

Annual report of the Board of Directors on the activity in 2016

In 2016 the Board of Directors and the executive management of the company continually faced the challenges resulting from the changes on the market of equipment for the energy industry, the fluctuating demand for the earthmoving and marine equipment. To cover the manufacturing capabilities with orders and contracts, and on the other hand, to maintain the results at the level of those in previous years, it was necessary to readjust the structure of production to the market requirements, which is in continuous movement and lack of stability.

In this context we had to accept contracts with tight delivery deadlines, demanding technical execution conditions at lower prices, imposed by competition partners with other manufacturers. However, besides the risks assumed, there were additional costs for manufacturing preparation, organizing new technological flows, provision of tools, devices, checkers, personnel training. Separately, during assimilation / qualification of new products, productivity is lower, requiring a period of time, depending on the type and complexity, until a good level is reached.

Despite the difficulties, the company has developed a profitable activity and its position on the market gets better and better. This was possible due to continuing with perseverance the modernization, refurbishment, the organization of production and labor on modern principles, the growth capability in adapting the structure of production to the market requirements, among which we mention:

a. Investments amounting to 1.588 thousand € of which 604 thousand € purchases of equipment and 984 thousand € for the repayment of investment credit committed to co-finance the project "Changing fundamental flows of production and introducing new technologies in order to increase productivity and competitiveness on domestic and foreign COMELF market " part of the POS-CCE program.

The constant investment effort resulted in major changes in the organization, modernization and technologization of the company, the objective being to reach the level of equipment and performance of western European producers. Machinery were purchased this year, they were installed and became operational, staff was trained, also, equipment important for production, allowing addressing new technologies, performing processing operations in terms of quality and accuracy, for a growing range of sorto-typo-dimensions, namely:

- CNC SKODA boring and milling machine is the most performant machine in terms of metal construction rigidity and the shaft boring diameter;
 - CNC COLOMNA carousel, having a diameter platen rotation that allows workpiece of maximum diameter of 5.000 mm and height under the cross of 3.800 mm ;
- The two machines cover the range of metal cutting for medium big and big products, uncovered area, but with increasing requirements;
- Robotic welding cell with offline programming leading to increased added value timimngs and implicitly the production and productivity;
 - Completing the sanding-painting line from FUET with a mechanized sanding station, ensuring substantial improvement in the quality of surfaces ready for painting, and

eliminating the use of manual labor;

Throughout the year there were continuous concerns for assuaring / completing the work points with tools, equipment or anything related to the small mechanization. There were with priority assigned amounts needed to improve the facilities with computers, software licenses acquisition, the expansion and modernization of the company's computer network.

b. The diversification of products and assimilation of new ones in 2016 represented a main concern especially in the market's conditions that is in constant motion. They increased the marketing actions, the direct contact with existing and potential partners , there were developed and submitted offers via Marketing-offer service of the Company for products and equipment totaling over 24,000 t, plus another 15,000 t from factories , which required a significant amount of work in the technical sectors. Separately, to the requests of various possible partners, were sent information on the company's capabilities.

There were assimilated and moved to the current production:

- New types of filters for Marini;
- Chimneys exhaust valves for power plants;
- New types of cases for high power engines;
- Combustion air filtration units, fully equipped for power plants;
- Base frames with welded profile base;
- TRS car for Tesmec;
- Performace skid for Hartl;
- Various types and components for earthmoving equipment;
- It was expanded the range of components and parts for various wind turbines for Siemens;

In 2016 more than one third of the manufactured products are new, many of them being found in the 2017 portfolio.

c. Improving the organization and management was a strong requirement given that the diversification of production and the requirements of the contracts impose the reconsideration of the activity and approaching modern programming systems, monitoring and control.

By setting in 2015 the Directorate for Integrated Management, it was ensured the necessary conditions for the implementation of computerized systems for management and organization, optimizing the organizational structure of the company and production tracking. It is finalizing the implementation mode of computer integrated production QAD 2008, ending the enforcement of the entire system according to the contract ontractului. At the same time, it was implemented the management barcode system, to be interconnected with QAD. In the third quarter of 2016 as a result of numerous recommendations and requests from the Komatsu company, to find solutions to reduce costs, it was signed a collaboration agreement with the Institute Kaizen Romania, a contract meant to offer staff training and providing consultancy in order to implement in COMELF the Kaizen techniques in organizational and process improvement, the immediate objective being increasing performance by reorganizing the production lines.

