legal form.



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The accounting errors noticed will be corrected as follows:

- the provisions of IAS 8 shall be applied on recording operations related to correcting accounting errors;
- correcting the errors related to the previous financial years does not cause the publication of revised annual financial statements for such financial years;
- recording the cancellation of an accounting transaction related to the current financial year is carried out either by correcting with the minus sign the initial operation (cancellation in red) or by its reverse registering (cancellation in black), depending on the accounting policy and the software used.

It shall be mentioned that for errors related to previous financial years, the financial accounting management informs the Board of Directors on the nature of the error, value, causes etc.

Composition and periods of preparation of financial reports

Company prepares annual, quarterly and half-yearly financial reports.
They are prepared in accordance with national regulations and contain:

- » assets, liabilities and shareholders' equity balance;
- » profit and loss account;
- » informative data;
- » statement of assets and their amortization/depreciation;
- » equity records;
- » liquid assets flow statement;
- » explanatory notes to the annual financial statements.

The financial statements are prepared by applying the accrual accounting and use of historical cost, amortized or revalued cost, except the following assets and liabilities estimated at fair value:

- assets and financial liabilities;
- derivatives;
- instruments held for sale.



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Recognition of items in the financial reports is subject to the following criteria:

- it is likely that any future economic benefit related to the item to enter or leave the company;
- the item cost or value can be measured reliably;
- an asset is recognized as such in the balance when it is probable that it will bring a future economic benefit to the company and the asset has a cost that can be measured reliably;
- a liability is recognized as such in the balance when it is probable that an outflow of resources will result from the settlement of a present obligation and the value that this settlement will be achieved at can be measured reliably;
- income is recognized as such in the profit and loss account when there was an increase in economic benefits related to the increase of an asset or decrease of a liability, and these can be measured reliably;
- expenses are recognized as such in the profit and loss account when there has been a reduction in future economic benefits related to an asset decrease or liability increase, and this reduction can be measured reliably.

Regarding the compensation, it was indicated that the principle of non-compensation of assets and liabilities is applied, yet a financial asset and financial liability may be compensated, and the net amount is presented in the financial statements when: currently there is a legally enforceable right to compensate the recognized amounts, it is intended either to settle on a net basis, or to realize the asset and settle the obligation simultaneously under a legal procedure of compensation.

4. Significant accounting policies

We present some aspects of the accounting policies used by the company, such as:

Intangible assets

Initial evaluation : The company has chosen to be evaluated at acquisition cost according to IAS 38 "Intangible Assets".

Evaluation after initial recognition : The company has chosen the cost model as its accounting policy for evaluating the intangible assets after initial recognition. The company has chosen to use the straight-line method of amortization for the intangible assets amortization.



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Tangible assets (IAS 16)

An item of tangible assets that qualifies for recognition as an asset is measured at its cost.

Tangible assets are initially measured at acquisition cost (for those purchased for consideration), at input value (for those received as contribution in kind to the establishment / increase of capital), and at fair value at the acquisition date (for those received for free).

For subsequent recognition, the company has adopted the revaluation model.

The value of the revalued asset being its fair value at the date of the revaluation less any subsequent accumulated depreciation and any accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ significantly from that which would be determined using the fair value at the balance sheet date. Revaluations are performed by independent appraisers ANEVAR certified. Revalued amount (extra) substitutes the acquisition cost. Additional differences in accounting revaluation is reflected in other comprehensive income and accumulated in equity under the heading of revaluation surplus (unless the increase compensates a previous revaluation decrease of the same asset previously recognized in profit or loss, in which case the increase is recognized directly in profit or loss).

Negative differences are recognized in profit or loss (unless the decrease compensates a previous revaluation increase accumulated in equity as revaluation surplus, in which case the reduction is recognized in other comprehensive income, reducing the revaluation surplus). The revaluation surplus included in equity related to an item of tangible assets is transferred directly to retained earnings when the asset is recognized. This involves transferring the whole of the surplus when the asset is retired or disposed of. Transfers from revaluation surplus to retained earnings are not made through profit or loss.

If a tangible asset item is revalued, then the entire class of tangible assets of which it belongs should be revalued.



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

Depreciation

The depreciation costs for each period are recognized in profit or loss unless they are included in the carrying amount of another asset. Depreciation is calculated at book value (acquisition cost or revalued amount) using the straight-line method, over the estimated useful life of assets and it is included monthly in the company's expenses. Depreciation of an asset begins when it is available for use, ie when it is in the location and condition necessary for it to operate in the manner intended by management.

Company's depreciation policy

In accordance with IAS 36, both intangible and tangible assets are investigated to identify any indications of impairment at the date of balance. For intangible assets with indefinite useful live, impairment tests are performed annually, even if there is no indication of impairment. If the carrying amount of an asset is greater than its recoverable amount, an impairment loss is recognized to reduce the net carrying amount of the asset to its recoverable amount. If the reasons for recognizing an impairment loss disappear in the next periods, the net carrying amount of the asset is increased to the net carrying amount that would have been determined had no impairment loss had been recognized. The difference is shown as other operating income.

Financial assets(IAS 39)

According to acceptable ccounting regulations, financial assets are initially recognized at acquisition cost. In accordance with IAS 39, "Financial Instruments", SC Electroargeș SA classifies the financial instruments held in financial assets, as follows:



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- shares in associates – securities at cost;
- financial instruments-shares purchased on the stock market from issuers through Bucharest Stock Exchange at fair value - market value.

The evaluation technique used was the market-based approach, level 1.

Investments in associates (IAS 28)

An "associate" means an entity in which another entity has a participating interest and whose operating and financial policies are subject to **significant influences** exercised by the other entity. It is considered that an entity has significant influence over another entity where it has at least 20% of the voting rights of such entity's shareholders or associates. As a result, the existence of an associate implies the cumulative fulfillment of two conditions, namely holding a participating interest in the other entity and exercising significant influence over the operating and financial policies of such associate.

Investments in associates are accounted for in the consolidated statements by the equity method, where there is no control and they are initially recognized at cost, and where it has control they are accounted for item by item and the mutual transactions are removed.

The Company has no subsidiaries and has not issued bonds or other debt securities, but prepares consolidated financial statements, reaching the minimum limit of the consolidation threshold with the following companies: Mercur S.A., Elars S.A., Concifor S.A. and Amplo S.A.

