



OGMS
/APRIL 2017

**Preliminary Activity Report
of
the Board of Directors
for 2016**



Annual Report according to:	Law no. 31/1990 R; Law 297/2004; CNVM Regulation no. 1/2006; BVB Code; M.F.P. Order no. 40/2013
For the financial year	2016
Date of the report:	
Name of the issuing company:	Mecanica Ceahlău SA
Registered office:	Piatra Neamț, str. Dumbravei nr.6, Neamț County Postal code 610202
Telephone/Fax:	Tel: 0233/215820; 0233/211104; Fax 0233/216069
Web	www.mecanicaceahlau.ro
E-mail	ceahlau@mecanicaceahlau.ro
Tax Identification Code	RO 2045262
Number with the Trade Register	J27/8/08.01.1991
The regulated market where the securities issued are traded	Bucharest Stock Exchange – Category II MECF Symbol
Subscribed and Paid-up Share Capital	RON 23,990,846.00
The main characteristics of securities issued by Mecanica Ceahlău SA	Ordinary, common, nominative, dematerialized, and evidenced by entry process



1. ANALYSIS OF COMPANY'S BUSINESS

1.1. a) Description of the company's core business

Object of Activity - Mecanica Ceahlău has as main area of activity the manufacture of agricultural and forestry machinery, NACE CODE 283. The main activity is the "Manufacture of agricultural and forestry machinery" - NACE CODE 2830.

The main farming machinery and equipment manufactured and traded by Mecanica Ceahlău cover the entire range of works, from soil preparation with a view to sowing to harvesting: ploughs, seed drills for hoeing plants, seed drills (mechanical and pneumatic) for straw plants, reversible ploughs, combine harvesters, compactors, disc harrows, farming hoes, tillers, irrigation installations, anti-pest sprayers, fertilizer spreaders, potato planting/tillers and harvesters etc.

The successful partnership with CNH continued in 2016, for the exclusive distribution in Romania of Steyr tractors, this being a particularly competitive advantage, giving easier access to acquisitions based on grants, (most farmers having packages of agricultural machinery and tractors and preferring to buy them from the same supplier). Furthermore, it is an advantage for the image and from a financial point of view.

Starting with 2016, Mecanica Ceahlău concluded two partnerships, one with PROJET, from Bargam Italy group, for the distribution of sprayers and self-propellers and one with Stoll Germany, for the distribution in Romania of wheel loaders for tractors.

The company has implemented the Integrated Management System "Quality-Environment", certified by the external auditor TÜV THÜRINGEN for ISO 9001: 2008 and ISO 14001: 2004. The certificate is for the application of the demands according to the reference standards and it was proved and attested according to the certification standards.

1.1. b) Stating the date of the company incorporation

Legal framework - Mecanica Ceahlău S.A. is a joint stock company, established pursuant to the Government Decision no. 1254/04.12.1990, in Piatra Neamț, Neamț County.

1.1. c) Description of any merger or significant reorganization of the company during the financial year

Secondary office at the address Bucharest, Sector 1, Bd. Bucureștii Noi nr. 25A, classified in the NACE class: "Own office activities for the company", according to the EGMS Decision no. 3 of 14.04.2014.

Secondary office (place of business) at the address Ilfov County, the commune of Afumați, Șoseaua București Urziceni nr. 235, according to the BoD Decision no. 2 of 19.10.2016.

Secondary offices have no declarative and payment obligations.



1.1. d) Description of acquisitions and/or divestitures of assets

1 Acquisitions

In 2016, investment works worth a total of RON 584,668 were made, of which new investments amounting to RON 370,856 and modernizations amounting to RON 213,812, from own financing sources and financial leasing in the following chapters of the Investment program for 2016:

Investment Name	Value (RON)	Financing sources	Investments New	Modernizations
PRODUCTION ACTIVITY	386,610	own sources + leasing	267,445	119,165
LOGISTICS AND SALES	74,841	own sources	63,816	11,024
SOFTWARE and IT APPLICATIONS	43,162	own sources	39,594	3,567
Modernization HYDRANTS RING	80,055	own sources		80,055
TOTAL INVESTMENTS	584,668		370,856	213,812

1. Capitalization of assets resulting from the project "Promotion in Romania of the technology of cultivation of energy willow as an alternative source of clean energy"

From the research and development activity through the project "Promotion in Romania of the technology of cultivation of energy willow as an alternative source of clean energy", intangible assets resulted - "Execution documentation for the technical equipment of cutting, feeding and chopping willow stems", registered, and tangible assets - two equipment covered by the project "Technical equipment of cutting, feeding and chopping willow stems" and "Technical equipment for willow plantation", which were capitalized.

2. Divestitures

According to the program for dismissal and recovery of machinery physically and morally worn out, 58 installations were scrapped and capitalized by selling as dismantling waste.