In the period August -December 2016 the first Kaizen sites were organised, most of them in Fuet, following during the year 2017 to be conducted a complex training program, on a monthly schedule, at all levels, for FCT and FPI, too. Parallely, from the second trimester in 2017, using existing resources in COMELF, through the Kaizen structure from the center, will be conducted a training program for FFE so that the practical techniques dealt with the Institute to be strengthened and developed from the inside.

Considering that in COMELF the key to success in the timely completion of contracts, in compliance with the quality requirements of customers, is the preparation of production, it was decided that each factory to prepare the "Preparation plan of the activities for manufacturing contracts / accepted orders " with daily monitorization from the factory management. The Directorate of Integrated Management monitors, in addition to the factory, respecting the deadlines stipulated, intervening to eliminate deficiencies.

In the technical directorate was set up the Coordination, supervision and control of maintenance Office, which shows every month in the Management Committee, the maintenance report.

Updating the job descriptions in accordance with job requirements are being completed, existing procedures were reviewed and new procedures have been developed to cover all fields. We have to give a detailed description of tasks, even exaggerated, to ensure understanding by each holder of its obligations and to make them able, especially those with serious gaps in training, to act correlated with the system requirements of today's production. There was staff training organized in activity fields, ensuring conditions to improve the company's activity in all areas / sectors.

d) Concern regarding the constant quality improvement and raising the level of consciousness of the operators so that the customer requirements are met exactly on the level of acceptability of the delivered products has been a priority in 2016.

Since the establishment of the actions that are required in order to obtain a corresponding development of quality requires knowledge of the issues and the causes that led, a system is implemented to monitor daily both these complaints by customers and the internal nonconformity seized by the quality inspectors. Monitoring includes the analysis of the main factors, types of nonconformities, their causes, but mostly, is implied by the establishment of operative measures leading to the elimination of repeting them.

However, inconstancy remains a major problem that has become more evident after eliminating in July the factories' directions, which overlapped with the retirement of some experienced employees in quality inspections. The influence of quality in the performance of all factories, besides the visible costs resulted from external complaints, led to a high volume of operations to correct the non-conformities detected in production, mainly welding and rework on the key machines, which have led to significant consumption of weldinf workmanship, fitting, machining, sanding, painting, precisely the critical areas in terms of capacity. There have been many quality problems in FFE, which decreased by at least 20% of production volume of the factory. It is to be mentioned as a negative aspect that the serial production of FUET has worsened in terms of quality, leading to deliveries of non-conforming products detected in some cases on the assembly lines from Komatsu, causing their stopping, an extremely serious fact.

Since in the operations / work conducted in COMELF, welding ranks first in terms of weight, certifications are needed, to counteract the effects of leaving of 50 welders in the last 2 years, through the Laboratory of welding were qualified and have been issued 53 qualification certificates (new authorisations). The existing welders were tested and trained in order to improve their performance and to obtain new certifications, the new welders candidates have been instructed and trained in the profession of welders and were organized training courses in the profession of welder. There have been issued 337 term qualification certificates / authorizations to the best welders, some of them having over 10 authorizations. Following the introduction of new products into production, with materials and types of joints that have never been used, the training of 30 new procedures for welding was necessary.

In order to eliminate the deficiencies noted as a result of the abolition in July of the quality directorates in the factories according to the Decision of the Board, in the context of increasingly higher demanding partners, the reorganization of the quality system was started, subordinated by the deputy general director, adapted to the current situation, in order to increase functionality and quality level, specified on the manufactured products, structured as follows:

- Reorganisation of the quality system;
- Streamlining the quality documentation for repeatable production;
- Expanding the activity related to the audit process;
- Improving the monthly analyzing method for nonconformity;
- Introducing the use of quality indicators;
- Conducting a training program coordinated by the Quality Management Department;

In 2016 the audit was held and the integrated system of quality-environment-health was recertified according to the new standards - ISO 9001/2015, ISO 14001/2015 and OHSAS 18001/2007.

d. Approaching the issue of workforce and ensuring qualified staff with priority, as a determining factor for the development and the results of the company.