Interests on loans

Interests on loans which are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized until the asset is ready for its intended use or sale. All other costs related to loans are recognized as expenses in the profit and loss account for the period in which they arise.



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Inventories (IAS 2)

In accordance with IAS 2 Inventories, these are assets that are:

- held for resale in the ordinary course of business
- in the course of production for such sale or
- in the form of materials and other consumables that will be used in the production

process or for services

Inventories are stated at the lowest value between the cost and the net realizable value. Net realizable value is estimated based on the selling price related to the normal activity minus the estimated costs for completion and sale. For obsolete or slow moving inventories, adjustments are made based on management estimates.

Setting and resuming the impairment cost adjustments is done on the profit and loss account.

On the inventory outflow, the following evaluation methods are allowed: FIFO (first in - first out), CMP (weighted average cost) and LIFO (last in - first out), while IAS 2 "Inventories" allows only the methods FIFO and CMP. On transition to IFRS, the company used the FIFO evaluation method (method recognized by IAS 2) as an evaluation method on inventory outflow, the company choosing only for the adjustment of the impaired inventories recognized under the accounting provisions previously applicable, this being less than the adjustment at the net realizable value, required to apply the IFRS.

Receivables and other similar assets (IAS 39)

With the exception of the derivative financial instruments which are recognized at fair value and the items denominated in a foreign currency, which are translated at the closing exchange rate, receivables and other similar assets are carried at amortized cost. This amount may be considered as a reasonable estimate of the fair value, given that in most cases the due date is less than one year. Long-term receivables are discounted using the effective interest method.



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In order to present the annual financial statements, receivables are measured at the likely amount to be collected.

When it is estimated that a receivable will not be fully collected, in accounting are recorded adjustments for depreciation, in the amount not to be retrieved.

Deregistration of receivables occurs as a result of their cashing or by release to a third party. Current receivables can also be deducted from records by mutual offsetting of the receivables and liabilities between third parties, under the law.

Deregistration of receivable whose cashing terms are prescribed is done after the company obtains documents showing that all the legal steps for their recovery have been taken. Receivables written off the records are registered in the order and track account off the balance sheet and are followed up further.

Cash and cash equivalents

For preparing the Cash Flow Statement, cash is considered the existing cash at the cash desk and in the current bank accounts. Cash equivalents represent deposits and highly liquid investments with high liquidity, with due dates of less than three months.

Financial and other liabilities (IAS 39)

- **liabilities**—recorded at nominal value. For the foreign currency liabilities, the exchange rate of the date of transaction is applied and the conversion at the BNR exchange rate of the last day of the month was made at the end of every month

- **wage costs** - the company contributes to public health, pension, unemployment, hedge, and occupational diseases funds, calculated to the gross salary fund received and they are recorded as expenses in the period covered.

- **borrowing costs** - all loans related interest costs are expensed when they occur. The company classifies short or long term loans in accordance with the credit agreements.



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Tax on profit including deferred tax

Tax on profit for the financial period includes current tax and deferred tax.

Tax on profit is recognized in the statement of comprehensive income or in other comprehensive income items if the tax relates to items recognized in equity.

Tax on current profit

Current payable tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that will never become taxable or deductible. Company's liability related to the tax on current profit is calculated using tax rates that have been required by law or a bill at the end of the year. Currently, the tax rate is 16%.

Deferred tax

Deferred tax is established using the balance method for temporary differences of assets and liabilities (differences between the carrying amounts presented in the company's balance sheet and their tax basis). Tax loss carried forward is included in the calculation of the deferred tax asset. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits shall be obtained, after offsetting the tax loss of previous years and the income tax recoveries.

Deferred tax assets and liabilities are offset when this right exists and when they are related to the income taxes levied by the same taxation authority. If the probability to realize deferred income tax asset is greater than 50%, then the claim is considered. Otherwise a value adjustment is recorded for deferred tax asset.

Revenue recognition

Revenue is measured under IAS 18 "Revenue" at the fair value of the consideration received or receivable. Revenue is reduced in accordance with the estimated value of customer returns, rebates and other similar items.



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Sell of goods

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

- The company has transferred to the buyers the significant risks and rewards arising from the ownership of the goods;
- The company no longer manages the goods sold at levels that would have done it as their owners and also no longer has effective control over them;
- the amount of the revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company; and
- transaction costs can be measured reliably.

Income from current activities is recognized when there is likely that the company will receive future economic benefits and when these benefits can be measured reliably.

The amount of revenue arising from a transaction is usually determined by an agreement between the entity and the buyer or user of the asset. Revenue is measured at the fair value of the consideration received or receivable, taking into account the amount of any trade discounts and volume rebates granted.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, the revenue associated with the transaction must be recognized depending on the completion stage of the transaction on the closing date of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are met:

- amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the completion stage of the transaction at the date of balance can be measured reliably;



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- costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

In recognition of revenue based on the completion stage of the transaction the company uses the "percentage of completion method". Under this method, revenue is recognized in the accounting periods in which the services are provided. Recognition of revenue on this basis provides useful information on the extent of performance activity and the performance during a period.

Revenue is recognized only when it is probable that the economic benefits associated with the transaction will flow to the entity.

When an uncertainty arises about the collectability of an amount already included in revenue, the amount which cannot be collected or the amount whose recovery has ceased to be probable is recognized more as an expense, rather than as an adjustment of the amount of revenue originally recognized.

When the outcome of a transaction involving the rendering of services cannot be estimated reliably, revenue should be recognized only to the extent of the expenses recognized which are recoverable.

Rental income is recognized in the linear profit and loss account, over the lease agreement period.

Dividends and interests

Dividend income is recognized when it is established the shareholder's right to receive payment. Dividend income is recorded at gross value, including tax on dividends, which is recognized as a current expense in the period in which the distribution was approved.



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Income of interest is recognized on an accrual basis, by reference to the principal outstanding and the effective interest rate, the rate that exactly discounts the estimated future cash receivable.

Provisions

Provisions are made for the current obligations to third parties, where it is probable that the obligations will be settled and the amount necessary to settle the obligations can be estimated reliably. Provisions for individual obligations are settled at a value equal to the best estimate of the amount required to settle the obligation.