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

1.1.1. Items of general assessment

The company presents the key indicators achieved in 2016:

Indicators	2014	2015	2016	2016/2015 (%)
Turnover	23,997,285	29,819,814	37,324,149	125%
Total income	24,544,905	30,232,709	38,285,508	127%
Total expenditure	19,383,178	27,543,982	35,460,655	129%
Result before tax	5,161,727	2,688,727	2,824,854	105%
Net result	4,411,863	2,243,040	2,350,531	105%
Operating income	24,138,411	29,892,479	38,128,558	128%



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Operating expenses	19,056,874	26,898,547	34,410,691	128%
Operating result	5,081,537	2,993,932	3,717,867	124%
Average number of employees	205	196	172	88%

a) Profit/loss

In the financial year of 2016, Mecanica Ceahlău SA recorded an operating profit of RON 3,717,867, a negative net financial result of RON 893,013, resulting in a gross profit of RON 2,824,854,

b) Turnover

The turnover of the Company related to 2016 is RON 37,324,149 (on 31 December 2015: RON 29,819,814).

As structure, the turnover was mainly achieved from selling own production, at a rate of 75%. The share of sales of products in distribution - Steyr tractors, Projet sprayer equipment, Stoll front loaders - in the company's turnover in 2016 is 25%.

2016 brought an increase in turnover by 14% compared to the Income and Expenditure Budget for 2016 and by 25% compared to achievements in 2015.

d) Costs

Operating expenses amount to RON 34,410,691. The main share in total expenditures is held by the cost of goods sold (raw materials and consumables; goods in distribution) and account for 51%, followed by personnel expenses of 19.5%. The company operates with an average number of 172 employees.

Financial expenses amount to RON 1,049,964 and include interests, financial discounts granted for advance payments, subsidized interests for loans contracted by customers, through financing partnerships concluded by Mecanica Ceahlău, and exchange rate differences.

e) Market share held

The company has an important segment in the market of agricultural machinery and equipment for seed drills for hoeing plants and seed drills for straw plants, modernized during 2016, applying the results of research in agriculture, soil preparation and seeding.

The market share evaluated for these products is between 20 and 30% in terms of the number of units sold.

f) Liquidity (available funds in account etc.)

Cash and cash equivalents	2014	2015	2016
Cash at bank and in hand, accounts in banks and cash equivalents	884,547	2,343,920	5,003,004
Short-term bank deposits	3,488,057	0	0
Total	4,372,604	2,343,920	5,003,004



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The current accounts opened with banks are permanently available for the Company and are not restricted. The company had on 31 December 2016 investments in fund units, at fair value, as follows:

Fund type	Fund management company	Number of fund units	Value of fund units
Open-end investment fund BT OBLIGATIUNI	BT Asset Management	144,993	2,527,228
Open-end investment fund SIMFONIA 1	SG Asset Management - BRD	13,062	519,293
Total fund units			3,046,521

1.1.2. Assessment of the technical level of the company

Description of the main products manufactured and goods distributed

Seed drills constitute the basic production of the company with a 59% share, followed by machinery for soil preparation with a share of 41%.

Starting with 2016, Mecanica Ceahlau concluded two partnerships, one with PROJET, from Bargam Italy group, for the distribution of sprayers and self-propellers and one with Stoll Germany, for the distribution in Romania of wheel loaders for tractors.

Also, in 2016 the company continued the successful partnership with CNH for the exclusive distribution in Romania of Steyr tractors.

The weight of sales of goods in distribution in the company's turnover was 25%.

In the services chapter, achievements consisted of services of utility supply and/or rental of spaces available.

a). The main outlets for each product or service and distribution methods

In 2016, the domestic market was the main outlet, the sales volume in this market accounting for 93% of turnover.

The agricultural machinery and equipment market is a major beneficiary of European funds allocation, but access to financing for many farmers is not eligible.

In this context, the company has negotiated financing partnerships with financing banks to cover part of the interest to the benefit of end-customers, obtaining much better conditions than those of our competitors. With these new offers of "interest subsidized" by the company, in conditions of failure to pay subsidies by farmers, the selling process was greatly boosted.

b). The weight of each product category in total turnover for the last 3 years

The weight of the main products sold in the total turnover of the company for the past three years is as follows:

Weight in turnover Products	2014	2015	2016
Seed drills	64%	59%	55%
Machinery for soil preparation	32%	27%	20%
Goods in distribution	4%	14%	25%



c. New products considered for which a substantial volume of assets will be used in the next financial year, as well as the development stage of these products

In 2016, the program of developing the own portfolio of products continued at an accelerated pace, in terms of innovation, quality and aspect.

The main directions in view of diversification of the product supply were:

- 1. design and approval of new agricultural machinery** knowing the results of research in agriculture, soil preparation and seeding. 7 new products were designed, executed and tested in this direction, as follows:
 - 2 light reversible ploughs for owners of light and medium land, the version with whole and strip furrows;
 - 1 independent disc harrow with width of 3m offering a high degree of soil processing and high reliability;
 - 2 carried combine harvesters with widths of 3 and 4 meters used for seedbed preparation after plowing or scarified with two types of active interchangeable components, providing soil processing in a single pass;
 - 2 seed drills of hoeing plants of 6 and 8 rows with double disc system for both seeding and fertilization and increased fertilizer bunkers;

- 2. modernization of machinery in the mass production program** consisted of constructive and technological changes for 11 machinery in the current production to streamline the manufacturing processes, increase the reliability and improve the characteristics; In this direction, there were:
 - 5 reversible ploughs with manufacturing technology changed and increased reliability;
 - 1 combine harvester with constructive modifications;
 - 3 seed drills for straw plants to increase reliability and endurance;
 - 2 seed drills for hoeing plants with technological and constructive changes;

- 3. activities of research – innovative development** in the field of energy willow crops, based on the plan of realization related to the grant funds agreement started in 2012, was completed this year with the prototype machine for harvesting energy willow and the related technical documentation;

The main directions established in order to diversify the product supply for 2017:

- covering the range of diversified powers for tractors for families of products in mass production;
- extension of the dimensional range for machinery with greater working widths.