- In 2016 the human resources activity was focused on the following directions:
- maintain the labor as it is defined as a requirement in the POS CCE project, that took into account the creation of 188 new jobs;
 - reducing fluctuations by creating opportunities to realize motivating earnings, fact reflected in the average income of 2016 increased by 6% compared to the previous year;
 - qualification and further training of employees;
 - rejuvenation of the workforce;
 - training students from the partner school groups and students from the Technical University of Cluj-Napoca, in order to work at COMELF;

In the previous year, there were 221 people employed, mainly young people from the ranks of former students and students who carried out the internship in the company and on the labor market, too.

Within the context of workforce training in education at all levels, it has serious gaps, being totally unrelated to the realities and the current technical requirements, schools offering a product at the limit of technical illiteracy, plus the prospect of changing generations due to aging staff working currently in the industry, we estimate that we will be faced with major difficulties in securing qualified personnel. As a result,

in 2016, through courses organized by COMELF there were 107 employees qualified by qualified trainers. Separately, in professional training programs were enrolled 295 employees.

To ensure the workforce on medium and long term, we continued partnerships with the Technical University of Cluj-Napoca and Bistrita extension and with 4 school groups (Technical College Grigore Moisil from Bistrita and the Technological High Schools from Lechinta, Tirlisua and Telciu) which qualify locksmiths metal construction, welders and CNC operators. We have arranged and provided a lecture hall with 100 seats and 4 laboratories for the students of Technical University Cluj-Napoca and we have students doing their internship in the company every year. Currently we have 26 employees who are also students, whom we support with a flexible schedule in order to prepare and attend college and who, will mostly work for the company after graduation.

Out of the 4 school groups partners, we provide work and protection equipment as well as a hot meal for 182 students. To increase the attractiveness of the company, during the summer holiday in 2016 we hired 112 pupils and students in direct productive activities. In this way, besides the real problems we solved with the students and pupils, they adapt and integrate in the industrial environment and in our team. This requires extra effort and costs related surveillance, equipment, practical coordination, but is a sure way to attract future employees and counteract the gaps in training.

Given the company's position in the international market, increasingly demanding requirements of our partners and poor preparation of the graduates, we consider for 2017 to qualify 49 workers and include 421 employees in various training courses. We mention in this regard that we are authorized as a provider of adult training for welders.

According to the obligations that result from the integrated Quality - Environment - SSM, concerns for the health and safety of employees and environmental protection in accordance with the legislation have amplified, taking into consideration some recommendations from external partners in relation to the companies attitudes towards their employees, employees in corporate responsibility.

Quarterly the "Health and safety committee", analyzes the aspects of work and health conditions of the workers, as well as implementation of measures accordingly. As such, besides arrangements / work conducted (lockers, social groups, changing of the floors etc) the work places were equipped with first aid kits, new personal protective equipment has been introduced which grants safety and comfort in use, trained personnel to apply first aid was nominated, the periodically way of practice has improved, including materials in electronic format, the procedures and operational instructions correlated with change of working conditions and assessment risk were revised, and the awareness of workers' related to work safety increased through visualization of new display elements. The monitoring program of employees' health continued, separately from the compulsory medical examination and primary medical and dental assistance is free for employees.

The environmental issues, after the implementation of the program on cleaning and a selective waste collection, were included in the training manuals aspects on the responsibility of those involved in following the requirements and the obligations in case of fire, to prevent emergencies.

One of the concerns will be maintaining the fugitive emissions under 20%. Actions will be taken also to reduce the amount of waste resulting from activities

developed in anticorrosion protection workshops and continuous training for all employees on selective waste collection .

