



S.C. MECANICA CEHLĂU S.A.[®]

FONDATĂ ÎN 1921

610202 Piatra Neamț – România, str. Dumbravei nr. 6

J 27/8/1991; CUI:2045262; cont BCR RO 45 RNCB 0196027797940001

capital social subscris și varsat: 23 990 846 lei

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Annual report in compliance with:	Law 31/1990 R; Law 297/2004; Regulation CNVM [NCMB] No 1/2006 ; BVB Code; M.F.P. Order No 40/2013
For the financial exercise	2012
Report date:	21/03/2013
Issuing Entity:	Mecanica Ceahlău SA
Registered Office:	Piatra Neamț, Str. Dumbravei No 6, County of Neamt Post code 610202
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Web	www.mecanicaceahlau.ro
E-mail	ceahlau@mecanicaceahlau.ro
Fiscal identification code [VAT No]	RO 2045262
Register of Commerce Entry No	J27 / 8 of 08/01/1991
Regulated market the movables issued are transacted on	Bursa de Valori Bucharest [Stock Exchange] – Category II Cod MECF
Social capital subscribed and paid	LEI 23,990,846.00
Main characteristics of movables issued by SC Mecanica Ceahlău SA	ordinary, common, nominative, dematerialized, and entered in the accounts

THE BOARD OF DIRECTORS' REPORT FOR 2012

The Board of Directors conducted their activity in 2012 in compliance with the By-Laws, the resolutions of the shareholders' general meeting, and its own resolutions adopted in compliance with Law 31/1990 R, Law 297/2004, the BVB Code, and other regulations governing the activity of companies whose shares are traded on a regulated market.

1. ANALYSIS OF THE COMPANY OPERATIONS

1.1. Description of the company's main operations

a) General considerations

According to its By-Laws, the main operations of the company is the "production of farming and forestry machines and equipment", CAEN code 283; its main activity is "production of farming and forestry machines and equipment," CAEN code 2830.

In compliance with the provisions of Resolution No 2 of the Extraordinary Shareholders' General Meeting held on 04/09/2009, the company ensured that to the operations of the company some new projects were added by implementing new projects in the field of non conventional energy and mechatronics equipment with applications in medicine, which would create an alternative with a view to obtaining returns other than those from selling farming machinery and equipment.

Mecanica Ceahlău was founded on 18 July 1921 with the name Energia Social Company, whose main operations were „to set up and exploit a mechanical, electro technical and casting shop for constructions, installations, and repairs of machines and any mechanical parts.”

After 92 years of operations, the company has become the most important manufacturers of farming and equipment and machinery in Romania.

The farming equipment and machinery produced by Mecanica Ceahlău are traded, directly or via dealers, both on the domestic and on the foreign market. The main farming equipment and machinery produced by Mecanica Ceahlău cover a wide range of works, from soil preparation with a view to sowing to harvesting, such as, ploughs, sowing machines for hoeing plants, sowing machines (mechanical or pneumatic) for straw-plants, reversible ploughs, combiners, rammers, disc harrows, tillage cutters, cultivators, irrigation installations, fertilising installations, fertilisers spreaders, potato cultivators and harvesters, etc.

In 2012, the company continued to expand the main operations toward manufacturing and trading equipment meant to value energy renewable sources. In order to test the design ideas and to analyse their impact on the market, the outcome obtained in 2012 were as follows: the execution of the prototype stage, testing and demonstrating such prototypes at various fairs in the field.

The interests of the company's specialists materialised in 2012 in the following results:

- the prototype "*miscanthus* harvesting machine" (bio energy plant), based on the building documentation purchased from INMA-Bucharest, displayed in Farming Equipment and Machinery Fairs such as RomAgroTec - Lilieci and IndAgraFarm – Bucharest;
- the prototype "Low-power wind turbine and photovoltaic panels Mixed installation for the production of energy";
- the prototype "Solar Panels Installation for Hot Water";
- the application for grant for the project "Promoting the cultivation of energy willow (*salix viminalis*) in Romania as a clean alternative energy source", submitted in partnership with INMA Bucharest and Green Energy Sf. Gheorghe Association; since 2012, this objective has been implemented

and funded from non reimbursable government funds. The project shall be conducted over three years (2012 – 2015) at a total value of LEI de 2,156,239.

Mecanica Ceahlău S.A. is organised adequately in order to carry out the main operations, the second field of operations as the company has modern facilities and experienced human resources as well as responsiveness to customer needs, competition requirements in the filed of farming machine engineering.

The company implemented the “Integrated Quality – Environment Management System” certified by the external auditor TÜV SUD in compliance with ISO 9001: 2008 and ISO 14001: 2004. The opinion is that the products manufactured by Mecanica Ceahlau S.A. are compliant with the requirements imposed by the standards quoted.

1.1.b) Stating the date of the company incorporation

Mecanica Ceahlău S.A. is a stock company set up by Government Resolution No 1254 of 04/12/1990. The company continues and treasures the experience of the company “Energia” incorporated on 18 July 1921 in Piatra-Neamt, county of Neamt.

c) Description of any merger or significant reorganisations of the company during the financial exercise

No mergers or significant reorganisations of the company were conducted in 2011.

d) Description of purchases and/or transfers of assets to third parties

d.1) Purchases

The 2012 investment programme carried out amount to a total value of LEI 1,525,210 in the following chapters:

“Technological Development”:

Modernization of mechanical processing flow

The CNC turning processing centre amounting to LEI 362,701.

Industrial screw compressor amounting to LEI 19,575.

Modernization of thermal treatment flow

Oil tank cooling installation for the chilling baths amounting to LEI 34,067.

Modernization of the technical quality control

Pick-up truck for the transport of spare parts and subparts amounting to LEI 108,658.

“Energy, utilities, servitudes”:

Industrial water supply ring and fire prevention and fighting amounting to LEI 815,170.

“Environment, health and safety, and working conditions”

Ceramic radiant heating installation for production areas, amounting to LEI 5,709.

Modernization of buildings and production areas, amounting to LEI 139,708.

“Modernization of assets”:

Development of public parking area and administrative building on the premises located in Str. Aurel Vlaicu nr. 34, Piatra Neamț, amounting to LEI 98,703.

“Endowments”

Endowment with computers, office equipment and communications amounting to LEI 25,916;

Power production installation with wind-powered unit and photovoltaic panels amounting to LEI 44,981. Solar panel-powered hot water installation amounting to LEI 9,730.

d.2) Transfers to third parties

Based on the programme for putting to value some worn and outdated equipment, twelve (12) such assets were valued, amounting to LEI 268,419.35:

1. from selling assets (8 pieces of equipment) the company cashed LEI 225,175;
2. from selling scrap resulted from setting aside assets (i.e., 1 piece of equipment and three buildings) the company cashed LEI 43,244.35.

1.2. Description of main outcome of assessing the company operations

1.2.1. Elements of overall assessment

Starting with the annual financial statements of the 2012 exercise, the company whose movables are transacted on a regulated market has to apply the International Financial Reporting Standards (IFRS) when drafting the individual annual financial statements, as per OMFP No 881/2012.

The company presents the main indices achieved in 2012 in compliance with the International Financial Reporting Standards (IFRS):

	Indices	2011	BVC 2012	Reached IFRS	% 4/3
0	1	2	3	4	5
1	Turnover	31,578,535	27,250,000	29,496,698	108.25
2	Total returns	31,348,985	26,500,000	31,772,480	119.90
3	Total expenditure	23,424,940	22,700,000	23,197,596	102.20
4	Gross Profit	7,924,045	3,800,000	8,574,884	225.66
5	Net Profit	7,246,828	3,800,000	7,406,938	194.92
6	Returns form exploitation	30,760,741	26,200,000	30,899,224	117.94
7	Exploitation costs	22,395,139	21,450,000	22,697,651	105.82
8	Outcome of exploitation	8,365,602	4,750,000	8,201,573	172.67
9	Average number of employees	195	198	206	104.04

a) Profit / Loss

In the 2012 financial exercise, Mecanica Ceahlău S.A. recorded a gross profit of LEI 8,574,884, resulting from exploitation – a profit of LEI 8,201,573 lei, financial outcome – a profit of LEI 373,311.

b) Turnover

The company turnover in 2012 is of LEI 29,496,698, i.e., an increase by 8.25% than the level expected in the 2012 Return and Expenditure Budget.