Thus, the research and development program for 2017 includes objectives in order to diversify the supply of machinery and equipment for agriculture and forest exploitation, classified in three chapters:

- 1. design and approval of new agricultural machinery** knowing the results of research in agriculture, soil preparation and seeding.



2. modernization of machinery in the mass production program by preparing constructive and technological documentations.

3. activities of research – innovative development in the field of soil preparation and seeding of straw plants crops, developing units 4 and 6 m, which will be composed of pneumatic drills and combiners.

Achieving the objectives will be carried out through the successive implementation of several activities specific to technical, constructive and technological innovation and in correlation with the manufacturing program.

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

In 2016, the acquisition activity was carried out without problems, ensuring in due time the material basis necessary for the manufacturing activity.

In 2016, the action started in 2015, to outsource certain "machined" parts and assemblies, the underlying condition being to obtain purchase prices below the cost of production in the company and their quality to be at least at the same level. The experience in 2015 and 2016 has proven that, in general, producers specialized in the manufacturing of specialized parts/accessories (such as active components, springs, gears, galvanized parts, clamps etc.) are able to offer a better price and a higher quality of products.

At the basis of commercial relations with suppliers were the sale-purchase contracts regulating the conditions of delivery and modality of payment. During 2016, the acquisition prices were renegotiated.

1.1.4. Assessment of sales

a) Description of sales evolution and medium and long-term perspectives for sales

The turnover of the Company related to 2016 is RON 37,324,149 (on 31 December 2015: RON 29,819,814).

As structure, the turnover was mainly achieved from selling own production, at a rate of 75%. The share of sales of products in distribution - Steyr tractors, Projet sprayer equipment, Stoll front loaders - in the company's turnover in 2016 is 25%.

2016 brought an increase in turnover by 14% compared to the Income and Expenditure Budget for 2016 and by 25% compared to achievements in 2015.

b) Description of the competitive situation in the company's line of business, of the market share of company's products or services and of the main competitors

The competitors faced by the company in the market are:

- well-known EU-based manufacturers, renowned in the field, with relatively high prices and aiming primarily at conquering the market and reaching the leading position in the market. These companies (Maschio-Gaspardo, Vogel Noot, Class, Lemken, New Holand, IPSCO) 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 funds and financing some



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important levels of stock, available for the market at any time. These companies can afford to give important facilities to customers and retailers.

- non-EU manufacturers of agricultural machinery, mostly from Turkey, with low prices, agreed by a large market share.
- traders of second-hand machinery originating mainly from the European Community.

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 revenue of the company**

The company addresses farmers with surfaces between 50 ha and 3000 ha, organized in approximately 30.000 agricultural exploitations with legal personality (e.g. trading companies, agricultural associations, research units and institutes etc.) and more than 5.000 exploitations without legal personality (e.g., individual enterprises, freelancers, family enterprises).

Taking into account the diversity and the large number of agricultural exploitations, we cannot reach the point where the company would 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 labor force organized in unions**

The structure of the average number of the company employees in the year 2016 is as follows:

Categories of personnel	Average number
- directly productive workers	84
- indirectly productive workers	38
- TESA personnel	50
Total	172

Depending on studies, the average number of employees in 2016 has the following structure:

- 27% specialized tertiary education,
- 22% secondary education,
- 51% graduates of vocational schools and/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 activate in the "TESA" Free Union, with 110 members, employees in the production department and functional compartments of the company.

In compliance with the provisions of the collective labor agreement, the employees benefited from protective equipment, antidote, social support for severe conditions and other types of support. Meal tickets are offered for each day with 8 hours of work.



b) Description of the relationships between managers and employees and of any other conflictual elements characterizing these relationships

The relationships between the executive management and the employees aim at promoting and applying fair labor principles, allowing the company to carry out its activity in conditions of profitability, financial balance and capacity for payment, and on this basis ensuring social protection for employees, as well as to avoid the emergence of collective labor conflicts.

1.1.6. Assessment of aspects related to the impact of the company's main activity on the environment.

Mecanica Ceahlău S.A. holds the Environmental Permit no. 159 of 17.06.2010, reviewed on 25.05.2016 based on the documentation for presenting the activity and Environmental Balance, valid until 17.06.2020, and the Water Management Authorization no. 70/07.12.2016, valid until 07.12.2019.

Mecanica Ceahlău SA has never had and does not expect to have disputes related to breach of legislation regarding environmental protection. There is an action plan for the prevention of accidental pollution, which provides for terms and responsibilities.

1.1.7. Assessment of the research and development activity

Breakdown of expenditures during the financial year and those expected for the following financial year for the research & development activity

The main objective in research-development is the extension of the company's product portfolio with agricultural machinery and equipment able to meet the global trends in the field of agricultural mechanization and modernization of machinery and equipment already in production, by knowing the results of research in agriculture, soil preparation and sowing.

