

S.C. MECANICA CEHLAUL S.A.
 ADMINISTRATOR'S REPORT
 FOR THE YEAR ENDED 31 DECEMBRIE 2014

Annual report according to	Law no. 31/1990 R; Law 297/2004; Regulation CNVM no. 1/2006 ; BVD Code; Order M.F.P. no. 40/2013
For the financial exercise	2014
Date of report	06.03. 2015
Issuing company	Mecanica Ceahlău SA
Registered office	Piatra Neamț, Strada Dumbravei Nr.6, Judet Neamț, Postal code 610202
Phone/fax	Phone 0233/215820; 0233/211104; fax 0233/216069
Web	www.mecanicaceahlau.ro
E-mail	ceahlau@mecanicaceahlau.ro
Fiscal identification code (VAT No)	RO 2045262
No in the Register of Commerce	J27 / 8 / 08.01.1991
Regulated market where issued securities are transacted	Bursa de Valori Bucharest [Stock Exchange] – 2 nd category MECF Code
Social capital subscribed and paid	23,990,846.00 lei
Main characteristics of securities issued by Mecanica Ceahlău SA	ordinary, common, nominative, dematerialised, and recorded in the account

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**REPORT OF THE BOARD OF DIRECTORS
FOR THE YEAR 2014**

In 2014, the Board of Directors conducted their activity in compliance with the By-Laws, the resolutions adopted by the shareholders' general meeting and our own resolutions in compliance with the provisions of Law 31/1990 R, Law 297/2004, the BVB Code and other regulations governing the activity of companies whose shares are traded on Bursa de Valori Bucharest [Bucharest Stock Exchange].

1. ANALYSIS OF THE COMPANY OPERATIONS

1.1. a) Description of the company's main operations

The main operation of Mecanica Ceahlău SA is the production of farming and forestry machines, CAEN code 283. The main activity is the "production of farming and forestry machines and equipment," CAEN code 2830.

The main farming machinery and equipment manufactured and traded by Mecanica Ceahlău cover the entire range of works, from soil preparation cover with a view to sowing to harvesting, e.g., ploughs, sowing machines for hoeing plants, mechanical and pneumatic sowing machines for straw-based plants, reversible ploughs, combines, rammers, disc harrows, farming cutters, tillers, irrigation installations, anti-pest sprayers, fertilizer spreaders, potato planting/tillers and harvesters, etc.

The range of services the company offers in terms of high-precision cutting and efficient metal consumption, cold bending as well as other precise mechanical processing, painting in electrostatic field, welding, pressing, etc. are conducted on numerical-control machinery which guarantee the quality of the products and services performed.

The "Integrated Quality - Environment Management System" has been implemented by the Company. It is certified by the external auditor TÜV SUD in compliance with ISO 9001: 2008 and ISO 14001: 2004. The overall opinion is that the processes and products made by Mecanica Ceahlău S.A. comply with the requirements of the cited standards.

1.1.b) Stating the date of the company incorporation

Mecanica Ceahlău SA became a stock company pursuant to the 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.

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

In 2014 a secondary office was established at the address Bucuresti, Sectorul 1, Bd. Bucurestii Noi, nr.25A, classified in CAEN: "Office own activities for the society", according to the decision H.A.G.E.A. no. 3 from 14.04.2014. The secondary office has no declarative and payment obligations.

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

1.1.d.1) Purchases

According to the provisions of the investment plan, in 2014, total investments amounted to 2.073.973 lei, for the following chapters:

1. the modernization of buildings and production spaces

The production process takes place in a space whose surface is more than 15.000 m², from which 6.000 m² modernized completely in 2014.

All the production workshops are equipped with specific equipment for mass production.

The lamination depot was created in 2014 as a result of the modernization of a section from the old aluminium smelter. Thus, all the raw materials (boards, round and rectangular profiles, etc.) are now deposited and debited in a covered space in order to facilitate the production and prevent them to degrade.

The welding shop was completely modernized in 2014 being equipped with welding equipments of the latest generation.

The painting workshop was also modernized in 2014, the building of the pickling installation being initiated, too. At this moment, most of the pieces are electrostatically painted with dust, excepting the frames and bars of big dimensions which are still painted in a liquid environment.

The adjusting workshop, completely modernized in 2014, is equipped with two adjusting lines, each one being adapted to adjust different types of machines, following a well defined technological way. The workshop is equipped with benches specific for work and technological testing.

- technological development

In order to modernize the welding process, we bought welding equipments MIG MAG that can do both normal and tack weld. For technological gas feeding it was built a centralised feeding system for each work post from high capacity batteries.

- **endowments**: computers, office equipment, the extension of the heating installation as a result of the equipment with ceramic radiant heat,

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increasing the mobility level of the selling team and service team as a result of the acquisition of cars and an utility car.

1.1.d.2) Transfers to third parties

Based on the programme of disposing of and valuing some equipment used from a physical and moral viewpoint, 164 such fixed assets were valued by direct sale or as scrap from dismantling.

1.1.e) Description of main outcome of assessing the company operations

1.1.1. Items of general assessment

The company presents the main indices achieved in 2014 as per the International Financial Reporting Standards (IFRS):

Indices	2012 (re-processed)	2013	2014 (%)	2014/2013%
Turnover	29,496,698	24,017,394	81.42	99,92
Total revenues	30,625,374	24,913,783	81.35	98,52
Total expenditure	22,050,490	24,469,935	110.97	79,21
Result before tax	8,574,884	443,848	5.18	1.162,95
Net result	7,406,938	727,130	9.82	606,75
Operational revenues	29,752,118	24,292,021	81.65	99,37
Operational expenditure	21,550,545	24,076,329	111.72	79,15
Operational result	8,201,573	215,692	2.63	2.355,92
Average number of employees	206	209	205	98,09

a) Profit / loss

In the 2014 financial exercise, Mecanica Ceahlău SA recorded a gross profit of 5.161.727 lei, operational result – a profit of 5.081.537 lei, net financial result – a profit of 4.411.863 lei.

b) Turnover

The company turnover in 2014 is of 23.997.285 lei (on 31 December 2013: 24.017.394 lei), of which 22.189.023 lei on the domestic market (on 31 December 2013: 28,336,121 lei).