When, based on the analysis made by the management together with lawyers on the company's chances to lose the case, the company concludes that the estimated chances to lose are higher than 51%, then a provision is made at the reliable estimated value.

Provisions for guarantees to customers are established according to estimates made by management and sales, technical and quality department on the costs of repairs within warranty. The level of expenditure with repairs during the warranty period is determined as a percentage of the turnover of the reporting year.

Provisions for employee benefits

For holidays not taken and other long-term benefits offered to employees (if they are stipulated in the employment contract) and those granted upon termination of employment, provisions are recorded during the financial year. When they are recognized as liabilities towards employees, the value of the provisions shall be reversed through the proper revenue accounts.

Other provisions

In case liabilities are identified with uncertain timing or amount, which qualify for recognition under IAS 37 but they are not found in any of the categories identified above, they are recorded as other provisions.



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At the end of each reporting period, the provision is revised and adjusted to reflect the current best estimate. When, following the review, it is found that there is likely to be needed an outflow of resources embodying economic benefits to settle the obligation, the provision must be annulled.

The company does not recognize a provision for losses on operating assets. Forecasting operating losses indicate that certain operating assets may be impaired and in this case these assets are tested in accordance with IAS 36 Impairment of Assets.

Employee benefits

Short-term benefits

Obligations with short-term benefits granted to employees are not updated and are recognized in the comprehensive income statement as the related service is provided.

Short-term benefits granted to employees include salaries, bonuses and social insurance contributions. Short-term benefits are recognized as expenses when the services are rendered.

The company makes payments on behalf of their employees to the Romanian state pensions system, health insurance and unemployment fund, in the normal course of business.

All company employees are members and have the obligation to contribute to the Romanian state pension scheme. All related contributions are recognized in the profit and loss account for the period when incurred.

The company does not operate any independent pension scheme and therefore does not have any obligations in this regard. The company does not adhere to any other post-employment benefit system. The company has no obligation to provide further services to current or former employees.

There is currently no plan that requires the company to provide benefits in the form of the entity's own shares (or other equity instruments).



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Other benefits

The company grants severance payments on retirement and considering that they bring no future economic benefits, they are recorded at the date of granting, respectively the last month in which the person appears as an employee before retirement.

Bussines income

In accounting, the profit or loss is cumulatively determined from the beginning of the financial year.

Business income is determined as the difference between income and expenditure.

The final business income of the financial year is set at its closing and represents the final balance of the profit and loss account.

Profit distribution is carried out in accordance with the legal provisions in force.

Recording in accounting the destinations of the accounting profit is made after the general meeting of shareholders approved the distribution of profit, by recording the amounts representing dividends due to shareholders, reserves and other destinations, according to the law.

Earnings per share

IAS 33 "Earnings per share" requires that if an entity presents consolidated financial statements as well as separate financial statements, the presentation of Earnings per share is based only on consolidated information. If it chooses to present Earnings per share based on its separate financial statement, it must present such earnings per share information only on the statement of comprehensive income. In this case it does not have to present Earnings per share in the consolidated financial statements.

The company has chosen to present Earnings per share in these stand alone financial statements.



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The company presents the basic earnings per share ("CPA") for its ordinary shares. Basic CPA is calculated by dividing the profit or loss attributable to the company's holders of ordinary shares to the weighted average number of ordinary shares outstanding during the period. The weighted average number of outstanding ordinary shares during the period = the number of outstanding shares at the beginning of period adjusted with the number of shares repurchased or issued during the period multiplied by a time-weighting factor.

The time-weighting factor is the number of days the shares have been in circulation, as a proportion of the total number of days in the period.

Earnings per share indicators – are determined in accordance with IAS 33 and are considering the **net profit** attributed to the share.

Earnings per share = net income / share capital

The average trading price of the company's shares on the BSE in 2016 was 1.0185 lei / share.

ANNEXA VI

ADDITIONAL INFORMATION

EXPLANATORY NOTES TO THE ANNUAL ACCOUNTS

6.1 Fixed assets

On 31.12.2016, the value of net assets increased by 433,087 lei, respectively by 1% compared to the beginning of the year, reaching the end of the reporting period to the amount of 43,467,938 lei, compared to 43,034,851 lei in the previous year.



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Compared to the previous year, tangible assets have decreased slightly due to the amortization of activity-specific equipment purchased. Intangible assets recorded an increase compared to the previous years through the acquisition of new software, and the increase in financial assets represents the acquisition of capital market shares as well as the cancellation of impairment adjustments made in the previous years.

Compared to the beginning of the year, the statement is as follows:

Fixxed assets:	01.01.2016	31.12.2016	Dif +/-	%
Intangible assets	317,929	364,606	46,677	114.68%
Tangible assets	26,448,627	24,749,148	-1,699,479	93.57%
Financial assets	16,268,295	18,354,184	2,085,889	112.82%
Total fixed assets	43,034,851	43,467,938	433,087	101%

The amounts shown in the above table are expressed in lei (RON).

Situation of fixed assets on 31.12.2016 in gross amounts is as follows:

Situation of fixed assets	ROW NO.	INITIAL BALANCE	INCREASES (2)	DECREASES (3)	OF WHICH: DISMANTLING AND SCRAPPING (4)	FINAL BALANCE (5)=1+2-3
Intangible assets	1	0	0	0	0	0
Other intangible assets	2	394,462	53,019	0	0	447,481
Advances for intangible assets	3	21,648	0	0	0	21,648
Total (row 1 to 3)	4	416,110	53,019	0	0	469,129
Tangible assets	5	2,304,541	0	0	0	2,304,541
Lands						
Buildings	6	12,106,518	699,690	3,700	3,700	12,802,508
Plant and machinery	7	27,828,436	0	251,840	251,840	27,576,596
Other plant, equipment and furniture	8	907,869	0	0	0	907,869
Advances and tangible assets in progress	9	840,607	1,216,505	699,690	0	1,357,422
TOTAL (row. 5 to 9)	10	43,987,971	1,916,195	955,230	255,540	44,948,936
Financial assets	11	17,974,184	397,497	0	0	18,371,681
TOTAL FIXED ASSETS (row 4+10+11)	12	62,378,265	2,366,711	955,230	255,540	63,789,746