The objectives approved under the research-development program "Technical Plan for 2016", with a total amount of RON 210,373, were grouped under the following chapters:

- a) RON 22,567 - raw materials (new products and the modernization of the existing ones);
RON 162,745 - objectives funded from government funds and nonrefundable structural funds (the prototype for the harvesting and cutting machine for energy willow) (RON 62,174 government funds; RON 100,571 - own sources)
- b) RON 25,061 – expenditure with taxes to maintain the existing licenses and to pay the inventors.
 - RON 4,764 - taxes to maintain in force;
 - RON 20,297 - remuneration of inventors.

For 2017, the company plans the further extension of the company's product portfolio of agricultural machinery and equipment, by modernizing the existing machinery and equipment and also by developing new products able to meet market demands in the field.

1.1.8. Assessment of company's activity in terms of risk management. Risk management objectives and policies, hedging policies.

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



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In the field of *risk management*, the main principles considered are: preparing the materials on the identification, measurement and control of risks associated to any potential decision, as well as improving the performance of company's management in the context of defining, measuring and evaluating the consequences, adopting uncertain decisions.

Risk management policies aimed with priority at: market price risk; credit risk, liquidity risk; currency risk; interest rate risk at cash flow and economic environment risk.

b). Description of policies and objectives of the company regarding 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 global economic environment;
- business continuity risk - the possibility to lose key suppliers due to a relatively low portfolio of suppliers;
- business continuity plan risk - the risk due to nonexistence of alternative plans for continuing the activity in extreme circumstances;
- competition risk - risk caused by increased competition and failure to identify solutions to counteract it.
- Price risk - a change in raw material's price affects the products' price which represents a persistent element in the company's operational environment being the responsible factor for the increased prices of the products bought by the company which also affects the expenses.
- Credit risk - a risk due to the fact that a part of the financial instrument may not perform its assumed obligation causing a financial loss for the other parties. The company is exposed to such a risk due to its trade receivables and other types of debts. The company has policies that are aimed to assure that the sales are made to customers with proper references on their creditworthiness.
- Liquidity risk (also called the financing risk) is the risk that an entity could meet difficulties in finding the needed funds in order to fulfill its commitments related to the financial instruments. The liquidity risk may be caused by the difficulty to sell immediately a financial asset at a value close to its fair value.

The company's management believes it takes all the necessary measures to achieve the company's objectives on risk management, by:

- preparing strategies to manage the liquidity crisis and setting measures to prevent possible liquidity crises;
- constantly monitoring the liquidity;
- providing provisions for the current liquidity;
- daily monitoring the cash flows and assessing the effects on its creditors of the limited access to funds and possibility to increase operations in Romania.

1.1.9. Elements of perspective on the company's activity

- a) Presentation and analysis of trends, elements, events or factors of uncertainty affecting or that are likely to affect the company's liquidity as compared to the same period of the previous year**



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The company's liquidity depends on farmers' investment programs in agricultural machinery and tractors

. These programs are influenced by factors related to the European and government policies focused on this sector of the economy, which needs support to become efficient.

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

Capital expenditures are expenditures to acquire fixed assets, for their development and modernization.

In 2016, capital expenditures amounted to RON 584,668.

c) Presentation and analysis of events, transactions, economic changes which may have a significant effect on the company's revenues from its core business

The agricultural machinery market and agriculture in general are permanently subjected to high financing constraints and, therefore, farmers are exposed to a great vulnerability in terms of exposure to domestic and foreign risks.

2. TANGIBLE ASSETS OF THE COMPANY

2.1. Denomination of the sites and of the features of the main productive capacities owned by the company

The main sites owned by the company are:

- The site located in Piatra Neamț, str. Dumbravei nr. 6
 - enclosed surface = 141,248 sq.m., ground + buildings
 - built area = 49,214 sq.m., out of which:
 - a) production space = 32,609.13 sq.m.,
 - b) available space = 16,604.87 sq. m.

- The site located in Piatra Neamț, str. Aurel Vlaicu nr. 34
 - enclosed surface = 23,235 sq. m., ground + buildings
 - built area = 5,340 sq. m., out of which:
 - a) production space = 0 sq. m.,
 - b) available space = 5,340 sq. m.

- The site located in the town of Tg. Neamț (un-incorporated area), Valea Seacă field = 6,691 sq. m., available space 6,691 sq. m.

2.2. Description and review of the wear of the company's property

Mecanica Ceahlău SA owns a number of 611 tangible assets having an inventory value of 23,485,758 lei and a residual value for amortization of 10,203,587 lei.

The fixed assets are listed in the table below, grouped by the classification code and by wear:



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Group	Inventory value	Value of amortization and adjustments for depreciation	Residual value	Average wear (%)
Buildings	7,087,177	1,489,497	5,597,680	21.02
Real estate	465,631	8,155	457,476	1.75
Technical equip. and machinery	15,697,057	11,584,842	4,112,215	73.80
Other equip., installations and furniture	235,894	199,678	36,216	84.65
TOTAL	23,485,758	13,282,171	10,203,587	56.55

2.3. Potential property issues related to the property right over the tangible assets of the company

Mecanica Ceahlău S.A. does not have any problems related to the property right over the tangible assets of the company.