This value of the turnover was reached at 96% by selling the company's own production and 96% on the domestic market. In the second semester of 2012, the farming machinery was seriously affected due the prolonged drought, which decreased the agricultural production and, implicitly, the farmers' income.

c) Export

In 2012, the value of export sales was of LEI 1,160,577, representing 4% of the turnover. The main market of the company, i.e., the Eastern extra-EU countries shrank significantly on the background of the financial recession.

d) Costs

Costs of sold goods and services rendered amounted to LEI 16,219,406, higher by LEI 1,378,078 as compared to 2011. Costs increased as an effect of the higher turnover and included expenditure with the main operations and indirect production costs.

e) Share of market held

In 2012, the company was present on the Romanian farming machinery market by exploiting to the maximum the opportunities generated by the improved liquidity the farmers held. By applying an appropriate sales strategy and practising a competitive quality-price ratio, the company increased its market share, especially in the “sowing machine” group, reaching over 30%.

f) Liquidity (available in the account, etc.)

On 31 December 2012, Mecanica Ceahlău S.A. closed its operations with a positive treasury sold, i.e., LEI 12,224,571. The net growth of the treasury is broken down in Appendix 3.

The structure of treasury flows is as follows:

- LEI -	
Net treasury at the beginning of the exercise	10,358,837
Net treasury from exploitation operations	6,268,330
Net treasury from investments	(1,421,502)
Net treasury from financing operations	(2,981,094)
Net treasury at the end of the exercise	12,224,571

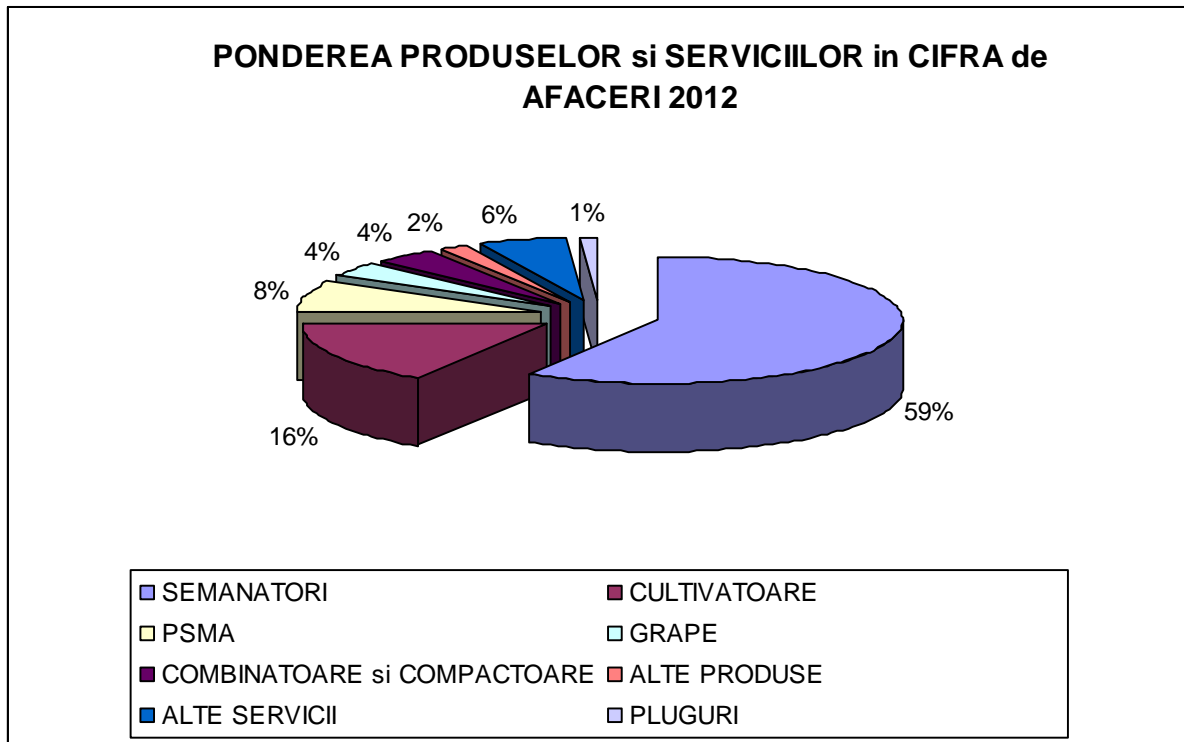
The net growth of cash and cash equivalents is of LEI 1,865,734 lei. The negative flows in financing, amounting to LEI 2,981,094, come from reimbursement in advance of the bank loan contracted of the total amounts contracted, credit lines to maintain the financial balance.

1.2.2. Assessment of the company technical level

a) Description of the main products manufactured and/or services rendered

The basic production of the company is production of farming machinery and equipment in compliance with its overall offer for 2012. The main products manufactured are also the best sold, e.g., classical and precision sowing machines for hoeing plants and sowing machines for straw-plants. Other products were disc harrows, ploughs, rammers and combines for soil preparation, cultivators for maintaining cultures, spare parts for farming machinery, etc.

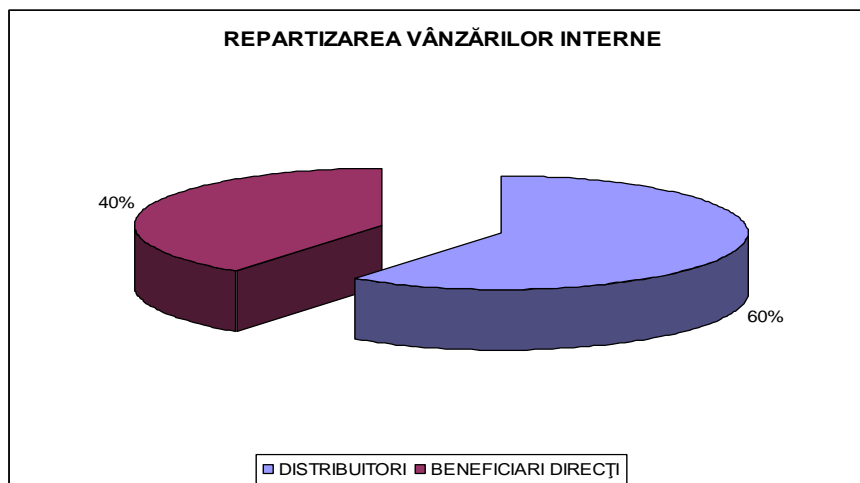
As to services, the outcome recorded consisted in the execution of parts for various beneficiaries by using specialised machinery owned by the company (laser cutting, bending, etc.) and services such as supply of utilities and renting available spaces.



1.1.1. b). Main markets for each product manufactured or service rendered and distribution methods

Our main market in 2012 was the domestic one, the sales volume on such market representing 96% of the turnover. The domestic market is an important one with a high potential if we consider the wear and tear of the farming machinery, equipment, and tractor park, the volume of equipment needed is estimated to increase efficiency and productivity in agriculture up to a level similar with the one in the European countries, and the fact that this sector remains an sizeable beneficiary of European grants.

On the domestic market, the main products valued were machinery and equipment of the entire production range made available for our customers by the overall offer valid for 2012. On this market, the company collaborated with a number of 30 agents distributed throughout the country, the most important ones being located in the traditionally farming areas. The sales volume recorded by means of agents was of 60% and direct sales to domestic beneficiaries were of 40%.



On the foreign market, the main products sold were sowing machines for hoeing plants, well known and appreciated by our foreign customers for their reliability. The sales volume recorded was of 4.0% of the turnover. On this market, our company has contacts with traditional customers who know and promote our products. At the same time, the company focuses permanently on identifying new customers who would help us re-launch export sales.

c). The size of each product category in the total turnover over the last three years

The size of the main products sold in the total turnover of the company over the last three years is as follows:

Share of the Turnover Products	2010	2011	2012
Sowing machines	53.5%	62.0%	59 %
Harrows	5.0%	5.0%	4 %
Controller and earth rammer	10.0%	6.0%	4 %
Ploughs	1.8%	1.0%	1 %
Cultivator and tillage cutter	9.0%	16.0%	16 %
Spare parts	9.0%	7.0%	8 %
Other products and services	12.1%	3.0%	8 %

d). New products considered for which a substantial volume of assets in the future financial exercise as well as the development stage of such products

The 2013 research – design programme relies on the requirements of the development of agriculture and offering new and modernized farming machinery and equipment, the development of technical and technological innovations in order to increase the quality and reliability of products as well as the diversity the offer portfolio.