In 2016, the main indicators of BVC, where the share for export products represents 98.4% were conducted as follows:

| No | Designation | U.M. | 2016 | | | R2016 |
|----|-------------------------|--------------|---------|--------------|------|---------|
| | | | BVC | Achievements | % | R2015 % |
| 1 | Turnover | thousand lei | 191.795 | 180.148 | 93,1 | 104 |
| | | thousand € | 43.100 | 40.122 | | |
| 2 | Sold production | thousand lei | 191.350 | 174.992 | 90,6 | 102,4 |
| | | thousand € | 43.000 | 38.974 | | |
| 3 | Manufactured production | thousand lei | 190.015 | 171.716 | 89,5 | 98,1 |
| | | thousand € | 42.700 | 38.212 | | |
| 4 | Total income | thousand lei | 198.470 | 184.218 | 92 | 97,5 |
| | | thousand € | 44.600 | 41.028 | | |
| 5 | Gross profit | thousand lei | 9.599 | 4.564 | 47,1 | 214 |
| | | thousand € | 2.157 | 1.016 | | |
| 6 | Average number | om | 1.165 | 1.125 | 96,6 | 97 |

Regarding the substantiating of BCV in 2016, the company had in mind a significant increase compared to the previous year based on contracting forecasts with key stakeholders. After a good start, obvious signs appeared of tightening the foreign market. Therefore, important partners, manufacturers of earthmoving, heavy transport, energy equipment suppliers have significantly reduced the volume of orders compared to those who were running normally and that were taken into account to substantiate the

BVC. Measures taken by the executive management of the company could only partially offset the effects of the downtrend needs of the beneficiaries.

The net profit in 2016, we intend to be distributed as follows:

| | |
|---|---------------|
| Net profit to distribute | 4.014.685 lei |
| Out of which : | |
| <ul style="list-style-type: none"> • Legal reserve (5% of gross profit minus non-taxable income) | 147.238 lei |
| <ul style="list-style-type: none"> • Dividends | 3.867.447 lei |

So, the dividend to be granted in 2016 is 0.165 lei gross / share, the distribution will be made by the Central Depository through CEC units, as in the previous year, starting from 17 July 2017, the payment date.

On profit centers, the results are as follows:

| | | FUET | FCT | FFE | FPI |
|----------------------------------|----------|-------------|------------|------------|------------|
| Turnover Thousand € | BVC | 13300 | 8700 | 7400 | 13300 |
| | Achieved | 12975 | 7399 | 5394 | 12622 |
| Production Thousand € | BVC | 13300 | 8700 | 7400 | 13300 |
| | Achieved | 12796 | 7482 | 5044 | 12821 |
| Gross profit Thousand € | BVC | 1000 | 317 | 444 | 396 |
| | Achieved | 1029 | -333 | -147 | 134 |
| Profitability to production % | BVC | 7,52 | 364 | 6 | 2,98 |
| | Achieved | 8,04 | -4,45 | -2,91 | 1,05 |

The analysis indicates clearly that despite existing disturbances, FUET came close to fulfilling BVC, to production and turnover, and the scheduled profit was exceeded. It is also to be mentioned that FPI has achieved a monthly average production of over 1 million euros, more than the previous year, reflecting the concerns and work of this group.

Unfortunately, FCT and FFE besides the fact that they did not realize the scheduled production, they also recorded steady losses. This situation was due, in addition to external factors, to the failure to observe the delivery of certain contracts, exceeding labor costs due to the prolonged overuse of the manufacturing cycle and numerous qualitative nonconformities. The situation in the two factories was monitored and the necessary corrective measures were taken, including changing the two directors.

Since FUET met the conditions of the decision of the Board of Directors, on

stimulating management to increase performance, achieving profitability in the production of at least 4%, it was created a prize pool amounting to 228.928 lei for the management of this factory, which was included in the provisions in 2016.