3. THE MARKET FOR THE SECURITIES ISSUED BY MECANICA CEHLĂU SA

The summary of the consolidated structure of the owners of financial instruments.

On the date of December 31, 2016 the summary of the consolidated structure of the owners of the financial instruments is as follows:

Name of the owner	Number owned	Percentage (%)
SIF MOLDOVA loc. BACAU jud. Bacau	151,866,807	63.3020
ROMANIAN OPPORTUNITIES FUND loc. WINDWARD CYM	72,468,784	30.2068
Natural Persons	12,612,939	5.2574
Legal Persons	2,959,930	1.2338
Total	239,908,460	100,0000

3.1. Romanian and foreign markets were the securities issued by Mecanica Ceahlău SA are traded

The shares of the company Mecanica Ceahlău SA are only traded on the Bucharest Stock Exchange, symbol MECF II category.

3.2 The company's policy related to dividends' payout

The policy related to payout for dividends focused both on satisfying the short-term interests of the shareholders and the institutional development on the medium and long term, such that a part of the net profit was earmarked for reserve, in order to create own resources needed for investments.

Mecanica Ceahlău SA capitalized the net profit for the financial exercises of 2004 – 2007, this option being in the interest of both the investors and the company.

For the financial exercises 2010 and 2011 the achieved net profit was allocated to cover the losses incurred in the previous years.



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For the year 2012 the Ordinary Shareholders' Assembly of April 29, 2013 approved payout in the amount of 1,439,450.76 lei as dividends, respectively 0.006 lei per share.

From the total amount, on the date of December 31, 2013 dividends were paid in the amount of 1,394,574.96 lei, respectively 96.88% of the total.

For the year 2013 the Ordinary Shareholders' General Assembly approved the capitalization of the achieved net profit, this option being in the interest of both the shareholders and the company.

For the year 2014 the Ordinary Shareholders' General Assembly of April 17, 2015 approved paying out of the amount of 1,439,450.76 lei as dividends, respectively 0,006 lei per share.

For the year 2015 the Ordinary Shareholders' General Assembly of April 25, 2015 approved paying out of the amount of 1,199,542.30 lei as dividends, respectively 0,005 lei per share.

For the financial exercise of the year 2016, the Board of Directors proposes to the Shareholders' General Assembly to allocate the achieved net profit for the following uses:

NET PROFIT	December 31 2016
Net profit to be distributed:	2,350,531 lei
- Legal reserves	141,243 lei
- Other reserves	2,209,288 lei

3.3. Description of any activity undertaken by the company to purchase its own shares

Mecanica Ceahlău SA had never purchased its own shares.

Statement regarding the number and the nominal value of the shares issued by the parent company and owned by the subsidiaries

Mecanica Ceahlău SA does not have any subsidiaries, the two secondary sites in Bucharest and the commune of Afumati bear no obligation for statements and payments.

3.5. Bonds and/or other promissory notes issued by Mecanica Ceahlău SA

Mecanica Ceahlău SA did not issue bonds or other promissory notes.

4. COMPANY MANAGEMENT

4.1. The company's managers

1. **Trifa Aurelian-Mircea-Radu** (elected by the Shareholders' General Assembly on April 25, 2016) – graduate of the Politehnica University in Bucharest, Aircraft Department, line of study Electrical and On board Equipment and of the Institute for Public and Business Administration „ASEBUSS” Bucharest.

He has a background experience in Private Equity/Venture Capital Investment Funds Corporate Governance, Strategic Management, Company Restructuring and Privation

Mr. Trifa Aurelian-Mircea-Radu has been in the position of President of the MB since April 25, 2016.

2. **Ianculescu Carmen** (elected by the Shareholders' General Assembly on November 25, 2013) – Consultant in international business, graduate of the Romania-American University in Bucharest. Other skills: Master Degree in International Business.



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She was elected as a member of the Board of Directors on January 29, 2010 and re-elected in the same position on April 27, 2012. Beginning with November 25, 2013 the OGAS elected her again to be a member of the Board of Directors and the Board of Directors, assembled on the same day elected her as Vice President.

3. Zorzolan Vicentiu-Octavian (elected by the Shareholders' General Assembly on April 25, 2016) – graduate of the Politehnica University in Bucharest, Transportation Department, and also attended specialized business management courses. He has business administration experience, acquired in companies such as: Inform Lykos SA, National Company Imprimeria Nationala SA, Opportunity Capital SA, Agroiintens SA.

4. Miron Daniel Florian (elected by the Shareholders' General Assembly on November 25, 2013) – graduate of the Politehnica University in Bucharest, Mechanics Department, of the Economic Studies Academy Bucharest, International Economic Relations Department, of the post-graduate Management Course, International Commercial and Banking Techniques in the Economic Studies Academy Bucharest, International Economic Relations Department. His experience includes being a research assistant and subsequently tutor in the Politehnica University in Bucharest as Executive Director at SC Radu Printing SA later Proto Print SA, as Logistics Director in the RTC Group of companies, as General manager of Euros Trading SA and Development Director of MCS Miron Consultanță și Servicii SRL Bucharest.