The research – design programme includes the following objectives classified as follows:

- diversifying the first operations field (I) – manufacturing farming and forestry machinery and equipment:
 - designing and patenting new farming machinery;
 - modernizing the machinery in the manufacture programme.
- Extension of the second operations field (II) – manufacturing and trading equipment to process renewable energy sources.

In the field of farming machinery manufacture, our objectives were the following:

- ✓ Final patenting for three (3) farming machines (harrows and sowing machines);
- ✓ Patenting a prototype (sowing machine);
- ✓ Compiling the building documentation for two prototypes (cultivator and sowing machine);
- ✓ Modernizing the machines undergoing production (focus on machines in the entire production range).

In the second (II) operations field, (i.e., equipment for processing renewable energy sources) we will conduct activities with a view to:

- ✓ Finalising the on-going projects and introducing them in production, as follows:
 - Photovoltaic panel lighting system and the 600 W vertical axis wind turbine;
 - Photovoltaic panel lighting system and the 2,000 W horizontal axis wind turbine;
 - Equipment for *miscanthus* (i.e., planting rhizomes and harvesting tall plant).

✓ Patenting cutting, feeding, and shredding equipment for energy willow stems and compiling the building documentation for the prototype. This objective is financed from government non reimbursable funds for the project “Promoting the cultivation of energy willow (*salix viminalis*) in Romania as a clean alternative energy source”, submitted in partnership with INMA Bucharest and Green Energy Sf. Gheorghe Association.

1.2.3. Assessment of technical and material supply (domestic sources, import sources)

In 2012, the activity of raw material procurement was carried out problem-free ensuring the material base necessary for production on time. Our trading relationships with suppliers relied on sales-purchase agreements that provided the delivery and payment terms. Throughout 2012, the level of purchase price was relatively constant except for variations of the leu/euro exchange rate.

The categories of suppliers we worked with in 2012 are grouped as follows:

- manufacturers or traders on the domestic market for metallurgical products (profiles in steel, plate, pipes, etc.), assembly parts, bearings, tyres, etc.;
- domestic manufacturers of parts made of steel, cast iron died, plastic, and service providers for forged parts, mechanical processing, and metal coating;
- foreign manufacturers from Germany, Poland, and Italy for parts and subassembly necessary to the products manufactured under “Lemken” license, for hoeing plant sowing machines and tillage cutters.

The total value of imports represented 3.4% of total raw materials and materials purchases in 2012.

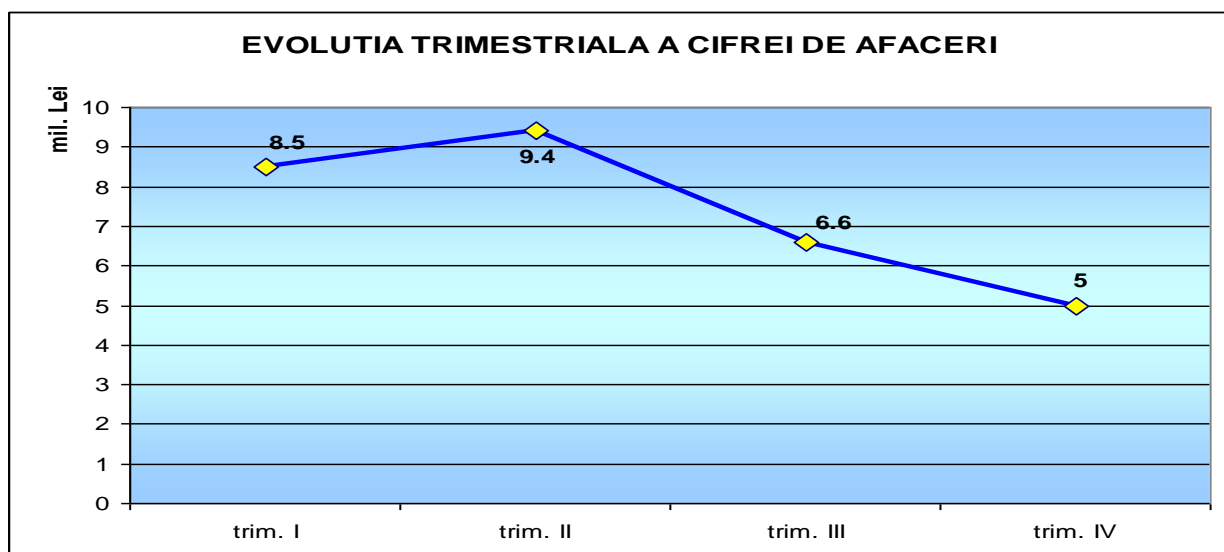
1.2.4. Assessment of sales operations

a) Description of sales evolution by sequence on the domestic and/or foreign markets and medium and long term perspectives of sales

The turnover in 2012 was of LEI 29,496,698, i.e., in excess by 8.25% of the level approved by BVC.

From the structure viewpoint, the turnover was achieved by sales of 996% of our own production, goods 1 %, and other sales 3%. Sales from our own production increased by 6% as compared to 2011.

The quarter evolution of the turnover shows that there was a decrease in the latter part of the year due to the poor yield of the farmers mainly caused by the prolonged drought.



The good outcome obtained in the first part of 2012 can be explained as a consequence of the large yields of the farmers in 2011, these yields generating appropriate income. Moreover, export sales were conducted mainly in this first part of the year.

For the future, we consider that the domestic farming machinery market will continue to grow on a long-term. Our assertion relies on the statements of all actors involved in sustaining the agricultural sector, which has to become an increasingly important sector of the national economy.

b) Description of the competitive situation in the company's field of operations and of the main competitors

Competition in the field of farming machinery can be classified as follows:

- well-known companies, renowned in the field, which practise relatively high prices and aim primarily at supporting investment projects with European funds carried out by large farms. Such companies (e.g., Maschio-Gaspardo, Class, Lemken, New Holand, John Deer) have their own financial support that allows them to finance major stock levels, available on the market at any time, can afford to provide customers with important facilities (e.g., large discounts, grace periods, transport included, etc.);
- non-EU traders of farming machinery practising low prices, agreed by a large market share due to the lack of liquidity on the market;
- traders of used machinery originating mainly in the European Community at highly affordable prices under the current economic circumstances;
- domestic manufacturers, the most important of which is MAT Craiova, a competitor for some of the products in our portfolio.

c) Description of any significant dependence of the company on a single customer or group of customers whose loss would have a negative impact on the company revenue

The Overall Farming Census has revealed a number of 3,856 thousand agricultural exploitations, 3,825 thousand of which are non legal entity exploitations and 31 thousand are legal entities. Of the total agricultural area used, 55% belong to the non-legal entity exploitations and 45% to the legal entities. Bearing in mind the diversity and the large number of agricultural exploitations, our company cannot reach the point where it would rely on one or a limited group of customers.

1.2.5. Assessment of aspects related to the company employees / personnel

a) Details on the number and educational background of the company's employees and the degree of labour force organised in unions

The average number of the company employees in the year 2012 is as follows:

Personnel category	Average number
- directly productive workers	132
- indirectly productive workers	13
- staff (technical, economic, admin.) [TESA]	61
TOTAL employees	206

From the total number of 206 employees, 52 have higher education in the field, 34 have secondary education, and 120 employees are leavers of vocational schools or have in-service skill training at trades specific to the company: locksmiths, welders, turners, painters, etc.

Moreover, professional in-service training has been done through training and development in areas such as cutting, turning. A total number of 90 employees attended such courses organised by the company as well as multiple qualification training courses in ISCIR-authorized areas. The funds distributed for such training amounted to LEI 14,775.

Employees, members of the Union activate in two unions:

Free Union “Ceahlău” has 78 members, employed in production;

Free Union “TESA” has 116 members, employed in production and the functional compartments.

In compliance with the provisions of the Collective Working Contract, the employees benefit from protective and working equipment, antidote, support for severe health conditions and other benefits, dinner vouchers.

The employees, the former employees and their families can benefit from financial support and medical treatment provided directly by the “Mecanica Ceahlău humanitarian Foundation”, an independent entity from a financial and organising point of view.

b) Description of the relationships between managers and employees as well as any of conflict-related elements characterising these relationships

The relationships between the executive management and the employees aim at promoting and implementing equal opportunity principles which are meant to allow for the operation of the company to be conducted profitably, to secure financial balance and payment capacity, based on the return and expenditure budgets and the programmes of operations approved, and thus to ensure social security for the employees as well as to avoid any work-related collective conflicts.