Structurally, the above turnover was mainly reached from sales of the company own production (95.52%).

c) Export

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The turnover recorded through export in 2014 amounted to 1.808.262 lei, representing 7,54% of the turnover.

In 2014 79% from the export was realized in Hungary and Bulgaria, 18% in Moldavia and Ukraine and 3% in Poland, Germany and Czech Republic.

d) Costs

Expenditure from current operations amount to 19.056.874 lei. Costs related to stock are the main item of total expenditure (e.g., raw materials and consumables), i.e., 41,72%, followed by costs related to personnel, i.e., 34,30%. The company operates with an average recorded number of 205 employees.

Financial costs amount to 326.304 lei, and represent the differences between exchange rates, financial-banking costs and discounts.

e) Share of the market owned

The company occupies a significant market share for hoeing-plant sowing machines and straw-plant sowing machines modernized during the year 2014 according to the researching results in the field of agriculture, of soil's preparation and sowing.

The market share estimate for such products ranges between 20 and 30% in terms of the number of units sold.

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

Cash and cash equivalent	2013	2014
Cash point, bank accounts , and cash equivalents	866,759	884.547
Short-term bank deposits	12,321,952	3.488.057
Total	13,188,711	4.372.604

The current accounts opened with banks and the bank deposits are permanently at the Company's disposal and are under no restrictions. Contracts are executed against fixed interest for the entire duration of the deposit.u

In 2014 the society decided to invest in investment funds purchasing fund units administrated by BT Asset Management, SG Asset Management – BRD, respectively, as it follows:

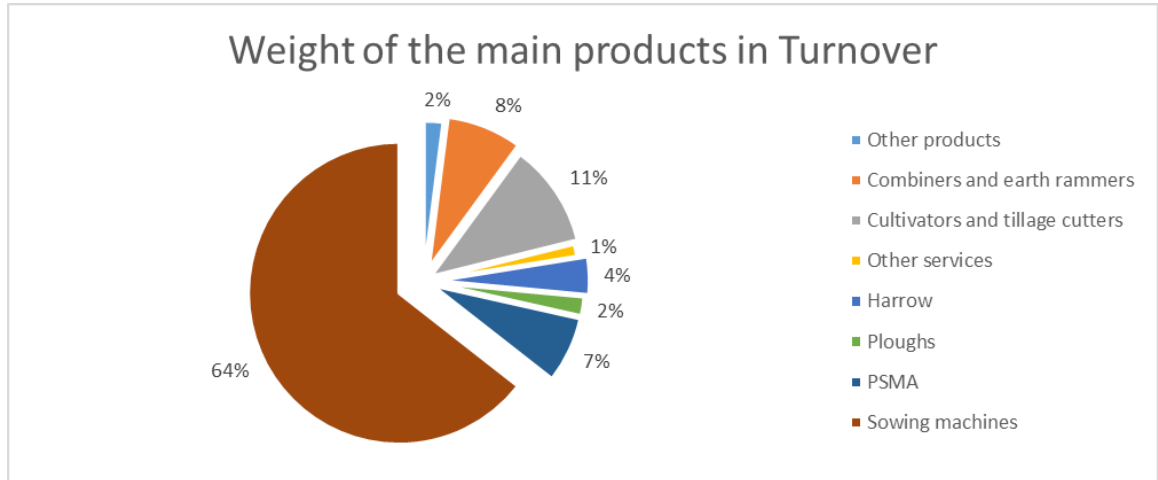
Fund type	Society that administrates the fund	Number of fund units	Value of fund units
Open investment fund BT OBLIGATIUNI	BT Asset Management	244.957	4.051.593
Open investment fund SIMFONIA 1	SG Asset Management - BRD	39.062	1.443.360
Total fund unities		284.019	5.494.953

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1.1.2. Assessment of the company technical level

Description of the main products manufactured and/or services rendered

The main production of our society is represented by the sowing machines, 64%, followed by the cultivation machineries and milling machines, 11%, combiners and earth rammers, 8%.

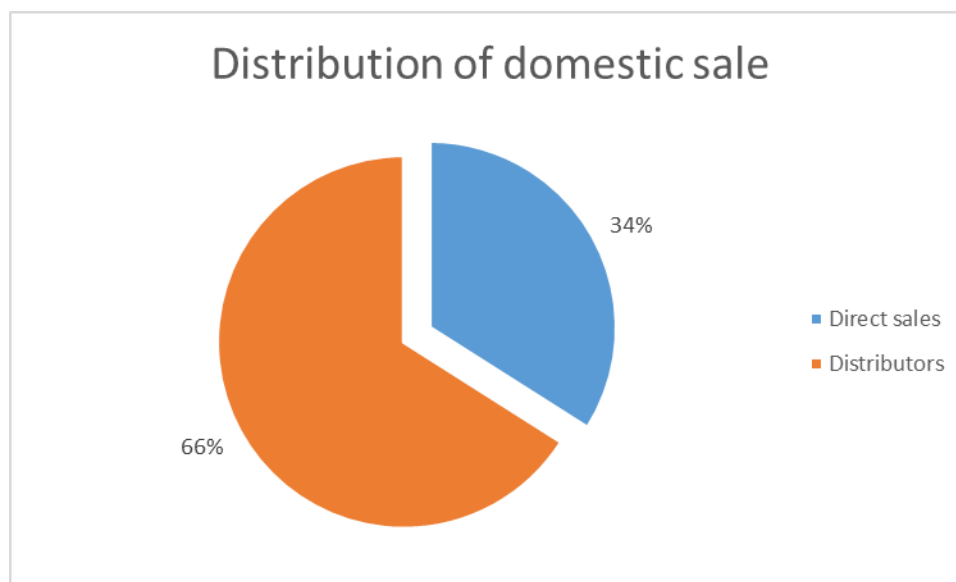


Under the services chapter, the outcome was represented by the production of parts for various beneficiaries by using the company's specialised fixed assets (e.g., laser cutting, bending, etc.) as well as services such as utility supplies and /or rentals of available areas.