5. Arghirescu Laura Elena (elected by the Shareholders' General Assembly on April 17, 2015) – graduate of the Economic Studies Academy, Marketing and Trade Department, master's degree in the Administration of Trading Companies. Was General Manager at the Book Distribution Clearance House between 2002 - 2005; General Manager of Mobishop Pay Point Romania between 2006 -2008; Business Development Director of RTC HOLDING between 2008 - 2010; General Manager at RTC PROFFICE EXPERIENCE SA between 2010 – 2012 and General Manager of GNC Romania between November 2012 – January 2014. In the years 2007 and 2008 she was nominated in "Top 100 Business Women", and in 2016 she won a prize, along with other 15 business women from Business Woman Magazine

b. Agreements, understandings or family ties between the respective administrator and another person, whereby the respective person was appointed as administrator

No agreements, understandings or family ties are known between the respective administrator and another person whereby the respective person was appointed as administrator.

c. Participation of the administrators in the company's capital

The members of the Board of Directors, currently in position, do not hold shares of Mecanica Ceahlău SA.

d. List of the persons affiliated to the company

The affiliated persons are:

- Societatea de Investiții Financiare Moldova
- Romanian Opportunities Fund loc. Windward Caiman
- Transport Ceahlău SRL

e. Description of any transaction exceeding EUR 50.000 of the nature mentioned in the art. 225 of the Law 297/2004

No transactions, amounts owed to or due from SIF Moldova, were identified other than the proper dividends.

No transactions, amounts owed to or due from Romanian Opportunities Fund, were identified other than the proper dividends



RAPORTUL DE ACTIVITATE AL CONSILIULUI DE ADMINISTRATIE PRELIMINAR 2016

The participation interests held by the Company on December 31, in Transport Ceahlau SRL are as follows:

	December 31 2016	December 31 2015
Shares not listed on January 1	51,000	51,000
Adjustments for depreciation	51,000	51,000
Balance on December 31	-	-

The main activity object of Transport Ceahlău SRL is the road transportation of goods, however the main share in the activity is held by general mechanical works.

The status of participation titles movement on December 31, is as follows:

	Acquisition date	Selling data	Participation percentage	
			December 31 2016	December 31 2015
Transport Ceahlau SRL	2004	-	24.28	24.28

The participation interests held by the company were registered as costs.

4.2) Members of the executive management

The Executive Management of the company consist of:

General Director - Arghirescu Laura Elena, 40 years old, according to the mandate contract signed on January 15, 2014.

Operations Director – Molesag Sorin, 56 years old, according to the mandate contract signed on July 10, 2014, is an engineer and was worked in management positions more than 13 years.

Trading Director - Botezatu Cornel, 59 years old, according to the mandate contract signed on May 1, 2013 (extended on May 1, 2015).

Mr. Botezatu Cornel graduated the Politehnica Institute in Politehnica Iasi – Machine Building Department. Post graduate courses: “Management of the restructuring and development of economic agents” and “Business Management”, certified “Project Manager”; He has been with the company for 33 years, out of which 18 years in management positions.

Financial Director – Marian Gabriela, 60 years old, according to the mandate contract signed on May 1, 2013 (extended on May 1, 2015).

Mrs. Marian Gabriela holds a Ph.D. in Economic Sciences - ASE Bucharest, Management Department; graduated, “Alexandru Ioan Cuza” Economic Sciences Department in Iași, specializing in Economy of the construction industry and transportation; financial auditor member of CAFR; expert accountant, member of CECAR; certified “Project Manager”. She has a 34 years of background experience in economics out of which 22 years in management positions.

a) **Agreements, understandings or family ties between the persons belonging to the executive management and another person, whereby the respective person was appointed as a member of the executive management**

No agreements, understandings or family ties are known between the persons belonging to the executive management and another person whereby the respective person was appointed as a member of the executive management.

**b) Participation of the members of the executive management in the company's capital**

On December 31, 2016 the structure of owners of financial instruments amongst the members of the executive management was as follows:

Name and first name	Number of holdings	Percentage (%)
Arghirescu Laura Elena	-	-
Molesag Sorin	-	-
Botezatu Cornel	330	0.00014
Marian Gabriela	149,670	0.06239

4.3) Litigations or administrative proceedings involving the administrators and the members of the executive management in the last 5 years

Subsequent to the checks made to the Registry of causes kept by the Law Practice, the following resulted:

In the last 5 years, the members of the Board of Directors have not been involved in any litigations, related to their activity in the company; the Law Practice does not own any data related to possible administrative proceedings in which the five persons might have been involved.

As regards the executive management of the company, they have not been involved in litigations, in the last five years, related to their activity in the company. the Law Practice does not own any data related to possible administrative proceedings in which the executive management might have been involved.

Other litigations

At the end of December 2016, the company was involved in actions in court, as follows:

- 27 trials as claimant for unpaid debt, for which adjustments for commercial debt depreciation were constituted, for 100%;
- 25 trials as claimant dealing with insolvency, bankruptcy processes for which adjustments for commercial debt depreciation were constituted, for 100%;
- 1 trial as defendant for a litigation with Sc MTM Proiect Concept SRL for the contract No. 28/15.05.2014 for which a provision was set aside in the amount of 7.100 lei;
- 90 trials as defendant for labor litigations, requesting certificates for working in the II labor group, needed for retirement. The management estimates that the result of such trials will not impact the financial condition of the company;

4.4) Elements of corporate governance

During the year 2016 and in the previous period, Mecanica Ceahlău SA carefully applied the OECD principles for Corporate Governance and the Code of Corporate Governance of the Bucharest Stock Exchange.