1.2.6. Assessment of aspects related to the impact of the company main activity on the environment

Mecanica Ceahlău S.A. was issued the environmental authorisation No 159 of 17/06/2010, 17/06/2020, based on the documentation of operations and of the environmental conclusions.

In 2012, the laboratory of the Neamt County Agency for Environmental Protection conducted tests on soil, waste water, and fumes. The results of these tests reveal values below the admissible limits, hence insignificant pollution. Noise levels, measured outside the production areas, range within the admissible limits.

The checking conducted by the Neamt County Commissioner of the Environment Guard in 2012 mentioned in the Inspection Report No 282 of 10/12/2012 revealed no issues that would affect the impact of the main operations on the environment, nor have inconsistencies been ascertained as to the activity related to environmental protection.

Mecanica Ceahlău S.A. has never had and is not likely to have any disputes related to any breach of the legislation on environmental protection. There is a plan in place, with terms and responsibilities, with a view to preventing accidental pollution.

Mecanica Ceahlău S.A. has implemented and has applied ever since 2011 an integrated system of quality – environment management in compliance with ISO 9001 and ISO 14001. In 2012, the certifying body TUV-SUD conducted a monitoring auditing of the environmental management system in compliance with SR EN ISO 14001. The auditors have made several recommendations with a view to improving the environmental management processes.

1.2.7. Assessment of research and development activities

The research and development activity is planned conducted, and monitored on a yearly basis against the technical plan.

The main objective of the research and development activity is the extension of the offer portfolio with farming equipment and machinery that would meet the world trends in terms of mechanization of agriculture and modernization of the in-progress manufacture of farming machinery and equipment, by knowing the results of the research in agriculture, soil preparation and cultivation.

The objectives approved in the research and development programme “The 2012 Technical Plan”, amounting to a total LEI 312,770, are grouped under the following chapters:

- Objectives aiming at diversifying the first (I) operations field, i.e., “manufacture of farming and forestry machinery and equipment”, which include design and patenting of new farming machinery and equipment; modernization of farming machinery and equipment undergoing manufacturing; other current specific design activities;
- Objectives aiming at implementing the second (II) operations field, i.e., “manufacture and trading of renewable energy sources processing equipment”;
- Objectives financed from government funds and structural non reimbursable funds.

Carrying out such objectives, the activities conducted and the outcome thereof compliant with the chapters provided under the 2012 Technical Plan, structured as per the research and development programme were as follows:

1. New machinery patented for serial production:
 - sowing machines for hoeing plants SUP 32 DKFL;
 - medium disc and roller harrow GD 4,4.
2. Prototypes:
 - 12-row sowing machines for hoeing plants, with SPC 12 FSL alongside fertilizer and transport.
3. Modernization of farming machinery and equipment undergoing manufacture (e.g., soil preparation machinery, sowing machines, and cultivators).

Within the second (II) operations field, the prototype “*Miscanthus tall plant harvesting machines*” based on the building documentation purchased from INMA-Bucharest in 2011. Moreover, an alternative energetic system has been performed and is currently undergoing testing (i.e., wind-driven solar panel driven power generator) in order to supply the power needed to lit the area of the farming machinery exhibition and of the building at the main entrance to the company.

The experimental model of a photovoltaic panel lighting system and the vertical axis wind turbine are undergoing the final stages. They are intended to ensure the power supply for the public parking area at the location in Str. Aurel Vlaicu in Piatra Neamț.

A hot water ring system was also performed (using the solar panels already existing in the company), which serves the building at the main gate of the company.

The objective financed from non reimbursable government funds is the project “Promoting the cultivation of energy willow (*salix viminalis*) in Romania as a clean alternative energy source”, submitted in partnership with INMA Bucharest and Green Energy Sf. Gheorghe Association.

The project will be developed over three years (i.e., 2012 – 2015) at a total value of LEI 2,156,239. The amount granted to “Mecanica Ceahlău” is of LEI 685,390, of which the amount of LEI 372,000 represents non reimbursable funds and the amount of LEI 313,390 represents own funds, respectively.

Expenditure breakdown for 2012

In 2012, expenditure on research and development activities amounted to LEI 298,838 and contributed to carrying out the following objectives:

- Objectives aiming at diversifying the first (I) operations field, i.e., “manufacture of farming and forestry machinery and equipment”, in the amount of LEI 66,743;
- Objectives aiming at implementing the second (II) operations field, i.e., “manufacture and

trading of renewable energy sources processing equipment”; in the amount of LEI 95,169;

- Objectives financed from government non reimbursable funds, amounting to LEI 130,770, of which LEI 85,000 represents non reimbursable funds and LEI 45,770, the company own sources;
- ✓ Fees due for invention patents applied in production, in the amount of LEI 3,888;
- ✓ Fees due for invention patent No 201200208, in the amount of LEI 2,268.

Expenditure breakdown in 2013

The value estimated to carry out the objectives in the 2013 Technical Plan amounts to LEI 585,828, broken down as follows:

- ✓ LEI 238,621 – diversifying the first (I) operations field ;
- ✓ LEI 347,207 – extending the first (II) operations field (of which LEI 160,207, funding from own sources and LEI 187,000, non reimbursable funds from the state Budget, respectively).

1.2.8. Assessment of the company activity with a view to risk management

a). Description of the company’s exposure to price, credit, liquidity, and cash flow risks

In terms of *risk management*, we consider as basic principles the following: drafting materials with a view to identifying, measuring, and controlling risks associated with each potential decision and improvement of the company management performance in the context of defining, measuring, and assessing consequences, adopting uncertain decisions.

Risk management policies used by the company to deal with such risks are described in the paragraphs herein below.

a) Market price risk

Market price risk is the risk that prices of goods purchased and sold may fluctuate unfavourably as a result of market price changes. Covering the market price the company is subject to is administered by concluding firm contracts with business partners, both suppliers of raw materials and customers.

- **Credit Risk**

Credit risk occurs whenever a partner’s failure to fulfil its obligations could reduce in-coming cash flow from the current trading receivables as of the balance sheet date. The company is not exposed to significant credit risk.

The company management applies specific policies to ensure that the sale of products and services against payment on time is made by reliable partners so that trade credit granted be recovered under the contract provisions.

If there is insufficient information about a customer or if there is some risk to its solvency, the company uses certain methods such as advance payment or payment guarantee (promissory notes or cheques).

The company has also internal control mechanisms which continuously monitors the age of receivables.

b) Liquidity Risk

Liquidity risk occurs whenever due debts cannot be paid due to lack of availability generated by failure to cash due receivables, i.e., malfunction between collection of expected availability and payments to be made occurs. The company policy with respect to liquidity risk is to ensure, as far as possible, that the company has at all times sufficient cash to pay its debts when they fall due. Moreover, by means of the loans to finance current activities, the company can fill the cash gap that may occur at a given time. There are procedures to monitor such malfunction.

- **Currency Risk**

Currency risk is the risk that the national currency may weaken against the major currencies. Currency risk occurs whenever the company’s commercial transactions are conducted in a currency

other than the local one, or depending on the exchange rate of a foreign currency. End products of the company are sold on foreign markets as well, and some of the goods necessary for the activity are purchased on foreign markets, being mainly expressed in currencies such as the euro. The company management monitors the fluctuations in the exchange rate of the currency receivables, payables, the contracts the company are expressed in, intervening whenever possible with procedures to cover such risks.

- **Interest rate risk on cash flow**

Interest rate risk is the risk that for the value of the interest may fluctuate due to the changes undergone by interest rates on the inter-bank market. The result of the financial activity or cash flows of the company may be affected by interest rate fluctuations on the market, as the company has short-term loans, which bear interest and a variable component as well. The company management monitors on a permanent basis the interest rate fluctuations and act accordingly.

- **Economic environment risk**

The effects of the deterioration of economic conditions worldwide and in Romania have affected adversely the activity of all participants in the economy, the company's activities making no exception. Although there are signs of mild invigoration of the economic state of affairs, it is difficult to predict whether this trend will continue or whether there is any possibility for such economic indices or economic conditions to become worse.

b). Description of the company policies and objectives with respect to risk management

Mecanica Ceahlău S.A. monitors risks by means of the policies implemented for the following risks identified:

- strategy risk - the occurrence of some risks unforeseen in the general strategy of the company, due to risks at the macroeconomic level;
- economic environment risk - risks due to changes in the local, national, European, or world economic environment;
- risk of continuing operations - the possibility of losing some key suppliers due to the relatively reduced supplier portfolio;
- risk of the plan to continue the operations - risks due to the lack of some contingency plans to continue operations in extreme situations;
- competition risk - a risk due to the intensification of competition and failure to identify counter-solutions thereof.