Situation of the fixed assets amortization on 31.12.2016 is as follows:

Situation of the fixed assets amortization fixed asset items	ROW NO.	INITIAL BALANCE (1)	AMORTIZATION DURING THE YEAR (2)	AMORTIZATION OF THE ASSETS REMOVED FROM RECORDS (3)	AMORTIZATION AT THE END OF THE YEAR (4)=1+2-3
Intangible assets	1	0	0	0	0
Other intangible assets	2	98,181	6,342	0	104,523
TOTAL (row 1 to 2)	3	98,181	6,342	0	104,523
Tangible assets	4	0	0	0	0
Land					
Buildings	5	5,152,911	353,170	2,760	5,503,321
Plant and machinery	6	12,113,512	2,549,110	251,430	14,411,192
Other plant, equipment and furniture	7	835,001	12,354	0	847,355
TOTAL (row. 4 to 7)	8	18,101,424	2,914,636	254,190	20,761,868
TOTAL AMORTIZATION (row 3+8)	9	18,199,605	2,920,976	254,190	20,866,391

During 01.01.2016 - 31.12.2016 there has been an increase in **net intangible assets** in the amount of 46,677 lei, respectively by 14.68%.

Compared to the previous year, **tangible assets** decreased slightly, respectively by 6.43%. In net values there was a decrease by 1,699,479 lei, reaching the end of the reporting period to 24,749,148 lei as a result of recording the depreciation cost.

In 2016 the existing buildings were further modernized, of which completed in the amount of 699,690 lei and in progress in the amount of 1,216,505 lei.

In 2016, the company disposed of fixed assets amounting to 255,540 lei, of which fully amortized in the amount of 254,190 lei and 1,350 lei fully depreciated.

The last revaluation for tangible assets (buildings) was made on 31.12.2012. Electroarges S.A.'s Board of Directors will assess the situation of the tangible assets in these categories and decide on their revaluation in 2017.

On 31.12.2016 the company presents financial assets amounting to 18,354,184 lei, compared to 16,268,295 lei in the previous year, registering an increase of 2,085,889 lei (12.82%). The increase compared to the previous year was due to revaluations at the end of 2016 of the stock market shares and value adjustments cancellation of shares in associates.

Shares in associates are worth 18,354,184 lei. The situation of financial assets held in associates is as follows:

Issuer	No. of shares	Issuer's percentage of share capital	Not assessed value	Assessed value	Previous years adjustment
Concifer Buzau	3,206,788	67.0217	1,146,810.5	1,146,810.5	-826,132.72
ElarsRm.Sarat	20,555,276	88.1611	2,055,527.60	2,055,527.60	-613,926.87
MercurFagaras	111,671	98.412	4,746,017.5	4,746,017.5	0
Amplo Ploiesti	2,668,396	84.4119	10,405,828.14	10,405,828.14	-265,828.99
Total	-	-	18,354,183.74	18,354,183.74	-1,705,888.58

6.2 Inventories

On 31.12.2016, company's inventories had a total net value of 19,582,446 lei, compared to 25,243,214 lei at the end of the previous year.

Structurally, compared to the beginning of the year, their situation is as follows:

Inventory item	31.12.2015	31.12.2016	DIF	%
1	2	3	4 = 3 - 2	5 = 3/2

-raw material and consumables	20,180,796	14,936,010	- 5,244,786	74.01
-production in progress	516,930	349,307	- 167,623	67.18
-finished goods and merchandise	2,668,037	2,680,675	12,728	100.47
Inventories advances	1,877,451	1,616,364	- 261,087	86.09
Total	25,243,214	19,582,446	- 5,670,768	77.57

The amounts presented in the above table are expressed in lei.

Inventories of raw material and materials are entered with the acquisition cost. The decrease in inventories on 31.12.2016 to lei compared to the beginning of the year, respectively by 22.43 %, was mainly influenced by the 5,244,786 lei decrease in raw material and materials, respectively by 25.99%, but other inventory items also recorded decreases, except the inventory of finished goods and merchandise which increased, as shown in the above table.

At the level of total inventories, the share of raw materials and materials is 76.27% compared to 79.94% at the end of the previous year, the production in progress is 1.78% compared to 2.05%, finished products and merchandise is 13.68% compared to 10.57% at the end of the previous year and advances for purchases of inventories is 8.25% compared to 7.44%.

On 31.12.2016, inventory structure on each inventory item compared to the the previous year is as follows:

Inventory item	31.12.2015		31.12.2016		dif +/-	%
	amounts	share %	amounts	share %		
Raw materials	18,827,164	74.58	13,392,638	68.39	-5,434,526	71.13
Auxiliary materials	306,745	1.22	284,422	1.45	-22,323	92.72
Fuel	40	0,00	0	-	-40	-

Materials to be supplied	316,881	1.26	226,254	1.15	-90,627	71.40
Spare parts	400,476	1.59	845,829	4.31	445,352	211.20
Semi-products	22,334	0.09	87,550	0.04	65,216	392.00
Other consumables	374	0.00	410	0.00	36	109.62
Inventory objects	32,053	0.13	23,810	0.12	-8,243	74.28
Difference in the price of raw material and materials	-12,131	0.05	-29	0.00	-	-
Production in progress	494,596	1.96	261,757	1.33	-232,839	52.92
Finished products	2,510,596	9.95	2,586,212	13.20	75,616	103.01
Packings	7,354	0.03	2,631	0.01	-4,723	35.77
Residual products	11,535	0.05	753	0.00	-10,781	6.52
Finished goods price differences	-181,032	-0.07	-232,808	-1.18	-51,776	-128.60
Merchandise	75,484	0.30	75,484	0.39	0	100.00
VAT under settlement	-6,127	0.02	14,436	0.07	20,563	365.61
Merchandise to be supplied	92,234	0.37	92,234	0.39	0	100.00
Finished products provisions	-19,132	0.08	-18,969	-0.10	163	100.85
Inventory object	256	0.00	0	-	-256	0,00

materials to be supplied						
Spare parts to be supplied	1,265	0.01	0	-	-1,265	-
Materials at third parties	300,319	1.19	159,987	0.81	-140,332	53.27
Merchandise at third parties	181,707	0.72	177,070	0.90	-4,637	97.44
Products at third parties	2,771	0.01	789	0.00	-1,982	28.47
Inventory advances	1,877,451	7.44	1,616,364	8.48	-261,087	86.09
TOTAL	25,243,214	100	19,582,446			

The amounts presented in the above table are expressed in lei.