a) Main markets for each product manufactured or service rendered and distribution

In 2014, the domestic market was our main market, i.e., the sales volume on such market representing 92.46 % of the turnover. The farming machinery and equipment market has a high potential considering the wear and tear of the farming machinery and tractors park in use, the estimated need for equipment in order to increase efficiency and productivity of farming up to a level similar to the one in the EU member states as well as the fact that this economic sector remains an important beneficiary of EU grants.

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b) The size of each category of products 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 year is as follows:

Size in turnover Products	2012 (%)	2013 (%)	2014 (%)
Sowing machines	59	60	64
Harrows	4	2	4
Combiner and earth rammer	4	5	8
Ploughs	1	-	2
Cultivator and tillage cutter	16	14	11
Spare parts	8	9	7
Other products and services	8	10	3

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

For 2014, the main directions set with a view to diversifying the technical offer are:

- to cover a diversified power range for tractors for the family of products already in series production;
- to extend the size range for machinery with greater working widths.

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Hence, The Program for Research and Development 2014 includes objectives aiming at diversifying the offer of farming and forestry machinery and equipment under three chapters:

- 1. design and homologation of new farming machinery** considering the results of the research in the field of farming, soil's preparation and cultivation.
- 2. modernization of machinery already in the series manufacturing programme** by drafting the constructive and technological documentation.
- 3. the on-going implementation of innovative research and development activities** in the field of energy willow cultures, based on the implementation plan under the grant contract commenced in 2012.

The objectives will be carried out by successive implementation of more activities specific to technical and constructive innovation and in correlation with the manufacturing programme.

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

In 2014, purchasing was conducted free of any problems thus securing the materials necessary to production in due time.

The trading relationships with our suppliers relied on the sale-purchase contracts that provided for the delivery and payment terms. Throughout 2014, the level of purchase price was renegotiated.

Supplies with materials and parts from cooperation-collaboration relied on monthly manufacturing programmes taking into account the existing stocks at the beginning of each period.

The suppliers we worked with in 2014 fall into the following categories:

- manufacturers or traders on the domestic market for metallurgical products (profiles in steel, plate, pipes, etc.), assembly parts, bearings, tyres, paints, etc.;
- domestic manufacturers of steel, cast iron or plastic died pieces and service providers for forged parts, mechanical processing and metal coating;
- foreign manufacturers from Germany, Austria and Poland for subassembly parts necessary to the farming machinery manufactured under "Lemken" license and for straw-plant sowing machines.

The total volume of purchases for materials in 2014 amounted to 7.155.994 lei. Imports represented 3,14% (224.735 lei) of total purchases in 2014.

1.1.4. Assessment of sales operations

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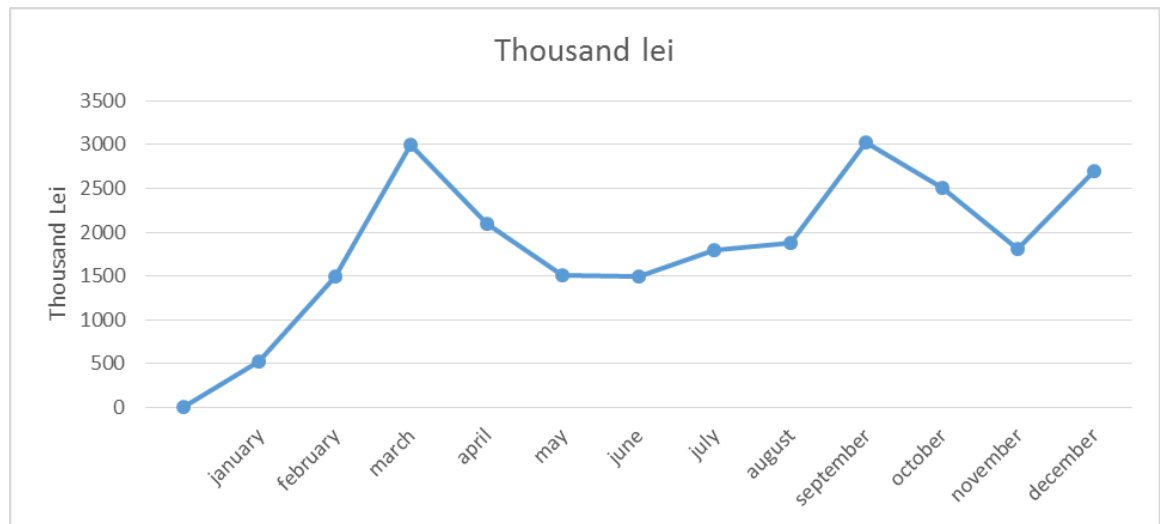
a) Description of sales evolution by sequence on the domestic and/or foreign markets and medium and long-term perspectives for sales

The turnover in 2014 was of 23.997.285 lei, by 2% higher than the Budget of Revenues and Expenditure.

From a structural viewpoint, the turnover was recorded from 93% sale of the company own production

The monthly evolution of the turnover shows the seasonal nature of the purchase which was increased during the two annual farming campaigns.