The company management considers that they take all steps necessary to support the growth of the operations under the current market circumstances by:

- preparing some strategies to manage the liquidity crisis and setting some measures to prevent liquidity crises like to occur;
- constant monitoring of liquidities;
- providing provisions for the current liquidity;
- daily monitoring of treasury flows and assessment of effects on its creditors of the limited access to funds and the possibility to grow its domestic operations.

Internal Checking

In Mecanica Ceahlău S.A., ensuring internal control focuses mainly on the internal accounting and financial control and internal auditing.

In as far the internal control is concerned, we focus on the following basic principles:

- Observance of regulations specific to the company activity;
- Observance of internal norms of the working procedures and resolutions of the management and surveillance of the company operations.

Internal accounting and financial control of the company considered the assurance of accounting and a financial monitoring of the operations in order to meet the objectives defined.

In terms of accounting rules, the company has drafted:

- the accounting policy manual;
- procedures to apply such manual;
- knowledge of the development of accounting and fiscal legal framework;
- conducting specific checking in sensitive areas;
- identifying abnormalities and their appropriate treatment;
- adjusting computer software to the needs of the entity;
- compliance with accounting regulations;
- ensuring accuracy and comprehensiveness of accounting books;
- observance of the quality of the data in the books and financial statement so that they would satisfy the users' needs.

Internal auditing

Internal auditing is an independent and objective activity providing the company with the control over its operations, guidance with a view to improving their operations and contributes to adding value.

Internal auditing was conducted pursuant to the commitment plan established in compliance with the company objectives. Internal auditing plan and the necessary resources were approved by the Board of Directors. The 2012 Auditing plan was approved in the meeting of the Board of Directors held on 26/01/2012.

The plan of the internal auditing assignments relied on risk assessment underlying the definition of the internal auditing action priorities consistent with the company objectives.

When planning each assignment, the following were considered:

- the objectives of the activity assessed and the means to check such activity;
- the significant risks related to the activity and the means to maintain the potential risk impact at an acceptable level;
- how adequate and efficient the risk management and control systems are, with respect to the checking framework;
- the opportunities to significantly improve the risk management and control systems.

When designing the objectives of the assignment, we considered that there might be errors, inconsistencies, non-compliance, and other such significant exposures.

The internal auditing was conducted under the following forms:

- assessment of the management and internal checking systems – system auditing;
- assessment of the outcome with respect to the objectives set and examination of the actual impact – performance auditing;
- to ensure that procedures and operations are compliant with the regulations – regulation-compliance auditing.

The internal auditing activity assessed the exposure to the risks related to the company governance, operations, and computing systems with respect to:

- reliability and integrity of financial and operational data;
- efficiency and effectiveness of operations;
- protection of assets;
- observance of laws, regulations, and contracts.

Activities conducted by the internal auditing in 2012 concern the following:

1. *Inventory of items of assets, debts, and own capitals*

Auditing was conducted between 23/01/2012 – 14/02/2012 and 16/03/2012 – 31/03/2012, respectively. The auditing conclusions were presented in the “Internal Auditing Report on the results of the auditing operations related to the inventory of the items of assets, debts, and own capitals”;

2. *Drafting the annual financial statements as of 31/12/2011*

Auditing was conducted between 15/02/2012 and 15/03/2012. The results of the auditing were presented in the “Internal Auditing Report on the annual financial statement drafts as of 31/12/2011”;

3. *Purchase of goods and services*

Auditing was conducted between 01/04/2012 – 27/06/2012 and 21/07/2012 – 26/08/2012, respectively. The auditing results were presented in the “Internal Auditing Report on the results of auditing operations related to purchase of goods and services”;

4. *Drafting the bi-annual accounting reports*

Auditing was conducted between 28/06/2012 – 20/07/2012. The auditing results were presented in the “Internal Auditing Report on compiling the bi-annual accounting reports as of 30/06/2012”;

5. *Observance of principles, methodological rules and procedures with respect to compiling the financial statements as of la 31/12/2012.*

Auditing was conducted between 01/03/2013 – 15/03/2013. The auditing results were presented in the “Internal Auditing Report on the 2012 financial statements”.

Internal auditing reported to the Board of Directors on the purpose of auditing, the authority, responsibility, and performance compliance to the plan. The reports include significant risks and aspects of the control and management as well as other issues requested by the Board of Directors.

In the internal auditor’s opinion, the outcome of the activity, conclusions, recommendations as well as the measures applied throughout the development of the audit were included in the internal auditing reports that were submitted to the Board of Directors.

Based on the conclusions and recommendations of the internal auditing, the Board of Directors resolved that necessary steps should be taken in order to manage the risks identified.

1.2.9. Prospective Elements regarding the company trading operations

a) Presentation and analysis of trends, elements, events or uncertain factors affecting or that may affect the company liquidity as compared to the same period of the previous year

The company liquidity is obviously dependent on the farming machinery market liquidity. The latter is influenced by a series of factors related to governmental policies oriented to this economic sector, which needs supporting in order to become efficient.

From this point of view, the situation has not changed as compared to the same period of the previous year. Besides, due to the liquidity crisis, some customers may encounter insolvency.

b) Presentation and analysis of effects the current or anticipated capital expenditure may have on the company financial standing as compared to last year

In 2012, no capital expenditure was recorded, nor is such expenditure estimated to be recorded in 2013.

c) Presentation and analysis of events, transactions, economic exchanges which may affect a significantly the company returns from its main operations

The farming machinery market and agriculture in general undergo permanently some financing constraints and, from this point of view, farmers are highly vulnerable to the exposure of internal or external shocks.

Weather conditions, the difficult absorption of European funds, lack of crediting, and a hostile economic environment may affect the company returns from its main operations.

2. THE COMPANY TANGIBLES

2.1. Details on the location and characteristics of the main production capacities in the company property

The main locations in the company property are:

- Location in Piatra Neamt, str. Dumbravei nr. 6
 - area of premises = 141,248 mp, land + building(s)
 - built area = 49,214 mp din care:
 - a) production areas = 32,609.13 mp,
 - b) available areas = 16 604,87 mp
- Location in Piatra Neamt, str. Aurel Vlaicu nr. 34
 - area of premises = 23,235 mp, land + building(s)
 - built area = 5,693 mp, din care:
 - a) production areas = 0 mp,
 - b) available areas = 5,693 mp
- Location in the town of Tg. Neamt (*extra muros*), Valea Seacă lot = 6,691 mp, Available area 6,691 mp.

2.2. Description and analysis of wear and tear of the company properties

Mecanica Ceahlău S.A. has a total number of 933 assets, with an inventory value of LEI 24,746,878 and a value to be amortized of LEI 12,464,219.

According to the classification code and wear and tear, such fixed assets can be grouped as shown in the table below:

- LEI -

Group	Inventory Value	Amortization Value	Remaining Value	Average wear&tear (%)
Constructions	9,327,313	2,389,175	6,938,139	25.61
Technical installations and machinery	15,231,825	9,770,916	5,460,908	64.14
Other installations, equipment, and furniture	187,740	122,568	65,172	65.29
TOTAL	24,746,878	12,282,659	12,464,219	49.63

2.3. Stating potential issues related to right of ownership over the company tangibles

Mecanica Ceahlău S.A. has no issues related to the right of ownership over the company tangibles in the company patrimony.

3. THE MARKET OF MOVABLES ISSUED BY MECANICA CEHLĂU S.A.

3.1. Stating the Romanian and foreign markets the movables values issued by Mecanica Ceahlău S.A. are being negotiated

The shares of Mecanica Ceahlău S.A. are transacted only on the Bucharest Stock Exchange [Bursa de Valori], symbol MECF category II.

3.2. Description of the company policy on dividends

Mecanica Ceahlău S.A. capitalised the net profit of the financial exercises between 2004 and 2007, such option being both in the shareholders' interest and in the company's.

The outcome related to the 2008 and 2009 financial exercises, the outcome of loss, hence, there were no dividends granted.

In 2010, the profit obtained was assigned to covering the loss in previous years.