Statement of financial position, in thousands lei, is as follows:

| | 31.12. 2015 | 31.12. 2016 | <u>2016</u> 2015 | Diferente + / - |
|--|------------------------|------------------------|-----------------------------|----------------------------|
| Fixed assets | 107.356 | 103.660 | 96,6 | 3.696 |
| Current assets | 76.262 | 78.613 | 103,1 | 2.351 |
| - Material stocks | 7.211 | 8.826 | 122,4 | 1.615 |
| - Receivables and advances (rd.7+9+10 +11) | 58.896 | 64.451 | 109,4 | 5.555 |
| - Available in accounts | 10.155 | 5.336 | 52,5 | -4.819 |
| Total equity, of which: | 75.948 | 71.863 | 94,6 | -4.085 |
| Capital according to Articles of Incorporation | 13.580 | 13.580 | 100,0 | - |
| Adjustments to capital according to IFRS | 8.812 | 8.812 | 100,0 | - |
| - Reserves(rd.18) | 60.004 | 58.683 | 97,8 | -1.321 |
| - Reported result | -8.013 | -7.617 | 95,1 | 396 |
| - Year result | 1.416 | 4.015 | 283,5 | 2.599 |
| - Own shares | - | -2.529 | - | -2.529 |
| - Other elements of equity | 149 | -3.081 | - | -3.230 |
| Long-term liabilities | 34.578 | 30.443 | 88,0 | - 4.135 |
| Current liabilities, of which: | 73.093 | 79.967 | 109,4 | 6.874 |
| - Bank loans | 31.310 | 31.788 | 101,5 | 478 |
| - The long-term borrowing share | 4.273 | 4.273 | 100,0 | - |
| - Commercial and other liabilities | 31.606 | 37.861 | 119,8 | 6255 |
| - Provisions (rd. 30) | 3.474 | 2.042 | 58,8 | -1.432 |
| - Liabilities and deferred income | 2.430 | 4.003 | 164,7 | 1.573 |
| Total liabilities | 107.671 | 110.411 | 102,6 | 2.740 |

Current assets decreased by 3.4% , because the amount of depreciation was lower to inflows of new facilities, since over 60% of the investment fund was intended to refund the investment loan committed in previous years.

Current assets show a slight increase of 3.1% from the previous year, the largest increase of 22.4% being registered at the material stock following the acquisition of materials needed for the execution of contracts in the first trimester of 2017, exceeding BVC- ul. The receivables are higher by 9.4%, all of that increase being registered in customer service.

Shareholders' equity decreased due to the redemption of its own shares amounting to 2.529 thousand lei as well as to the differences in deferred tax.

Long-term liabilities decreased by 1,135 thousand lei as a result of the credit reimbursements for investments. Current liabilities are higher by 6.882 thousand lei, mainly due to higher commercial liabilities.

The company has implemented a risk management system in relation to the financial reporting process, consisting of separate numbering of the documentation and registration, accounting for each acquisition / consumption. There are cross-match order / invoice checks, it is used an ERP management system and there are checkups while preparing the financial statements.

The board of Directors and Management Committee examine monthly the financial statements done by factories and company and take operative measures to improve the activity.

The Company has an employee with exclusive internal control tasks, who presents regular reports to the General Manager or the Board of Directors.

Regarding the status of compliance with the Code of Corporate Governance (CGC) of BVB, at the end of 2016, of the 41 provisions to be respected, 29 were met. It is to be mentioned that, out of the 12 provisions that appear unfulfilled, one does not refer to the company as COMELF is in the standard category, and 9 are in Section B that comply in substance, through the two companies of internal and external financial audit outside the company, as well as by the COMELF employee tasked exclusively with the "internal control". The unrealized provision in Section C is in fact regulated by internal requirements and the requirements in Section D (Investors' Relations) is done by two employees nominated for this and by posting on the company's website in the "Updated information" section, information which interest the investors. There was no need to organize meetings with investors (D9) they being given the information they need in current and periodic reports published, which ensures a high degree of transparency that allows shareholders and potential investors to make informed choices. On the other hand the shareholding structure, where over 85% of the shares are owned by three shareholders, and the difference by more than 5,000 shareholders, lead to an offer for sale very low, as confirmed by the low volume of transactions.

It is strictly complied with all the provisions for convening general meetings, and reports on their conduct, decisions taken including those relating to the payment of dividends or other special events, are published through BVB reports in Romanian and English and posted on the COMELF website. Similarly is proceeded with reports quarterly, half-yearly and annually ones, under the Regulation No.1 / 2006 elaborated by the CNVM.