TURNOVER – MONTHLY EVOLUTION



As to the future, on a medium and long-term, the development of the domestic farming machinery market is on the rise. This statement relies on the statements of all parties involved in supporting the farming sector, which should become an important sector of the national economy support, in fact, by European programmes as well.

b) Description of the competitive situation in the company field of operations, the share the company products and services occupy on the market, and of the main competitors

- The competitors the company faces on the market are:
- well-known EU-based manufacturers, renowned in the field, who practise relatively high prices and aim primarily at conquering the market and reaching the leading position thereon. These companies (e.g., Maschio-Gaspardo, Vogel Noot, Class, Lemken, New Holand, John Deer, etc.) have their own financial support that allows them to finance the promotion of investment projects carried out by large farms with the help of European

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funds and financing some important levels of stocks readily available for the market disposal at any time. These companies can afford to provide customers and retailers with important facilities;

- non-EU manufacturers of farming machinery (mostly from Turkey) who practise low prices, agreed by a large market share;
- traders of used machinery originating mainly in the European Community at highly affordable prices under the current economic circumstances;

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 pool of customers the company addresses contains more than 30.000 farming exploitations with legal personality (e.g., trading companies, farming associations, research units and institutes, etc.) and more than 5.000 exploitations with no legal personality (e.g., individual enterprises, freelance individual people, family enterprises, etc.). Taking into account the diversity and the large number of farming exploitations, we cannot reach the point where the company should depend on one customer or on a limited group of customers.

1.1.5. 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 structure of the average number of the company employees in the year 2014 is as follows:

Categories of personnel	Average number
- directly productive workers	114
- indirectly productive workers	29
- technical & administrative staff	62
Total average number	205

Out of the total number of 205 employees, 50 have specialised tertiary education, 30 have secondary education, 125 have left vocational school or have been qualified within in-service training courses at trades specific to the company, e.g. fitters, welders, lathe operators, painters, etc.

The employees members of unions activate in one union, The Free Union "TESA" with 116 members, employees in the production and functional compartment of the company.

In compliance with the provisions of the collective working contract, the employees benefited from protective equipment, antidote, social support for

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severe conditions and other kinds of support. In addition, the company offered dinner vouchers.

Our employees, our former employees, and their families benefited from financial support and medical treatment provided directly by the "Fundatia Umanitara Mecanica Ceahlău" [Humanitarian Foundation], independent from a financial and organisational viewpoint.

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 applying some fair principles that are to allow the company operations to develop profitably, to secure financial equilibrium, and to avoid the emergence of collective labour conflicts.

1.1.6. Assessment of aspects related to the impact of the company basic activity on the environment

Mecanica Ceahlău SA has Environmental Authorisation No 159 of 17/06/2010, revised on 18/11/2013, based on the documentation of operations and of the Environmental Conclusion, valid until 17/11/2020, and the Water Management License No 72 of 14/11/2013, valid until 07/11/2016.

In 2014, the Renar accredited and certificated according to Ecocert, BIOSOL PSI S.R.L Prahova laboratory conducted tests of the environment parameters (e.g., soil, wastewater, fumes). The findings of such tests revealed that the determined pollutants, specific to the technological processes range below the maximum admissible limits, resulting in insignificant pollution. The level of noise measured outside the production shops range within admissible limits.

Mecanica Ceahlău SA has never had and is not likely to have disputes related to breach of legislation regarding environmental protection. We have enforced a plan related to the prevention of accidental pollution, which provides terms and responsibilities.

1.1.7. Assessment of research and development activities

Breakdown of expenditure during the financial exercise and of the expected ones for the following financial exercise in terms of research – development

The main objective in research-development is the extension of the company product portfolio with farming machinery and equipment able to meet the world trends in the field of farming mechanisation and modernization of machinery and equipment already in production, by knowing the results of the research in agriculture, of soil preparation and planting/sowing.

The objectives approved under the research-development programme "Technical Plan for 2014," with a total amount of 230.700 lei were grouped under the following chapters:

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a) Expenditure for raw materials, from which:

116.500 lei – new products and the modernization of the existing ones;

51.200 lei – objectives funded from government funds and structural grants ((prototipul pentru masina de recoltat si tocat salcie energetica)

b) 63.000 lei – expenditure for taxes to maintain the existing licenses and to pay the inventors.

For 2015, the main objective is to continue the extension of the company product portfolio with farming machinery and equipment by modernizing the machinery and equipment already in production and also developing new products able to meet the market demands in the field.

1.1.8. Assessment of the company with a view to risk management.

Objectives and policies for risk management, policies to cover such risks

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 focused on market price risk; credit risk; liquidity risk; currency risk; interest rate risk at cash flow, and economic environment risk.

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

Mecanica Ceahlău SA monitors the level of risks by means of policies undergoing implementation 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.

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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 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.

1.1.9. Prospective Elements regarding the company trading operations

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

The company liquidity is dependent on the liquidity of the farming machinery market. The latter is influenced by a series of factors that pertain to the government policies oriented toward this economic sector, which needs support in order to become efficient.

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

In 2014, no capital expenditure was recorded, nor is such expenditure estimated to be recorded in 2015 as well.

c) Presentation and analysis of events, transactions, trading exchanges which may have a significant effect on the company revenues form its basic operations

The farming machinery market and agriculture in general are subjected permanently to some constraints due to financing and, therefore, farmers are exposed to a great vulnerability risk of domestic and foreign shocks.