The 2010 and 2011 financial exercises net profit was used to cover the loss in the previous years.

The Board of Directors proposes and recommends to the General Shareholders' Meeting that the net profit of the 2012 financial exercise, as per RAS 3055/2009) to be distributed as follows:

- LEI -

Net Profit to be distributed:	7,406,938.00
Legal reserves	357,959.00
Covering the outcome reported accounting loss in the previous years	4,303,125.00
Covering the outcome reported generated from correction of accounting errors	28,135.00
Covering the outcome reported generated from transition to the implementation of IFRS, less IAS 29	1,252,853.00
Reserve fund	25,415.24
Dividends	1,439,450.76

3.3. Description of any company activity with respect to purchasing own shares

Mecanica Ceahlău S.A. has not purchased its own shares.

3.4. Stating the number and nominal value of shares issued by the mother company held by subsidiaries

Mecanica Ceahlău S.A. has no subsidiaries.

3.5. Bonds and/or other receivables titles issued by Mecanica Ceahlău S.A.

Mecanica Ceahlău S.A. has not issued bonds or other receivables titles.

4 THE COMPANY MANAGEMENT

4.1. The company managers

The Board of Directors of Mecanica Ceahlău S.A., elected by the Ordinary Shareholders' General Meeting on 27/04/2012, has the follows members:

Chair, non executive: Bontaș Dumitru, 66, an engineer, a graduate of the "Gheorghe Asachi" Technical University in Iași, Faculty of Mechanics, major: Machinery and Tools. Other specialities: PhD, academic (professor) of subjects such as "Business Management," "Human Resources Management," and "General Management" at "George Bacovia" University in Bacău, representative of Owners' Association UGIR Bucharest, member of the Board of Directors of SIF Moldova SA [Financial Investment Company Moldova] SA Bacău. He has been chairing the Board of Directors since 29/06/2008. Re-elected in this position on 27/04/2012.

Personal data CNP: 1460714040016, residence: municipality of Bacău, Tre. 9 Mai, nr. 1.

Deputy Chair, non executive: Marin Liana, 56, an economist, a graduate ASE Bucharest, Faculty of Economic Cybernetics, course in economic management - England, course in international standard of auditing, course in financial management – CODECS, consultant in investment, financial auditor, member of the Chamber of Financial Auditors in Romania, an expert accountant, a CECCAR member, a master degree in financial and accounting management, 32 years experience in the field, a director of finances of SIF Moldova SA [Financial Investment Company Moldova] SA Bacău. She has been the Deputy Chair of the Board of Directors since 29/06/2008. Re-elected as administrator on 27/04/2012 and as Deputy Chair on 31/05/2012.

Personal data CNP: 2570103040047, residence: municipality of Bacău, Str. Mihai Viteazu, nr.1, sc. B, apt. 14.

Member of the BoD, non executive: Eșanu Vasile Romeo, 52, an engineer, a graduate of “Gheorghe Asachi” Technical University in Iași Faculty of Civil Engineering, major: Installations. Other specialities: expert evaluator a) company evaluation, b) evaluation of movable assets, c) evaluation of real estates, legal and administrative proceedings for liquidation of companies, capital placements and stock market operations, courses organised by CNVM, accounting, courses organised by CECCAR, Enterprise Evaluation Cooper & Lybrand, SWOT analysis and portfolio management, consultant for investments CPS Millennium. He has been a member of the Board of Directors since 29/06/2008. Re-elected in this position on 27/04/2012.

Personal data CNP: 1601118040044, residence: municipality of Bacău, Str. Livezilor, nr.8, sc. B, apt. 8.

Member of the BoD, non executive: Ianculescu Carmen, 44, consultant in international business, a graduate of the Romanian - American University in Bucharest. Other specialities: a master degree in international business. She has been a member of the Board of Directors since 29/01/2010. Re-elected as administrator on 27/04/2012.

Personal data CNP: 2680924463016, residence: municipality of Bucharest, Al. Valea Boteni, nr.2, bl. D46, sc. A, apt. 15.

She represents the shareholder at the ROMANIAN OPPORTUNITIES FUND in the Board of Directors.

Member of the BoD, non executive: Munteanu Tudor Marius, 57, TCM Engineer, Manufacturing Engineering Department, Polytechnic Institute of Bucharest, courses in capital market, PhD, 32 years in the profession; he was elected as member of the Board of Directors on 27/04/2012. He also served as a member of the Board of Directors during 1997 - 1999 and Chairman of in the intervals 10/06/1999 - 09/08/2003 and 08/07/2005 - 29/06/2008. In the period January 2001 - December 2004, he served as Senator in the Parliament, Member of the Commission of Defence, Public Order and National Security Standing Committee and Chairman of Special SIE activity control. In the period October 2009 - December 2010 he was an Economic Adviser and Director of the Bureau of Trade and Economic Promotion of Romania in Rabat.

Personal data CNP: 1560815270626, residence: municipality of Piatra Neamț, Str. George Coșbuc, bl. A3, sc. A, apt. 16.

a) Agreements, understandings, or family relations between the administrator and a third party whom the administrator owes their appointment

There are no known agreements, understanding, or family relations between the respective administrator and a third party to whom such administrator owes their appointment.

b) Participation of the administrators to the company social capital

On the date of 31/12/2012 only one administrator, Munteanu Tudor Marius, was holding a number of 318,060 shares. The other members of the Board of Directors do not hold any shares in Mecanica Ceahlău S.A.

c) List of people/entities affiliated to the company

SIF Moldova S.A. is an entity affiliated to the company.

4.2) Members of the executive management

The executive management of the company includes:

Director General – Timaru, Neculai, 61, a graduate of Polytechnic Institute in Bucharest, Faculty of Agricultural Mechanics. Post-graduate courses in management and various professional development course in the country and abroad. Experience: 36 years, of which 21 as a director or CEO.

Director of Trade – Botezatu, Cornel, 55, a graduate of the Polytechnic Institute in Iasi – Faculty of Technology of Machine Engineer. Training courses in “Management of Restructuring and Development of Economic Agents,” and “Business Management,” “Project Manager” Certificate. Activity in the company: 32 years, of which 17 years in the managerial team.

Director of Finances – Marian, Gabriela, 56, PhD in Economics - ASE Bucharest, Faculty of Management; a graduate of the Faculty of Economic Sciences, “Alexandru Ioan Cuza” University Iași, major: Economics of Industry, Constructions, and Transport; financial auditor, member of the Chamber of Financial Auditors in Romania; project manager, certificate of completion Serial E 0208426 MMFES and MEET; accounting expert, a CECCAR member. Total experience in economic positions: 32 years, of which 20 in managerial positions.

The executive directors’ activity runs under “Mandates” drawn in March 2009, which is the latest additional document valid until 30 April 2013.

a) Agreements, understandings, or family relations between people in the executive management and a third party appointed as a member of the executive management

There are no known agreements, understanding, or family relations between people in the executive management and a third party appointed as a member of the executive management.

b) Participation of the executive management to the company social capital

Participation of the Executive Management to the company social capital on 31/12/2012 is as follows:

Last and first name	Number of shares held in Mecanica Ceahlău S.A.	Percentage of total (%)
Timaru Neculai	3,690	0.00154
Botezatu Cornel	330	0.00014
Marian Gabriela	149,670	0.06239

4.3) Disputes or administrative procedures involving the managers and members of the executive management over the last five years

Over the last five years, there have been no known disputes or administrative procedures concerning the activity within the company of the managers or members of the executive management.

The managers and the members of the executive management have concluded civil liability insurance policies.

4.4) Elements of corporate governance

Throughout and prior to 2012, Mecanica Ceahlău S.A. has displayed due concern to applying OECD principles of Corporate Governance and to the Code of Corporate Governance of the Bucharest Stock Exchange [BVB].

The Board of Directors consists of five members, a number that corresponds to the current and future needs of the company. A chairperson and a deputy chair were elected in the Board. The chair of the Board is not the CEO, nor do the other members of the board hold executive positions in the company.

The Auditing Committee was set up on 29/06/2008, and the Appointing Committee and the Salary Committee were created on 17/11/2009. Each consulting committee has their own action plan approved each year by the board of Directors.

In the company, the position of a secretary general of the Board of Directors was created. Such position involves specific assignments in ensuring the framework required by good preparation of analyses in the board meetings and general shareholders' meetings, record keeping, and monitoring the resolutions adopted when such analyses are conducted.