Analyzing the inventory structure, there is a 28.87% decrease in raw materials compared to the previous year, they have the greatest share in the total inventories, 68.39% respectively. The number of storage days calculated as the ratio of inventory and turnover * 365 days is 37 days, compared to 55 days in the previous year, and the number of inventory rotations is 9.88 times, compared to 6.65 times in the previous year. The company has not set aside provisions for inventories during the reporting period.

6.3 Accounts receivable

On 31.12.2016 net receivables amounted to 17,126,264 lei, compared to 15,871,737 in the beginning of the year, increasing by 1,254,527 lei (7.90 %).

Structurally, compared to the end of the previous year, their situation is as follows:

	31.12.2016	31.12.2015	DIFF	%
a) trade receivables	6,673,792	5,103,907	1,569,885	130.76

-receivable customers	6,651,588	5,094,717	1,556,871	130.56
-doubtful customers	102,032	102,032	0	100.00
-customers invoices to be issued	3,961	8,444	(-)4,483	*
- provisions for receivables	(-)101,286	(-)101,286	0	100.00
- other receivables	17,497	0	17,497	*
b) advances paid	5,928	0	5,928	*
c) other receivables	10,446,544	10,767,830	(-)321,286	97.02
- VAT refunded	2,963,276	3,628,608	(-)665,332	81.66
- employees receivables	0	247,183	(-)247,183	*
- employees contributions to social security	38,170	76,760	(-)38,590	49.73
VAT under settlement	141,923	139,873	2,050	101.47
- debtors	3,217,607	4,329,349	(-)1,111,742	74.32
- investment subsidies	10,879	2,346,057	(-)2,335,178	0.46
- settlement from ongoing operations	4,074,689	0	4,074,689	*
- provisions for debtors	(145,000)	0	145,000	*
Total receivables	17,126,264	15,871,737	1,254,527	107.90

The amounts presented in the above table are expressed in lei.

On 31.12.2016 customer disputes are provisioned in the amount of 101,286 lei.

Receivable customers situation is as follows:



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- customers products worth 1,350,246 lei of which older than 365 days amounting to 814,400 lei

- customers materials worth 732,333 lei of which older than 365 days amounting to 718,179 lei;

- external clients worth 4,569,010 lei of which older than 365 days amounting to 38,055 lei;

Regarding the VAT in the amount of 2,963,276 lei to be refunded from the state budget, the company recorded monthly negative VAT balance reimbursement claims, respectively compensation claims with monthly tax liabilities. VAT to be refunded comes from October, November and December 2016.

Over 95% of turnover comes from production collaboration with KÄRCHER. Any failure in implementing the contract with this company could be immediately and severely felt. The alternative to this dependence is production development and marketing to other customers as well, in order to reach 50% of turnover.

6.4 Cash and cash equivalents

Compared to the beginning of the year, cash and cash equivalents have increased by 10,219,563 lei (292.30%). The increase comes primarily from foreign currency holdings by the recovery of the foreign currency receivables. Foreign currency holdings are evaluated at the exchange rate available on December 31, 2016. Compared to the previous year, on 31.12.2015, cash and cash equivalents in lei and foreign currency are as follows:

Bank accounts for	60,236	68,561	8,325	113.82
collaterals				
Items	31.12.2015	31.12.2016	Difference	%
Cash account	19,502	25,304	5,802	129.75
Bank accounts in lei	1,901,943	5,816,597	3,914,654	305.82
TOTAL	5,314,229	15,533,792	531,559	292.30
Bank accounts in	3,303,115	9,615,317	6,312,202	291.09
foreign currency				
Cheques to be cashed	29,433	8,013	-21,420	27.22



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The amounts presented in the above table are expressed in lei

6.5 Short-term investments

On 31.12.2016, the company's short-term investments are in the amount of 15,772,548 lei, compared to 13,572,935 lei at the end of the previous year, of which receivable effects in the amount of 27,405 lei, compared to 17,120 lei at the end of the previous year, and other short-term investments and related receivables in the amount of 15,745,143 lei, compared to 13,555,815 in the previous year.

We mention that at the end of 2016 the company has evaluated these shares at quotation cost, registering positive and negative differences through profit and loss account.

On 31.12.2016, the situation of the short-term investments on the capital market is as follows :

<u>Item no.</u>	<u>Issuer</u>	<u>No. of shares</u>	<u>Issuer's percentage of share capital</u>	<u>Not measured value</u>	<u>Measured value</u>	<u>Difference</u>
1	Amonil Slobozia	32,260,200	2.8994	129,040.80	129,040.80	0
2	Artego Targu Jiu	287,828	2.8929	1,629,106.48	1,606,080.24	-23,024.24
3	Banca Transilvania	20,181		20,181.00	47,828.97	27,647.97
4	Braiconf Braila	7,904,221	17.6373	4,457,980.65	5,611,996.91	1,154,016.26
5	Carbochim Cluj	49,000	0.9939	259,700.00	363,580.00	103,880.00
6	Ceprocim Bucuresti	4,000	0.2769	12,000.00	8,640.00	-3,360.00

7	Conted Botosani	2,108	0.8794	120,156.00	100,973.20	-19,182.80
8	Iprolam Bucuresti	57,341	5.6538	372,716.50	315,375.50	-57,341.00
9	Lactate Natura	394,000	15.9527	1,213,600.00	1,292,320.00	78,720.00
10	Mecanoenergetica	4,640,888	28.8479	464,088.80	464,088.80	0
11	Metalul Mesa Salonta	845,877	16.4543	76,128.93	84,587.70	8,458.77
12	Metalul Mesa Salonta	11,500	0.2237	1,150.00	1,150.00	0
13	Romanofir Talmaciu	74,847	14.6704	853,255.80	853,255.80	0
14	S.I.F. Transilv.	40,000	0.0001	10,940.00	10,220.00	-720.00
15	Sigstrat Sighetu Marmatiei	891,839	3.8357	258,633.31	151,612.63	-107,020.68
16	Sigstrat Sighetu Marmatiei	891,839	3.8357	89,183.90	151,612.63	62,428.73
17	Tarnava Sgh.	214,163	3.9888	10,708.15	10,705.15	0
18	Uztel Ploiesti	137,424	2.5613	329,817.60	371,044.80	41,227.20
	Total			10,308,387.92	11,574,116.13	1,265,728.21

For short-term investments in the amount 11,574,116.13 on 31.12.2016 fair value measurement - market value was made, according to the Portfolio file and the positive results were shown in the financial income accounts and the negative differences in expense accounts, the net difference of revaluation being (+) 1,265,728.21 lei.