2. CORPOREAL ASSETS OF THE TRADING COMPANY

2.1. Details on the location and features of the main production capacities owned by the company

The main locations owned by the company are:

- Location in Piatra Neamț, Str. Dumbravei Nr. 6
 - area of premises = 141,248 m2, land + buildings
 - built area = 49,214 m2 of which:
 - a) production areas = 32,609.13 m2,

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b) available areas = 16,604.87 m²;

- Location in Piatra Neamț, Str. Aurel Vlaicu Nr. 34

- area of premises = 23,235 m², land + buildings

- built area = 5,340 m², of which:

a) production areas = 0 m²,

b) available areas = 5,340 m²;

- Location in the town of Târgu Neamț (outside town premises), lot Valea Seacă = 6,691m², available area 6,691 m².

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

Mecanica Ceahlău SA has a total number of 753 fixed assets amounting to a total inventory value of 23.128.849lei and a value to be depreciated of 11.603.561lei.

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

- lei -

Groups	Inventory value	Depreciation value and adjustments for depreciation	Remained value	Average wear and tear (%)
Buildings	6.998.101	537.609	6.460.492	7,68
Estate investments	465.631	0	465.631	0,00
Technical installations and equipment	15.465.140	10.836.417	4.628.723	70,07
Other installations, equipment and furniture	199.977	151.262	48.715	75,64
TOTAL	23.128.849	11.525.288	11.603.561	49,83

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

Mecanica Ceahlău SA has no problems related to rights of property over all corporeal assets.

3. MARKET OF MOVABLE ASSETS ISSUED BY MECANICA CEHLĂU SA

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Synthetic and consolidated structure of holders of financial instruments

As of 31 December 2014, the synthetic and consolidated structure of the holders of financial instruments was as follows:

Shareholder	Shares	Percentage
SIF MOLDOVA - BACAU county of Bacau	132,202,332	55.1053%
ROMANIAN OPPORTUNITIES FUND - WINDWARD CYM	65,606,284	27.3464%
Legal entities	22.195.415	9,2516%
Natural persons	19.904.429	8,2967%
Private individuals	239,908,460	100.0000%

3.1. Stating the markets in Romania and abroad where movable assets issued by Mecanica Ceahlău SA are negotiated

Shares of Mecanica Ceahlău SA are traded on the Bucharest Stock Exchange, symbol MECF, 2nd category.

3.2. Description of company policy with respect to dividends

The dividends policy followed both to satisfy the investors' short- term interests and the medium and long- term institutional development so that a part of the net profit was reserved for our own sources in order to support the investment activity.

Mecanica Ceahlău SA capitalised the net profit for the financial exercises 2004 through to 2007, such option being in the interest of the shareholders of the company as well.

For the financial exercises 2010 and 2011, the net profit obtained was assigned to covering the loss in the previous years.

For 2012, the Shareholders' Ordinary General Meeting of 29/04/2013 approved that the amount of 1,439,450.76 lei be distributed as dividends, i.e., 0.006 lei per share.

From the total value as of 31 December 2013, dividends paid amounted to 1,394,574.96 lei, i.e., 96.88% of the total.

For 2014, the Shareholders' Ordinary General Meeting approved the net profit to be capitalized such option being in the interest of the shareholders of the company as well.

The Board of Directors proposes and recommends that the Shareholders' Ordinary General Meeting distribute the net profit obtained in the 2014 financial exercise as follows:

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Net profit	31 december 2014
Net profit to be distributed:	4.411.863 lei
Legal reserves	258.086 lei
Other reserves	2.714.326,24 lei
Dividends	1.439.450,76 lei 0,006 lei/share

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

Mecanica Ceahlău SA 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 SA has no subsidiaries.

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

Mecanica Ceahlău SA has not issued bonds or other receivables titles.

4) The Company Management

4.1. The Company Managers

a. Between 01.01.2014 – 31.12.2014, the Board of Directors of Mecanica Ceahlau SA had the following composition:

Iancu Cătălin Jianu Dan, 39, a graduate of the Academy of Economic Studies Bucharest, Faculty of Economic Studies in Foreign Languages, a graduate of the Rotterdam School of Management, Erasmus Graduate School of Business and of Stanford University, Graduate School of Business, Stanford Executive Program (SEP), with management experience in heading the Board of Directors and Director General of OTP Asset Management Romania SAI and other such positions with Banca Comercială Română, Banca Turco Română, FREEWAY CONSULTING Bucharest, a.s.o.

Iancu Cătălin Jianu Dan is the Chairman of the Board.

Hanga Radu – 43, a graduate of the Technical University Cluj-Napoca, Faculty of Electrotechnics, post-graduate studies in Productive Systems Management, training courses in the international financial system and business administration and a Master degree in business Administration at the National Institute for Economic Development, an MBA programme.

Professional experience as an analyst with SSIF Broker SA, in managing the capital placement of Banca Transilvania with the listed companies, as Deputy Chair of B.T. Securities and, as Head of Capital Market Department, Chair of the Board of Directors of Transilvania Logistică, and, currently, Director General at B.T Asset Management SAI.

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Miron Daniel Florian – 48, a graduate of Polytechnic Institute Bucharest, Faculty of Mechanics, of the Academy of Economic Studies Bucharest, Faculty of International Economic Relationships, post-graduate Management course, commercial and banking techniques at the Academy of Economic Studies Bucharest, Faculty of International Economic Relationships.

Experience as an Assistant Research and then on a position of Preparator at the Polytechnic Institute Bucharest, Executive Director with SC Radu Printing SA later Proto Print SA, Director Logistics with the RTC Group, Director General with Euros Trading SA and Director Development with MCS Miron Consultanță și Servicii SRL Bucharest.

Radu Octavian Claudiu – 53, a graduate of the Academy of Economic Studies Bucharest, Faculty of Trade and of Fern Universitaei Hagen – Betriebswirtschaftlehre.