Both in 2012 and in the previous years, a fair/equal treatment of all shareholders was ensured by promoting effective and active communication with them.

Necessary conditions were provided to shareholders regarding information on financial outcome and on aspects relevant to the company activity, both posted on the company website and via General Secretariat of the Board of the Directors.

Taking into account that over 39% of the company shares are held by shareholders residing abroad, materials related to convening the meetings and development of the general meetings have been posted on the company website both in Romanian and in English.

Following the concern of the Board with respect to harmonizing the shareholders' interest with the company's interest, in 2012, we succeeded to ensure significant attendance of shareholders at such general meetings. All meetings were held with a representation ratio of 76% of the total number of shares issued by the company.

With respect to the issues analysed and resolutions taken in the general shareholders' meetings in 2012, reports were prepared and posted/published in compliance with legal regulations in force. Moreover, in 2012, two ordinary shareholders' general meetings were held where 19 resolutions, with 26 articles, were adopted, all being fulfilled. As to how such resolutions were fulfilled, periodical memos and reports were disseminated in the meetings of the board of Directors.

In order to analyse various aspects of the company, in 2012, the Board of Directors convened in 10 working sessions. Each of these sessions was attended by the executive directors, and sometimes, depending on the items on the agenda, other people were invited and attended.

On the board of directors' agenda, pursuant to the annual topics, there were monthly analyses as detailed below:

- as to the production and services field: the fulfilment of the production plan for the previous month; the project of the production schedule for the following month, and preliminaries for the current month; the project of the production programme for the following month; the stage of the implementation of the second operations field;

- as to the trading field: the fulfilment of the sales programme for the previous months and preliminaries for the current month; the project of the sales programmes for the following month; ensuring the material basis necessary to carry out the production programme for the following month; status of the company disputes and amounts in dispute at the end of the previous month, reconciling actions initiated and in progress, outcome recorded and value of the amounts recovered;

- as to the economic and financial field: achievement of the return and expenditure monthly budget and cumulated and the project of return and expenditure budget for the following month ;

- as to ensuring internal checking: presentation of reports according to the annual schedule; the programme of the implementation of prevention and unitary checking; the stage of fulfilment of the resolutions adopted by the Shareholders' General Meeting and the Board of Directors.

The Board of Directors analysed on a quarterly basis:

- as to the production and services field: the monthly break down of the Production Programme pertaining to the following quarter; achievement of objectives set in the Investment Programme, the Research and Development Programme, the maintenance and repairs of equipment Programme in the previous quarter, and measures to be considered for the achievement of the programmes set for the

following quarter; the stage of achievement of the Action Plan on the location in Str. Aurel Vlaicu nr. 34;

- as to the trading field: the monthly break down of the Sales Schedule pertaining to the following quarter; the status of the debts recorded in trading relations; analysis of the structure of the end products stocks and of the amount of stock needed according to the season;

- as to the economic and financial field: quarterly reports for the 1st and 3rd quarters; the monthly break down of the return and expenditure budget for the following quarter; the structure of production costs and profitability of products sold in the previous quarter; the status of costs recorded and of the value of the production delivered against orders closed in the previous quarter.

In 2012, the following were also included on the agenda of the meetings of the Board of Directors: analyses on the overall management; of the human resources management, in the research department, constructive and technological design, the Report on the first Semester; the results of the patrimony inventory, and so on.

All the meetings of the Board of Directors were concluded with adopting resolutions on the issues analysed, resolutions introduced in the record and monitoring system set up at the level of the general secretariat. On a monthly basis, by means of such record and monitoring system, The Board of Directors was informed with respect to all resolutions adopted and the way such resolutions were implemented.

To this respect, we hereby report that in 2012, the Board of Directors adopted 37 resolutions, with 145 articles, of which 32 resolutions and 139 articles were fully implemented as of the date of this report. Five resolutions and 6 articles have been partial implemented or are in progress.

For 2013, the partially implemented or in progress resolutions pertaining to 2012 have been introduced in the record and monitoring system.

5. ECONOMIC AND FINANCIAL STATUS

Individual financial statements are compliant with the Order 881/2012 concerning the application thereof by the companies whose movables are accepted to be transacted on a regulated market of the International Financial Reporting Standards (IFRS) adopted by the European Union, in order to meet the users' information requirements with respect to the activity of Mecanica Ceahlau S.A. so that we increase the financial reporting transparency and credibility.

This is the first time Mecanica Ceahlau S.A. has presented annual individual financial statements drafted in compliance with IFRS. In order to draft the annual individual financial statements, the company has also applied the IFRS 1 provisions, i.e., "First Adoption of the International Financial Reporting Standards."

The books of Mecanica Ceahlau S.A. are kept in Lei, in compliance with the Romanian Accounting Regulations (RAS). These accounts were reprocessed to reflect the differences existing between the RAS accounting principles and the IFRS ones. Similarly, accounts according to RAS are adjusted, where necessary, so that the individual financial statements are harmonized, in all their relevant aspects, with the IFRS adopted by the European Union.

The most important modifications to the financial statements drafted in compliance with RAS, in order to align them with the IFRS requirements, focused on grouping some elements in more comprehensive categories; adjustments of items of assets, debts and own capitals; the calculation of the overall outcome and of the postponed annual tax on profit.

The IFRS-compliant individual financial statements for the financial exercise closed on 31 December 2012 were drafted with the assistance of the company A.B.A. Audit S.R.L Timișoara and are being auditing by the company Deloitte Audit SRL therefore following auditing they might be amended.

The currency of the reports on the financial statements is LEI.

The economic and financial standing is presented in the Annex 2, compared with the last two years.

a) Financial standing

Main items of assets:

- Real estates and constructions at a value of LEI 18,477,565 representing 40.18 % of total assets;
- Technical installations and machinery at a value of LEI 5,418,146 representing 11.79 % of total assets;
- End products and merchandise at a value of LEI 5,910,485 representing 12.86 % of total assets;
- Commercial debts at a value of LEI 7,138,691 representing 15.53 % of total assets.

Main items of liabilities:

- Reserves from revaluing at a value of LEI 13,329,404 representing 28.99 % of total liabilities;
- Capital - subscribed and paid at a value of LEI 23,990,846 representing 52.17 % of total liabilities;

b) Global result

Indices exceeding 20% of the total turnover:

- Production sold at a value of LEI 29,158,782 representing 98.86 % of turnover;
- Expenditure with raw materials and consumables at a value of LEI 9,587,237 representing 32.51 % of turnover;
- expenditure with personnel at a value of LEI 6,930,906 representing 23.50 % of turnover;

c) Cash – flow

Net cash flow generated from operations is represented under Subchapter 1.1.1 and Annexe 3.

d) Carrying out the BVC and of the objectives set for 2012

The return and expenditure budget for 2012, approved by A.G.O.A of 26.01.2012 was carried out as shown in the table below:

– Lei –

Item #	Indices	BVC 2012	Achieved IFRS	%
				4/3
1	Turnover	27,250,000	29,496,698	108.25
2	Total returns	26,500,000	31,772,480	119.90
3	Total expenditure	22,700,000	23,197,596	102.20
4	Gross Profit	3,800,000	8,574,884	225.66
5	Net Profit	3,800,000	7,406,938	194.92

The turnover reported for the BVC 2012 projection was achieved at a percentage of 108.25.

Total returns amount to LEI 31,772,480, i.e., 119.90 % as compared to the BVC 2012 projection. Having achieved total returns is owed mostly to exceeding the turnover by cu 8.25%.

Total stocks amount to LEI 7,969,226, i.e., an increase by LEI 226,179 as compared to the value recorded at the beginning of the year, owing to a 24.08% increase of end product and merchandise stocks.

Total expenditure amounts to LEI 23,197,596, i.e., 102.20 % as compared to the BVC 2012 projection.

The debts of the Company as of 31/12/2012. According to the analytical statements, the company has to recover debts representing end products invoiced but not cashed (customers' accounts and various debtors) amounting to LEI 7,138,691, whose size in the total debts is of 94.57%.

For the debts not cashed over a period exceeding 270 days and which are recorded in the customers' account, uncertain customers and various customers, against whom all legal procedures for the recovery of moneys have been open, the company has recorded adjustments, i.e., a total value of LEI

1,794,215 – in customers, and LEI 99,636 – in various debtors, respectively, in compliance with article 22, paragraph (1), letter “c,” of Law 571 Fiscal Code. The size of uncertain customers in the total debts is of 20.09%.