Shares suspended from trading which were revalued and impairment loss adjustments were recorded in the amount of 186,515.73 lei.

<u>Issuer</u>	<u>No. of shares</u>	<u>Issuer's percentage of share capital</u>	<u>Not measured value</u>	<u>Measured value</u>	<u>Difference</u>
Carbochim Cluj	562,133	11.4019	4,357,542.59	4,171,026.86	-186,515.73

6.6 Risk and expense provisions

On 31.12.2016, the provision account balance is 3,975,579 lei, compared to 106,409 lei in the previous year.

The centralized situation of total provisions and adjustments is as follows:

Provision title	Balance on 01.01.2016	Transfers		Balance on 31.12.2016
		Into account	Out of account	
Provisions for guarantees to customers - TG	0	52,898	52,898	0
Provisions for impairment losses on receivables-customers	101,286	0	0	101,286
Provisions for impairment losses on receivables-debtors	145,000	0	0	145,000
Provisions for risks and expenses (salary rights)	106,409	55,717	106,409	55,717
Provisions for impairment of inventories - materials	0	0	0	0
Provisions for impairment of inventories – finished goods	19,132	0	163	18,969
Provisions for disputes	0	3,654,607	0	3,654,607
Value adjustments for securities assets	1,705,889	0	1,705,889	0
Adjustments for short-term investments impairment	0	186,516	0	186,516



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TOTAL PROVISIONS				
	2,077,716	3,949,738	1,865,359	4,162,095

Electroargeș S.A. has provisions for impairment of assets, respectively doubtful customers and debtor disputes. Provisions were made during 2016 for risks and expenses (salary rights), amounting to 55,717 lei and provisions in the amount of 106,409 lei for annual leave not taken were cancelled. Also in 2016 provisions were cancelled for impairment of inventories - finished goods, amounting to 163 lei, leaving a balance of 18,969 lei.

On 31.12.2016 it was established a provision for litigation in the amount of 3,654,607 lei due to the execution of the amount from Electroargeș S.A.'s available accounts, on case no. 10808/211/2013 pending at Cluj Court of Appeal where the company is part of the civil dispute and responds in solidarity with other natural and legal persons. The appeal is pending at the Cluj Court of Appeal.

6.7.Accounts payable

Compared to the same period of the last year, on 31.12.2016 the company recorded an increase in total liabilities of 839,621 lei, respectively 2.83 %, reaching the end of the reporting period to the amount of 30,501,372 lei, compared to 29,661,751 lei at the end of the previous year. The increase of liabilities at the end of the reporting period was influenced by the increase of trade liabilities which have a significant share in total liabilities.

Compared to the end of the previous year, their situation is as follows :

	2016	2015	Difference (+/-)	2016/2015
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				%
TOTAL of which :	30,501,372	29,661,751	839,621	102.83
TRADE PAYABLES	16,376,661	20,421,222	(-)4,044,561	80.19
AMOUNTS DUE TO THE BUDGET AND OTHER FUNDS	2,915,931	2,538,851	377,080	114.85
FINANCIAL LIABILITIES AND SIMILAR (CREDITS)	1,188,214	3,670,153	(-)2,481,939	32.38
SETTLEMENTS WITH EMPLOYEES AND SIMILAR	476,212	375,755	100,457	126.73
OTHER PAYABLES	9,544,354	2,655,770	6,888,584	359.38

The greater share in total payables is represented by the trade ones, respectively the suppliers and similar accounts with 16,376,661 lei (53.68%) with due dates under one year, loans and similar liabilities of 1,188,214 lei (3.9%) with due date over one year, liabilities to the state budget, social security, health, and other special funds of 2,915,931 lei (9.56%) and other liabilities amounting to 9,544,354 lei (31.29%) etc. Tax liabilities are required in compensation to tax receivables (VAT recoverable) and are pending. Tax liabilities are claimed to ANAF in compensation to the tax receivables (VAT eligible for reimbursement from the state budget).

Of the total liabilities of 30,501,372 lei, only 29,313,158 lei have a liquidity term of under one year, the other liabilities in the amount of 1,188,214 lei representing medium and long-term bank loan.

The great balance of trade payables recorded on 31.12.2016 is explained by the fact that the suppliers' due payment date is 60 days, according to the contract terms signed with them.

On 31.12.2016 the company has contracted the following loans:



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1. Overdraft credit facility (overdraft) with the possibility of issuing letters of guarantees and opening letters of credit in the maximum total amount of 8,000,000 lei, usable in RON or EURO granted by Raiffeisen Bank.

We mention that on 31.12.2016 the overdraft credit taken out was 0.

The loan is guaranteed by:

- a) security mortgage on the current accounts opened by the borrower with the bank and on the receivables from third parties that will be paid in those accounts;
- b) security mortgage on receivables resulting from the commercial relation with Alfred Kaercher Germany;
- c) first rate priority security mortgage over future reserves in the account opened by the client with the bank, called "special purpose account".

2. Term loan facility in the amount of 4,185,000 lei, to finance the project "Efficiency and Competitiveness - priorities in Electroarges activity development", a project co-financed from the European Regional Development Fund, through the Increase of Economic Competitiveness Operational Sectorial Program, granted by Raiffeisen Bank on 22.09.2015. We mention that on 31.12.2016 the amount of 1,188,214 lei was taken out.

The loan is guaranteed by:

- a) security mortgage on the current accounts opened by the borrower with the bank and on the receivables from third parties that will be paid in those accounts;
- b) security mortgage on receivables resulting from the commercial relation with Alfred Kaercher Germany;
- c) security mortgage on the technological equipment owed by the borrowed person, funded from this facility
- c) first rate priority security mortgage over future reserves in the account opened by the client with the bank, called "special purpose account".