Experience as an economist with ICE Export Lemn, ICE Chimimportexport, ICE Chimica București, Hellbut GmbH, as a founder of the RTC Holding Group, Diverta, Informlykos, TCE Logistic, TVR Media, Antalis, Sistec, Ranco a.s.o. His experience also includes that of an economic analyst, with SC Standard Business SRL, Director General with SC PS Management & Consulting SRL. Between 2004 and 2005, he was a member of the Lower Chamber of the Romanian Parliament; between 2005 and 2007, he was the Director General of SC Standdar Business SRL, and currently, he is the Director General with SC Pan Management Group SRL, a company specialised in business and management consulting. He was a lecturer at the Faculty of Marketing, the Academy of Economic Studies Bucharest; he was awarded for the “Company of the Decade, the Most Steady Development” presented by *Capital* magazine within the Oskar Awards; the “Year’s Merger” award presented by *Săptămâna Financiară* within the gala “Mr. Ron”, the “Manager of the Year” Award presented by *Flacăra*, a.s.o.

In 2006, he was nominated and was included in the “Encyclopaedia of Personalities in Romania” and in 2009, he received the Third Prize for the “Most Important Capitalist in Romania presented by *Ziarul Financiar* and the Honorary Diploma presented by *Realitatea – Cațavencu* Trust for the completion of the project “The Private Government.”

Ianculescu Carmen, 46, consultant in international business, a graduate of the Romanian - American University in Bucharest. Other specialities: a master degree in international business. She was elected as a member of the Board of Directors on 29/01/2010 and re-elected as such on 27/04/2012. As of 25/11/2013, the Shareholders' Ordinary General Meeting elected her again as a member of the Board of Directors, and the Board, convened the same date, elected her as the Deputy Chair.

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

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

c) Participation of the administrators to the company social capital

The members of the Board of Directors in office do not own shares in Mecanica Ceahlău SA.

d) Lists of people affiliated to the company

Person affiliated to the company are:

- Financial Investment Company Moldova SA
- Romanian Opportunities Fund
- Forum Center SRL
- Transport Ceahlau SRL

4.2) Members of executive management

The company Executive Management is as follows:

Between 01/01/2014 and 15/01/2014, Mrs Marian Gabriela, Director of Finance, was delegated to serve on the position of the **Director General**.

Since 15/01/2014, the position of Director General has been served by Mrs Arghirescu Laura Elena, 38, a graduate of the Academy of Economic Studies, Faculty of Marketing and Trade, a Master degree in Commercial Business Management. She acted as the Director General at Mobishop Pay Point Romania, the Director General at RTC PROFFICE EXPERIENCE SA and the Director General at GNC.

In 2007 and 2008, Mrs Laura Elena Arghirescu was nominated in "Top 100 Business Women" and since 2009 she is a member of the Business Lodge.

She has more than 15 years experience in leading positions.

Director of Trade – Botezatu Cornel, 57, 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," certified as a "Project Manager"; 32 years in the profession, of which 17 years in leading positions.

Director of Finances – Marian Gabriela, 58, 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; a project manager – Certificate Serial E 0208426 MMFES and MEET; 32 years in the profession, of which 20 in leading positions.

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Director of Operations - Molesag Sorin, 54, an engineer with more than 10 years experience in responsibility positions.

The executive management conduct their activity based on a "Contract of Mandate" signed as of 01/05/2013 for the Director of Trade and the Director of Finance, of 10.07.2014 for the Director of Operations and of 15/01/2014 for the Director General, respectively.

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

The Executive Management participated to the company social capital as of 31.12.2014 as follows:

Full name	Number of shares held in Mecanica Ceahlău SA	Percentage of the total (%)
Arghirescu Laura Elena	0	0
Molesag Sorin	0	0
Botezatu Cornel	330	0.00014
Marian Gabriela	149,670	0.06239

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

Findings of the checking conducted in the Registrar of litigations in the custody of the legal office have revealed the following:

The members of the Board of Directors elected in the Shareholders' Ordinary General Meeting of 25/11/2013, i.e., Catalin Jianu Dan Iancu, Radu Hanga, Daniel Florian Miron, Octavian Claudiu Radu and Carmen Ianculescu have not been involved in litigations, over the last five years, with respect to the activity they conducted in the company; there are no data recorded with the legal office concerning administrative procedures that might involve the five people herein above.

With respect to the executive management of the company, the Director General – Laura Elena Arghirescu, the Director of Finance - Gabriela Marian, the Director of Trade - Cornel Botezatu and the Director of Operations - Molesag Sorin have not been involved in litigations, over the last five years, with respect to the activity they conducted in the company; there are no data recorded with the

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legal office concerning administrative procedures that might involve the two people herein above.

By interrogating the site of the Ministry of Justice, i.e., portal.just.ro, no litigations have been identified with respect to the capacity of the members of the Board of Directors elected by the Shareholders' Ordinary General Meeting of 25/11/2013 to fulfil their assignments in the company. Nor have there been identified litigations related to the capacity of people who were members of the company executive management to fulfil their assignments.

Other litigations (Appendix 3).

At the end of January 2015, Mecanica Ceahlau SA was involved in several pending files, of which:

- in 46 files the company was involved as plaintiff, in order to collect some accounting receivables, for which adjustments had been made.
- In 1 file the company was involved as defendant for the litigation with Sc MTM Proiect Concept SRL whose value was 7.100 lei according to the contract no 28/15.05.2014 for which provision was established.
- In 63 files the company was involved as defendant in work-related disputes; the current or former employees of the company request that in various periods of time they were employed by Mecanica Ceahlau SA and worked under 2nd degree labour conditions, documents that they needed for retirement, which cannot generate debts to the state. The managers estimate that the result of these files will not affect the Society's financial position.
- In 1 file the company was involved as defendant for the litigation in the file IBNA amounted to 211.761 lei for which provision was established;
- in other 19 files the company was involved as plaintiff, the object is insolvency request. It is estimated that no future economic compensations will be obtained.