Debts – the company has recorded debts in the total amount of LEI 5,594,487, with a negative (favourable) variation, as compared to December 2011, of 57.90 %, i.e., a net amount of LEI 4,068,308.

Debts, from the point of view of their due settlement, can be classified in short-term debts (i.e., it is expected to be settled during a normal cycle of exploitation or it is exigible within 12 months from the date of the balance) and long-term debts (i.e., all the other debts that do not meet the previously mentioned criteria).

According to the data recorded in the financial statements and in the balances as well, the company’s debts are classified as follows:

- short-term debts (settlement up to <1 year): LEI 2,104,687: commercial debts (i.e., to suppliers or advance payments received from customers of 37.62%; other debts, including fiscal ones and debts concerning contributions to social security and postponed annual tax on profit of 61.10%.
- long-term debts (settlement over > 1 year): LEI 0.00.

The 2012 activity of the Board of Directors, of the Executive Management and of the employees of the company relies on the following overall objectives:

- to continue of the company’s operations;
- to offer products which by their quality-price ratio should ensure an increase of the market share;
- to ensure a high level of professional training for the employees
- to carry out the investment plan;
- to carry out the research and development programme.

In 2013, the Board of Directors shall monitor the efficient administration of resources and the consistent application of the strategies adopted by the Shareholders’ General Meeting, observing, at the same time, the principles of the integrated “quality – environment” management. Hence, the specific objectives, approved in the return and expenditure budget, and the activity programmes will be carried out with predictable beneficial outcome for the shareholders.

CHAIR OF THE BOARD OF DIRECTORS,
Dumitru Bontas

DIRECTOR GENERAL,
Ing. Neculai Timaru

DIRECTOR OF FINANCES,
Ec. Gabriela Marian

**THE INVESTMENT PROGRAMME
ACHIEVEMENTS 2012**

Item #	Objective	Value of the objective in the investment programme for 2012 (LEI before VAT)	Value achieved in 2012 (LEI before VAT)	Remarks
0	1	2	3	4
1	CHAPTER I TECHNOLOGICAL DEVELOPMENT	2,066,750	525,001	
	<i>Modernization of the mechanical processing flow</i>	875,000	362,701	
1.1	<ul style="list-style-type: none"> • Endowing the technological lines with: a) Turning processing unit, with tillage possibilities, with CNC = 1 piece b) Vertical tillage processing unit, with CNC = 1 piece c) Screw compressor = 1 piece 	<ul style="list-style-type: none"> a) 475,000 b) 400,000 	<ul style="list-style-type: none"> a) 362,701 b) ----- c) 19,575 	
	<i>Modernization of the thermal treatment flow</i>	506,000	34,067	
1.2	<ul style="list-style-type: none"> • Endowing the thermal treatment flow with: a) High frequency current chilling machine MCU 500 = 1 piece • Modernization of installations and machinery: b) Oil tank cooling installation of chilling baths c) Controlled atmosphere TT kiln =1 piece 	<ul style="list-style-type: none"> a) 360,000 b) 50,000 c) 96,000 	<ul style="list-style-type: none"> a) ----- b) 34,067 c) ----- 	<ul style="list-style-type: none"> a) Given up on profitability grounds c) Given up on profitability grounds
	<i>Setting up plastic injection shop</i>	582,000	0	
1.3	<ul style="list-style-type: none"> • Endowing plastic injection machine type KM 200/1000 CX 	582,000	-----	Given up on profitability grounds
	<i>Modernization of spray-painting installation</i>	11,250	0	
1.4	<ul style="list-style-type: none"> • Modernization of monitoring system and pilot-flame ignition 	11,250	-----	Resumed in 2013
	<i>Modernization of quality technical check</i>	92,500	108,658	
1.5	<ul style="list-style-type: none"> • Endowing with a pick-up truck • Endowing with measuring and control devices 	<ul style="list-style-type: none"> 47,500 45,000 	<ul style="list-style-type: none"> 108,658 ----- 	-----
2	CHAPTER II ENERGY, UTILITIES, SERVITUTES	500,000	815,170	
2.1	<i>Modernization of "Distribution Ring" industrial water and Fire Prevention and Fighting</i>	400,000	815,170	
2.2	<i>Modernization of Transformer Units</i>	100,000	-----	Resumed in 2013

3	CHAPTER III ENVIRONMENT, HEALTH AND SAFETY, WORKING CONDITIONS	139,500	5,709	
3.1	<i>Endowing with gas exhaustion systems, two kilns to melt aluminium, and required forming benches</i>	<i>139,500</i>	-----	<i>Resumed in 2013</i>
3.2	<i>Extension of the gas-fuelled infrared heating installation in the Mechanical Processing Shop</i>		<i>5,709</i>	
4	CHAPTER IV MODERNIZATION OF ASSETS	150,000	98,703	
4.1	<i>Modernization of the asset located in Str. Aurel Vlaicu nr.34</i> Development of public parking area	<i>150,000</i>	<i>98,703</i>	<i>Development of administrative building Purchase of access barrier</i>
5	CHAPTER V ENDOWMENT	30,000	80,627	
5.1	<i>Endowment with computers, office equipment and communication</i>	<i>30,000</i>	25,916	
5.2	<i>Endowment with assets obtained from prototypes developed within Activity Field II</i>		54,711	
	a) Electric energy installation with wind turbine and photovoltaic panels b) Solar panel hot water installation		a) <i>44,981</i> b) <i>9,730</i>	
TOTAL VALUE INVESTMENTS SCHEDULED IN 2012 (LEI)		2,886,250	-	
TOTAL VALUE INVESTMENTS ACHIEVED IN 2012 (LEI)		-	1,525,210	

DIRECTOR GENERAL,
Ing. Neculai Timaru

DIRECTOR OF FINANCES,
Ec. Gabriela Marian

A. ITEMS OF THE FINANCIAL STANDING

I. Assets representing 10% of total assets

-lei-

Item #	Analytical indices in the balance sheet exceeding 10 % of total assets	2011	2012	% of total assets 2012
	TOTAL ASSETS			
1.	Real estate and constructions	18,053,680	18,477,565	40.18
2.	Technical installations and machinery	5,865,709	5,418,146	11.79
3.	End products and merchandise	4,763,498	5,910,485	12.86
4.	Commercial debts	5,538,360	7,138,691	15.53

II. Liabilities exceeding 10% of total liabilities

- lei -

Item #	Analytical indices in the balance sheet exceeding 10 % of total liabilities	2011	2012	% of total liabilities 2012
	TOTAL LIABILITIES			
1.	Reserves from revaluation	13,544,838	13,329,404	28.99
2.	Capital subscribed and paid	23,990,846	23,990,846	52.17

B. GLOBAL RESULT

-lei -

Item #	Analytical indices in the profit and loss account exceeding 20 % of turnover	2011	2012	% of 2012 turnover
	NET TURNOVER			
1.	Production sold	29,609,866	29,158,782	98.86
2.	Expenditure with raw material and consumables	8,958,201	9,587,237	32.51
3.	Expenditure with personnel	6,063,730	6,930,906	23.50

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CASH FLOW STATEMENT

Name of the Item	Row	Financial exercise	
		31 December 2011 lei	31 December 2012 lei
A			
Cash flow from exploitation activities			
Cash from customers	1	42,955,133	37,443,547
Payments to suppliers and employees	2	27,017,338	29,875,723
Interest paid	3	544,344	133,356
Tax on profit paid	4	627,217	1,166,137
Net cash from exploitation Rw1- (Rw2+Rw3+Rw4)	5	14,766,234	6,268,330
Cash flow from investments			
Purchases of tangibles	6	977,651	1,522,942
Payment of debts related to financial leasing	7	1,932,817	450,955
Cash from sales of tangibles	8		
Interest to be cashed	9	304,198	552,395
Net cash generated from investments (Rw8+Rw9) - (Rw6+Rw7)	10	-2,606,270	-1,421,502
Cash flow from funding activities			
Decrease of short-term loans	11	5,323,848	2,981,094
Cash generated from funding - Rw11	12	-5,323,848	-2,981,094
Net increase of cash and cash equivalent Rw5 + Rw10 + Rw12	13	6,836,116	1,865,734
Bank Sold at the beginning of the financial exercise	14	3,522,721	10,358,837
Bank Sold at the close of the financial exercise Financial Rd13 + Rd14	15	10,358,837	12,224,571

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