The Board of Directors consists of 5 members, a number according to the current and perspective needs of the company. A president and a vice president of the Board of Directors were elected.

Since June 29, 2008 the Auditing Committee was set up and in November 17, 2009 was set up the Committee for nomination and wages. Every time the composition of the Board of Directors was changed and/or completed, the composition of the consulting committees was updated.



RAPORTUL DE ACTIVITATE AL CONSILIULUI DE ADMINISTRATIE PRELIMINAR 2016

The Board of Directors, assembled in a meeting on January 22, 2014 decided to set up an Auditing Committee, consisting of 3 members and of a nomination and wages committee also consisting of 3 members. Each consulting committee prepared its own activity plan, that was approved by the Board of Directors.

According to the provisions of the Code of Corporate Governance of the Bucharest Stock Exchange, beginning with January 20, 2010, the position of Secretary General of the Board of Directors was instituted, dealing with the proper preparation of the reviews for the meetings of the Board of Directors and the general shareholders' assemblies, and with registering and monitoring the achievement of the decisions taken subsequent to these reviews.

In 2016 as well as in the previous years, all the shareholders were treated equitably, promoting an effective and active communication with them.

The needed conditions were provided to inform the shareholders regarding the financial results and all the relevant aspects of the company's activity, through the web page and through the secretary general of the Board of Directors.

Having in view the fact that over 40% of the company's shares are owned by shareholders headquartered abroad, the materials for calling and holding the general assemblies were posted on the company website, both in Romanian and in English.

As a result of the Board of Directors's concern to harmonize the interests of the shareholders with that of the company, in 2016 the participation of the shareholders in the general assemblies was of 88.2253% in terms of the total shares issued by the company.

Regarding the reviewed subjects and the decisions adopted in the shareholders' general assemblies, in 2016, the current reports were prepared and published according to the applicable legal provisions. To this end, in 2016, there were held an ordinary general assembly and one extraordinary general assembly, that adopted 14 decisions, all being carried out. Periodic reports were presented in the meetings of the Board of Directors related to the status of these decisions.

In order to review various aspects of the company's activity, in 2016, the Board of Directors met in 16 meetings. The executive directors participated in each meeting and, depending on the meeting agenda, other persons were invited to participate.

The agenda of the Board of Directors meetings included reviews every month, according to the annual plan, as follows:

- in the field of manufacturing and service activity: achieving the targets for the previous month and assessment for the current month; the draft manufacturing program for the next month; implementation status of the second activity field;

- in the trading field: achieving the sales plan for the previous month and forecast for the current month; the draft sales plan for the next month; providing the material base required for the next month manufacturing plan; status of the litigations and of the sums involved in litigation at the end of the previous month, reconciling actions initiated and ongoing, results obtained and the recovered amounts;

- in the economic-financial field: achievement of the monthly budget of costs and revenues and the costs and revenues budget for the next month;



RAPORTUL DE ACTIVITATE AL CONSILIULUI DE ADMINISTRATIE PRELIMINAR 2016

- in the field of internal control: submitting the auditing reports, according to the annual plan; the program for implementing of prevention and unitary control; status of achieving the decisions of AGA and CA;

Quarterly, the Board of Directors reviewed:

- production activity field: monthly division of the manufacturing plan for the next quarter; achieving the objectives set in the investment plan, the research and development plan, equipment repair and maintenance plan, in the previous quarter, the status of the activity plan on the site located in str. Aurel Vlaicu nr. 34;

- trading activity field: monthly division of the sales plan for the next quarter; the status of cashing the debts in the trading relations; review of the inventory and the needed stock for the season;

- economic-financial field: quarterly reports for the quarters I and III; monthly division of the costs and revenues budget for the next quarter; structure of the production costs and the profitability of the sold goods in the previous quarter; registered costs and the value of the production for the orders closed in the previous quarter.

In 2016, on the agenda of the Board of Directors were also included: general management reviews, management of human resources, research, development and constructive and manufacturing design, biannual report for the first semester, the result of the patrimony inventory a.s.o.

All the meetings of the Board of Directors resulted in decisions related to the reviewed subjects, decisions that were included in the system for follow up and monitoring of the secretary general.

Monthly, through the follow-up and monitoring system of the secretary general of the CA, the Board of Directors was informed of the status of the decisions made.

5. THE ECONOMIC-FINANCIAL STATUS PRELIMINARY DATA

Individual financial statements for the exercise ended on December 31st 2016 are currently being audited, and they are drafted in compliance with the accounting regulations consistent with International Financial Reporting Standards adopted by Order 2844/2016 issued by the Minister of Public Finance.

The reporting currency in financial statements is RON.