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Electroargeș S.A. has credit at one bank – Raiffeisen Bank, Pitesti Bank - any change of the bank's policy in the current situation may also have consequences on the Electroargeș S.A.'s possibility to support interest and reimbursement rates. The company's management, with the action taken, seeks to minimize the potential adverse effects on the company's financial results

6.8 Other liabilities

Investment subsidies.

In 2016 the company records investment subsidies in the amount of 4,779,224 lei, compared to 5,737,060 lei in the previous year, of which income amounting to 847,230 lei to be carried over to 2016 representing the depreciation share related to fixed assets acquired from grant funds through the project "Efficiency and Competitiveness - priorities in Electroargeș S.A. activity development", a project co-financed from the European Regional Development Fund, through the Increase of Economic Competitiveness Operational Sectorial Program.

6.9 Equity

Statement of changes in equity on each item is shown in Annex III.

On 31.12.2016 equity amounted to 72,500,220 lei, compared to 67,541,725 at the beginning of the year, increasing by 4,958,495 lei.

6.9.1. Share capital

The share capital subscribed and paid at 31.12.2016 is of 6,976,465 lei, representing 69,764,650 shares with a nominal value of 0.10 lei / share.

In 2016, by applying the Court Sentence no. 225 / CC, the share capital was increased by a total of 7,789,310 shares, representing 778,931 lei, by approving the shareholders Tudor Dumitru and Vidraru S.A.'s subscription. Also in 2016, by applying the Court Sentence no. 474 / CC, the share capital was reduced by 18,874,931 shares, representing 1,887,493.10 lei, by canceling the share capital increase of 2012. This was done also when refunding the shareholders who participated in subscription, respectively 0.30 lei / share.



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Electroargeș S.A.'s Shareholders Register is made by the DEPOZITARUL CENTRAL S.A register company – Bucharest, in accordance with the legal provisions.

On 31.12.2016 the shareholder structure was as follows:

- 36.8375% - Company Constantin Relative Investments S.R.L. ;
- 48.7285% - natural persons
- 14.4341% - legal persons

6.9.2. Retained earnings

Retained earnings recorded on 31.12.2016 amounted to 12,746,594 lei representing profit, of which:

- profit of 2012 amounting to 12,537,328 lei
- retained earnings from revaluation surplus amounting to 209,266 lei.

The statement of retained earnings with changes during the year is as follows:

- lei -

	BALANCE 01.01.2016	Increase	Decrease	BALANCE 31.12.2016
Retained earnings	12,537,328			
Uncovered loss				12,537,328
Retained earnings representing surplus from revaluation reserves	197,573	11,693		209,266
TOTAL	12,734,901	11,693		12,746,594

6.9.3 Reserves and reserve adjustments after the application of IFRS

In 2016 there were no changes to these capital items, the company recorded the amount of 5,849,655 lei on 31.12.2016.

6.10. Activity income, expenses and results

They are shown on categories in Annex II, and are determined by following the accrual and non-balancing principles.

6.10.1 Turnover volume, structure and evolution

The company recorded in 2016 a turnover of 193,660,811 lei, compared to 167,883,750 lei, increasing by 25,777,061 lei compared to the previous year, respectively by 15.35%.

The turnover structure compared to the same period of the previous year is as follows:

Indicator	31.12.2016	31.12.2015	%		Dif +/-	%
			31.12.2016	31.12.2015		
1	2	3	4	5	6=2-3	7=2/3
Revenue from sale of finished products	189,486,142	165,025,178	97.84	98.30	24,460,964	114.82
Revenues from work performed and services rendered	964,168	676,978	0.50	0.40	287,190	142.42
Revenue from royalties, location management and rents	962,796	916,085	0.50	0.55	46,711	105.10
Revenue from other activities	227,394	155,185	0.12	0.09	72,209	146.53
Revenue from sale of goods	2,061,654	1,165,466	1.06	0.69	896,188	176.90
commercial rebates granted	-41,343	-55,142	-0.02	-0.03	13,799	74.98
TOTAL TURNOVER	193,660,811	167,883,750	100.00	100.00	25,777,061	115.35

The greater share in the turnover volume is held by revenue from the sale of finished products at 189,486,142 lei, respectively at 97.84% compared to 165,025,178 lei, respectively 98.30% in the previous year.

6.10.2 Operating Income / Expenses

Compared to the previous year, the income and expenses are as follows :

Item no.	INDICATORS	31.12.2015	31.12.2016	Difference	%
1	Net turnover	167,883,750	193,660,811	25,777,061	115.35
2	Cost of goods sold and services rendered (3+4+5)	147,849,264	169,404,852	21,555,588	114.57
3	Basic activity expenses	138,137,724	157,707,441	19,569,717	114.16
4	Auxiliary activity expenses	1,644,420	1,588,140	-56,280	96.57
5	Indirect production expenses	8,067,120	10,109,271	2,042,151	125.31
6	Gross income for the net turnover (1-2)	20,034,486	24,255,959	4,221,473	121.07
7	Sales costs	2,462,506	2,186,779	-275,727	88.80
8	General administration expenses	6,901,969	6,804,431	-97,538	95.59
9	Other operating income	1,076,754	913,286	-163,468	84.81
10	Operating income (6-7-8+9)	11,746,764	16,178,035	4,431,271	137.72

The amounts presented in the above table are expressed in lei.

There is an increase in turnover by 15.35% while operating income increased by 37.72%. General administrative expenses are not included in the cost of goods sold and services rendered. The amount of these expenses in the financial year reviewed is of 6,804,431 lei compared to



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6,901,969 lei in the previous year. Sales costs are of 2,186,779 lei compared to 2,462,506 lei in the previous year. Compared to the previous year, the cost of goods sold and services also increased by 14.58% compared with an increase in turnover of 15.35%.

Operating income was of 196,243,061 lei compared to 170,163,771 lei in the previous year, an increase by 26,079,290 lei compared to 2015, by 15.33% respectively.