4.4) Elements of corporate governance

During 2014, as during the previous period, Mecanica Ceahlău SA paid due attention to OECD principles of Corporate Governance and to the Corporate Governance Code of the Bucharest Stock Exchange (Appendix 4 – “Apply or Explain Statement”).

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.

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On 29/06/2008, the Auditing Committee was created and the Appointing Committee and the Remuneration Committee were elected on 17/11/2009. Owing to the changes in the Board of Directors, the membership of each of the consultative committees was updated and/or completed.

The Board of Directors had a meeting on 22/01/2014 and decided to set up a three-member auditing committee and an appointing and salary committee consisting of three members each. Each consultative committee drafted an action plan, approved by the Board of Directors on the same date, i.e., 22/01/2014.

In compliance with the Code of Corporate Governance of the Bucharest Stock Exchange, i.e., Article 2 Rec. 9 and Article 4 Rec. 14, p. 5 of the Implementation Guidelines, as of 27/01/2010, we have created the position of the Secretary General of the Board of Directors with assignments specific to ensuring the necessary framework for a good preparation of analyses within the meetings of the Board of Directors and the shareholders' general meetings, ensuring the records/minutes and the follow-up of how resolutions adopted are enforced during such analysis.

Both in 2014 and during the previous years, we ensured a fair treatment of all shareholders by promoting effective and proactive communication with them.

Necessary conditions were provided so that shareholders are informed with respect to financial results and to all relevant aspects of the company operations both via the company webpage and via the Secretariat general of the Board of Directors.

Taking into account that some 40% of the company shares are held by shareholders residing abroad, materials related to convening and conducting the general meetings were posted, both in Romanian and in English, on the company website.

Owing to the concern of the Board of Directors to harmonize the shareholders' interest with the company's interest, in 2014, we succeeded to ensure that the attendance to the shareholders' general meeting was significant. These meetings were held with a representation percentage of 85,52 and 82,516 respectively, of the total shares issued by the company.

With respect to the issues analysed and resolutions taken at the general shareholders' meetings in 2014, current reports were prepared and published in compliance with legal regulations in force. Mention should be made that, to this respect, in 2014, there were four shareholders' general meetings, two ordinary and two extraordinary, where 27 resolutions were adopted, all being implemented. As to how these resolutions were implemented, informative notes and reports were presented on a regular basis in meetings of the Board of Directors.

In order to analyse various aspects of the company, in 2014, the Board of Directors convened in 17 working sessions. The executive directors attended

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every meeting and, sometimes, depending on the issues on the agenda, other people were also invited to attend.

Based on the annual topics, analyses such as the following were on the agenda the Board of Directors' meetings on a monthly basis:

- in terms of the production and services: achievement of the production schedule during the previous month and preliminaries for the current month; the draft production programme for the next month, the status of the implementation of the second field of operations;
- in terms of trading: achievement of sales programme for the previous month and preliminaries for the current month; draft of the sales programme for the following month; ensuring the material basis necessary to carry out the production programme for the following month; status of the company's litigations and amounts under dispute at the end of the previous month, reconciliation actions initiated and in progress, results obtained and the value of the amounts retrieved;
- in terms of economic and finances: achievement of the budget of revenues and expenditure on a monthly basis and cumulatively and the project of the budget of revenue and expenditure for the following month;
- in terms of ensuring the internal checking/auditing: presentation of auditing reports as per the annual plan; the programme of implementing the unitary prevention and control, the status of the resolutions adopted by the Shareholders' General Meeting and the Board of Directors.

The Board of Directors analysed on a quarterly basis:

- in terms of production and services: 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 status of achievement of the Action Plan on the location in Str. Aurel Vlaicu nr. 34;
- in terms of trading: the monthly break down of the Sales Schedule pertaining to the following quarter; the status of the receivables recorded in trading relations; analysis of the structure of end products stocks and of the amount of stock needed according to the season;

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- in terms of economics and finances: quarterly reports for the 1st and 3rd quarters; the monthly break down of the revenue 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 2014, 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, of the department for research, constructive and technological design, the Report on the first Semester; the results of the patrimony inventory, and so on.

All Board of Directors meetings resulted in adopting resolutions as to the issues analysed; such resolutions were input in a rigorous record and monitoring system, set at the level of the general secretariat thereof.

Monthly, the Board of Directors was informed about the decisions that were adopted and their way of implementation throughout the record and monitoring system, set at the level of the general secretariat thereof.

5) ECONOMIC AND FINANCIAL STATEMENT

The individual financial statements for the exercise closed on 31 December 2014 are drafted in compliance with the requirement of the International Financial Reporting Standards adopted by the European Union under the Order 1286/2012 issued by the Minister of Public Finance, with the following modifications.

The reporting currency in the financial statements is leu.

The economic and financial standing as compared to the previous three years is presented in Appendix 1.

a) Financial Standing

Main assets exceeding 10% of total assets	Value-lei	Percentage
Estate and buildings	18.542.691	32,44
Finite products and goods	7.626.386	13,34
Cash and cash equivalent	13.066.527	22,86
Main liabilities exceeding 10% of total liabilities = 57.158.669 lei	Value - lei	Percentage
Reserves form revaluation	16.345.307	28,60
Capital subscribed paid	23.990.846	41,97
Reported result	8.081.493	14,14

b) Global result/outcome

Indices exceeding 20% of the total turnover = 23.997.285 lei	Value - lei	Percentage
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Production sold	22.289.740	92,88
Expenditure with raw material and consumables	7.949.823	33,13
Expenditure with personnel	6.536.813	27,24

c) Cash flow

As of 31 December 2014, Mecanica Ceahlău SA closed its operations with a positive treasury sold of 4.372.604 lei. The net increase of treasury for the last three years is detailed in Appendix 2.