In 2016 the following transactions were carried out, which comply with the provisions of Art. 225 of Law no. 297/2007.

| Related party | UM | Income | Purchases |
|---------------------------------|--------------|------------|-----------|
| UZINSIDER SA | Lei | - | 905.672 |
| | Equivalent € | - | 201.709 |
| UZINSIDER TECHNO SA | Lei | 26.692.695 | 2.193.786 |
| | Equivalent € | 5.944.921 | 488.594 |
| UZINSIDER GENERAL CONTRACTOR SA | Lei | 260.310 | - |
| | Equivalent € | 57.976 | - |
| PROMEX SA | Lei | 43.950 | - |
| | Equivalent € | 9.788 | - |
| 24 IANUARIE SA | Lei | 269.232 | - |
| | Equivalent € | 59.963 | - |

The transactions were conducted under the contracts and orders concluded between the parties. The evaluation in € was calculated with the average exchange rate achieved in 2016 respectively RON 4.49 / €.

The company management is exercised by the Board of Directors consisting of 5 engineers with great experience in the industry, which meets quarterly or when needed and act in accordance with the resolutions of general meetings of shareholders.

The Management Committee that ensures the current management of the company consists of nine members who are CEOs of COMELF and the 4 factory managers. It meets twice a month to analyze the activity and the results in various fields and establishes measures accordingly.

Obviously the economic results - and thus the evolution of financial were negatively influenced, apart from some objective factors or internal factors before mentioned, and :

- doing the responsibilities superficially for strict adherence to contractual delivery dates of some employees, staff, even the management of the factories.
- Use of working time in a productive purpose to a very small extent.
- Low physical productivity.
- Inappropriate behavior and unqualified attitudes of some operators (stealing, drinking, ignoring the requirements of work etc).
- Understaffed attitude of employees, including leaders, in exercising their duties.
- Insufficient concern for increasing business profitability, FFE, FCT and FPI.

A synthetic feature of heritage evolution and the company's results is given by comparing some performance indicators, which are as follows:

| | 2015 | 2016 |
|---|------|-------|
| Rotation duration of stock material- days | 14,8 | 16,75 |

| | | |
|--|------|-------|
| Rotation duration of receivables- days | 75 | 79,56 |
| Current liquidity | 1,04 | 0,98 |
| Immediate liquidity | 0,94 | 0,87 |

The speed of inventory decreased since in the last part of the year were purchased materials needed for manufacturing contracted in the first trimester 2017, whose volume is higher than 2016.

Slowing down the rotation of receivables was determined by deferring payment of invoices, in many cases imposed by business partners and the late payment obligations to the consolidated budget by VAT receivables to be recovered from ANAF.

At the two indicators of liquidity there is an insignificant decrease due to specific conjuncture causes in 2016.

From the 2 companies where COMELF has capital participations, dividends have not been charged because both TELESKAUN Tihuta and COMELF ENERGY have registered an insignificant profit, which was not distributed.

To those shown, we can say that in 2016, the resources were well managed, which allowed the company to be constantly in financial balance, although the conditions and the economic context were difficult and unpredictable. The company functioned normally and paying in time their payment obligations due to suppliers, banks, consolidated budget and staff.

Given the indicators provided in the BVC in 2017 showing an increase compared to 2016, and on the other hand the economic context that remains as difficult as before, in addition to the actions referred to in the report, a program of measures was drawn up to improve efficiency effectiveness in 2017, so that to realize the BVC. The program designed for factories and responsible people, will be analyzed monthly with the involved factors and will lead to increased faster results.

To those shown, we propose that AGOA approves the management report, audit reports, the financial statement on 31.12.2016, Statement of profit or loss and other comprehensive income as on 31.12.2016 and the net profit allocation for the year 2016, according to the documents submitted which were examined and approved in principle by the Board. We also discharge the Board of Directors, its president and general manager and economic director of the Company for the year 2016.

Board President
eng. Savu Constantin

General manager,

eng. Stoian Dorin

Economic director,

ec. Pop Stefan