Operating expenses amounted to 180,065,026 lei compared to 158,417,006 lei in the previous year, an increase by 21,648,020 lei over the same period of the previous year, 13.67% respectively. The greater share in operating expenses is that of the raw materials and consumables as a percentage of 81.20% compared to 76.58% in the same period last year; expenses with employees is at 9.31% compared to 9.65% in the same period last year; external supply costs represent 2.79% compared to 3.35% in the same period last year, etc.

From operating activities in 2016 the company recorded a gross profit of 16,178,035 lei, an increase of 4,431,270 lei (37.72%) compared to the previous period.

The gross operating profit was influenced decreased by 3,781,287 lei with the loss from the financial activity, in the end resulting the gross profit of 19,959,322 lei and a net profit of 16,577,153 lei, an increase of 8,846,227 lei (214.43%) compared to the same period of the previous year.

6.10.3 Employees – average number of employees

On 31.12.2016 SC Electroarges S.A. had a total number of 549 employees, of which 484 were employees with indefinite employment contract; 14 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)



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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

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.

6.11 Significant economic and financial indicators

The importance of calculating the economic and financial indicators is knowing their evolution and their comparison with previous financial years, which provides Electroargeș S.A.'s management the possibility to perform economic and financial analysis with decision-making impact.

Also, knowing the level of economic and financial indicators allows comparisons with other entities in similar sectors, domestic or international.

INDICATORS		31.12.2015	31.12.2016
I. Liquidity indicators			
1. General liquidity	Current assets / Current receivables	2.31	2.32
2. Immediate liquidity	(Current assets-Inventories)/ Current payables	1.34	1.85
3. General solvency ratio	Total assets /Total	3.96	3.65
II. Indicators of financial balance			
1. Total payables ratio	Total payables/Total assets	0.29	0.27
2. Equity to fixed assets ratio	Equity/ Fixed assets	1.57	1.60
III. Management indicators			
1. Inventory turnover speed (rotations)	Turnover/ Inventories	6.65	9.88
2. Storage days	Inventories /CA x 365 days	54.75 zile	36.90 zile
3. Debtors turnover speed in days	Receivables/CA x 365 days	34.31 zile	32.27 zile
4. Fixed assets turnover speed	Turnover/ Fixed assets	3.90	4.45
5. Total assets turnover speed	CA/Total assets	1.63	1.73
IV. Profitability indicators			
1. Return on assets	Net profit x 100/ Total assets	7.50 %	14.86 %
2. Financial profitability	Net profit x 100/ Equity	11.45 %	21.38 %
3. Gross margin ratio	Gross profit x 100/ CA	5.83 %	10.30 %



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- General liquidity indicator (current) shows the amount by which current assets exceed short-term liabilities and guarantees coverage of current liabilities from current assets;
Recommended and acceptable value is around 2;
- Reduced liquidity - this indicator eliminates inventories because they can not immediately turn in liquidities, expressing the entity's ability to pay liabilities;
Recommended and acceptable value is around 1. The more the indicator greater than 1, ability to cover short-term debt is provided;
- An overall general solvency ratio above value amounts to the company's net positive position ($SN = \text{Total assets} - \text{Total payables}$);
- Management indicators provide information on the turnover speed of current assets, total assets and receivables;
- Inventory turnover speed indicator shows how many times the inventory was rolled along the financial year;
- No. of storage days - indicates the number of days in which the goods are stored on the premises. The less days, the better the situation, in the sense that stocks are used in manufacturing, supply stocks are rhythmic and there is no risk of recording slow moving or difficult to sell stocks;
- Fixed assets turnover speed - The indicator expresses the number of rotations made by fixed assets for the turnover.

6.12. Internal control, management

Management responsibilities are set for all properties.

Management of material assets is organized into categories and storage spaces according to their nature.

The company organized and conducted property inventory in accordance with Ordinance no. 2861/2009 of the Public Finances Minister approving the Norms on organizing and carrying out inventory of assets, liabilities and equity.

6.13 Risks affecting the company

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 production development and identifying new potential clients.



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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 S.A. possibility to support interest and reimbursement rates. The company's management, with the action taken, seeks to minimize the potential adverse effects on the company's financial results.

The company is exposed to currency risk because the product delivery is made at a rate of 95.98% on the foreign market. To limit foreign currency exchange effect, the payment schedule was correlated with the foreign currency influx schedule, the company usually getting a cash flow surplus. The company constantly monitors and manages the exposure to foreign exchange variation by including in the sales contracts with customers with collection term longer than a year of the terms regulating the foreign exchange differences that exceed +/- 5% (between the date of issue and the date of cashing the invoices).

6.14 .Preparation of financial reports, accounting records

The financial statements have been prepared under the Accounting Law no.82 / 1991 republished, as further amended and supplemented and the regulations of Ordinance no. 2844/2016 issued by the Public Finances Minister for approval of accounting regulations in accordance with International Financial Reporting Standards.

The company has adopted the report according to IFRS on 31.12.2012, considering the provisions of art. no. 1 of Ordinance no. 881/2012 of the Vice PM and the Public Finances Minister on the application of the International Financial Reporting Standards by the companies whose securities are admitted to trading on a regulated market.

The synthetic accounting is consistent with the analytical one. Synthetic accounting balances are prepared monthly and they correlate with the analytical accounting. The financial statements have been prepared by the correct transposition of the balances in the synthetic balance prepared on 31.12.2016. They are recorded daily in the accounting journal, general ledger and inventory ledger.



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6.15. Future events

Future events may be considered settling the disputes and claims pending on 31.12.2016, submitted by law firms SCA Gherbovan Silinescu & Associates, SCA Maier, Gavrilă & Associates.

6.16. Going concern

Following the reporting period, the company currently has no plans and no reasons to reduce or terminate its activity. The required taxes for the area designed for trading activities have been paid and the related permits have been issued.

Until the reporting date, the company management has not informed us about events that could threaten the company's business activity. There are no commercial or other disputes to affect the business activity, all the founding resources, working capital and manpower necessary for further carrying out an efficient activity are secured.

Date: 23.03.2017

STATUTORY AUDITOR,

CASA DE AUDIT CORVINIA S.R.L. COMPANY - PITEȘTI BRANCH, CAFR authorisation 1232/2014

Financial Auditor Șendroni Aurel, CAFR authorisation 407/2001.