The structure of treasury flows is as follows:

- lei-

Net treasury at the beginning of the exercise	13.188.711
Net treasury from exploitation	(1.524.005)
Net treasury from investments	(7.169.511))
Net treasury from financing operations	(121.461)
The effect of the exchange variation	(1.130)
Net treasury at the end of the exercise	4.372.604

The net increase of cash and cash equivalent is of 8.816.107 lei, used as follows:

- the purchase of fund units administrated by BT Asset Management and SG Asset Management– BRD – invested value 5.460.407 lei, with a profit of 34.546;
- the financing of the investment programme 2014 – 2.004.025 lei;
- the financing of the exploitation activity (payments for suppliers, for employees, the budget for social services and he state budget) – 1.524.005 lei;
- payments for financial leasing – 121.461 lei.

In 2014 the Society got interests of 294.921 lei from cash investments in deposit banks and investment funds.

d) Meeting the BR&E and the objectives set for the year 2014

The main indices in the Revenue and Expenditure Budget for the year 2014, approved by the Shareholders' Ordinary General Meeting on 14.04.2014 were met as shown in the table below:

– lei –

#	Indices	BR&E 2014	Achieved 2014	%
				3/2
0	1	2	3	4
1	Turnover	23.600.000	23.997.285	101,68

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2	Total revenues	26.320.000	24.544.905	93,26
3	Total expenditure	24.084.000	19.383.178	80,48
4	Gross profit	2.236.000	5.161.727	230,85

The turnover as compared to the BR&E approved for 2014 was met up to 101,68%.

The total revenues amount to 24.544.905 lei, i.e., 93,26% as compared to the BR&E approved for 2014. Most of the total revenues, 90,81%, is realized from the sell of finite products .

The total stocks amount to 10.076.848 lei, on the rise by 738.047 lei as compared to the value recorded at the beginning of the year owing to 206%.increase of the stock of products which are being executed.

Total expenditure recorded a level of 19.383.178 le, i.e., 80,48% as compared to the BR&E approved for 2013.

The total receivables of the company as of 31/12/2014: According to analytical reports, the company should collect receivables representing finite products, invoiced but not cashed which amount to 14.712.154 lei. For such receivables, adjustments amounting to 1.645.627 lei were made which resulted in a net value of 13.066.527 lei, their size in total debts/receivables being 97,89%.

The size of uncertain customers and debtors in total receivables is of 10,85%.

Short-term debts amount to 4.468.205 lei including commercial debts (44,26%) other debts, including fiscal debts and debts related to contributions to social services, (24,89) and provisions (28,12).

Commercial debts amount to 1.977.716 lei increased with 32,51% as a result of the renegotiated time limits for payment. On 31 December 2014 the society has not remaining commercial debts.

Other debts, including fiscal debts and debts related to contributions to social services amount to 1.112.173 lei increased with 49,40% and concern mainly current debts regarding the personnel, the budget of social services and the state budget as well as the current part of financial leasing contracts. On 31 December 2014 the society has not remaining debts from those mentioned above.

Provisions amount to 1.256.852 lei and include:

- provisions for warranties amount to 25.205 lei were created according to the service activity expenses for farming machines during the warranty period
- provisions for the dealers' commissions which were not given according to the signed contracts amount to 318.730 lei;

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- provisions for premium that is to be accorded for managers and the members of the Board of Directors from the profit realized amount to 597.500 lei;
- provisions for not accorded rights according to the signed contracts amount to 315.421 lei

6) DATA RELATED TO INTERNAL AUDIT/CHECKING

The accounting and financial checking of the company aimed at securing the accounting management and at monitoring the operations from the financial viewpoint in order to meet the objectives defined.

In terms of accounting regulations, the company has drafted:

- the accounting policies guidelines;
- the application procedures thereof;
- knowledge of the development of accounting and fiscal legislation;
- conducting specific checking to sensible areas;
- identifying and appropriately dealing with abnormalities;
- adapting the software to the company's needs;
- complying with accounting regulations;
- ensuring that books are kept accurately and exhaustively;
- observing qualitative features of the financial statement data so that they would meet the users' needs.

Internal Audit

The internal auditing was conducted based on the assignment undertaken in compliance with the company's objectives. The plan for the internal auditing missions and the necessary resources were approved by the Board of Directors.

When planning each auditing mission, the following were considered:

- the objectives of the operations to be revised and the means to check such operations;
- the significant risks related to the operation and the means to keep the potential impact of the risk at an acceptable level;
- adequacy and effectiveness of the risk management and control systems to the checking conducted;
- opportunities to significantly improve the risk management and control systems.

Activities conducted by the internal auditing in 2014

The internal auditing reported to the Board of Directors on the aims of auditing, the responsibility and execution according the plan. Such reports

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include the significant risks and aspects of the checking of management as well as other issues requested by the Board of Directors.

The opinion of the internal auditor, the findings of the mission, conclusions, recommendations and propositions, and the plan for measures-to-be-taken applied during the auditing were included the internal auditing reports that were presented to the Board of Directors.

Based on the conclusions and recommendations made by the internal audit, the Board of Directors ordered measures to address the risks identified.

7. Events occurred after the closure of the financial exercise

On 09.02.2015, Iancu Catalin Jianu Dan resigned the position of chairman and member of the Board of Directors.

From 10.02.2015, Radu Octavian Claudiu, member of the Board of Directors was elected chairman of the Board of Directors and Arghirescu Laura Elena occupies temporary the position of administrator until the first the Shareholders' Ordinary General Meeting.

CHAIR OF THE BOARD OF DIRECTORS,

Radu Octavian Claudiu

**DIRECTOR GENERAL,
Laura Serban Arghirescu**

**DIRECTOR OF FINANCES,
*Gabriela Marian***