The economic and financial statements in the preliminary data cross-referenced against the previous three years is presented in Appendix 1.

a) Financial standing – preliminary data

Main assets exceeding 10% of total assets	Amount –RON	Percentage (%)
Lands and buildings	17,630,080	30
Finished products and goods	11,397,152	19
Trade receivables	12,381,224	21
Main liabilities exceeding 10% of total liabilities		
Reserves	18,969,047	32



RAPORTUL DE ACTIVITATE AL CONSILIULUI DE ADMINISTRATIE PRELIMINAR 2016

Subscribed and paid-up capital	23,990,846	41
Balance carried forward	9,117,566	16

b) Global result/outcome

Indices exceeding 20% of total turnover	Amount –RON	Percentage (%)
Production sold	28,040,655	75.12
Expenditures with cost of goods sold	17,525,422	46.95
Expenditures with salary, contributions and other employee benefits	6,714,118	17.98

c) Cash – flow

As of December 31st 2016 Mecanica Ceahlău SA closed its operations with a positive treasury balance of RON 5,003,004. Treasury flow cross-referenced against the last three years is detailed in Appendix 2.

Structure of treasury flows is as follows:

	-RON-
Net treasury at the beginning of exercise	2,343,920
Net treasury from operating activities	4,258,375
Net treasury from investments	(1,394,585)
Net treasury from financing operations	(176,344)
Effects of exchange rate variation on cash flow	(28,362)
Net treasury at the end of exercise	5,003,004

Net treasury from operating activities increased to RON 4,258,375 (on December 31st 2016 showing a deficit of RON 3,001,968) due to company's policy to stimulate advanced payments from clients using additional financial discounts based on extra-seasonality criteria for each individual type of equipment.

d) Meeting the R&E budget and the objectives set for 2016 – preliminary data

Preliminary data of meeting the main indicators in the revenues and expenditures budget for 2016, approved by Ordinary General Meeting of Shareholders:

– RON –				
No.	Indicator	REB 2016	Preliminary Data 2016	Percentage (%)
1	Turnover	32,870,000	37,324,149	114
2	Total revenues	33,636,000	38,285,508	114
3	Total expenditures	31,134,000	35,460,655	114
4	Net profit	2,501,621	2,350,529	94

The turnover reported to the planned 2016 REB was achieved in a share of 114 %.

Total revenues amount to RON 38,285,508, were achieved in a share of 114% reported to the planned 2016 REB. The largest share is held by revenues from products sold, 102%.



RAPORTUL DE ACTIVITATE AL CONSILIULUI DE ADMINISTRATIE PRELIMINAR 2016

Total inventories amount to RON 14,789,473, decreasing compared to the amount recorded at the beginning of the year. Decrease of inventories occurred in a context where goods inventories (products under distribution: Steyr tractors, self-propelled herbicide spraying machines and Stoll loaders) increased by 120% compared to the same period of 2015.

Total expenditures amount to RON 35,460,656, 14% higher compared to planned 2016 REB, due mainly to increase of variable costs, costs directly related to increase of turnover and of revenues.

Company's receivables represent production sold and products distributed invoiced and not collected. On December 31st 2016, trade receivables amount to RON 13,878,200, 15% lower compared to previous year, for which adjustments were made for depreciation of receivables from internal clients in an amount of RON 1,496,976. Net trade receivables on December 31st 2016 amount to RON 12,381,224 (December 31st 2015: RON 14,902,191) are considered performing in full. Share of trade receivables in total receivables is of 95%. Share of doubtful clients in total trade receivables is of 10 %.

Short-term debts amount to RON 4,161,830, and they include trade debts (64%), other debts including outstanding taxes and social security contributions (29%) and provisions for risks and debts (7%);

Trade debts amounting to RON 2,675,939 increased by 15% compared to the previous year, due to increase in turnover with partners for products distributed.

As shown in the table below, the share of trade debts in turnover decreased from 8% in 2015 to 7% in 2016.

	2015		2016	
	Amount	% turnover	Amount	% turnover
Internal suppliers	1,572,761	5%	1,545,761	4%
External suppliers	746,948	3%	1,130,178	3%
TOTAL	2,319,709	8%	2,675,939	7%

All debts are within deadlines, there are no delayed payment to any supplier.

Other debts, including outstanding taxes and social security contributions amounting to RON 1,182,404 increased by 14% and they include outstanding taxes and social security contributions as well as the current portion of financial leasing contracts. On December 31st 2016, this company has no overdue tax duties and social security contributions.

Total provisions for estimated risks and expenditures, on December 31st 2016, amount to RON 470,207, grouped on categories and set up for:

- Provision for employee benefits	RON 166,720
- Salesman commissions	RON 214,409
- Others	RON 89,078



6. Data on internal audit

Within Mecanica Ceahlau SA, provision of internal control aims mainly internal accounting and financial checks and the internal audit.

For the internal control, the following basic principles are referred to:

- Compliance with regulations specific to company's activities;
- Compliance with internal regulations concerning work procedures and decisions of company's managerial and supervisory bodies.

Company's internal accounting and financial check concerned provision of accounting management and financial monitoring of activities, in order to achieve predetermined objectives. In terms of accounting regulations, the company has in place:

- The accounting policy guidelines;
- Procedures for implementation of such;
- Awareness on evolution of accounting and tax legislation;
- conducting specific checks on sensitive areas
- identification and proper management of abnormalities;
- adaptation of IT software to company's needs;
- compliance with accounting regulations;
- provision of accuracy and completeness of accounting records;
- compliance with qualitative requirements concerning data included in financial statements, so that they are consistent with user's needs.

Internal audit

Internal audit activities were performed based on the auditing plan elaborated according to company's objectives. The internal auditing plan and resources required were approved by the Board of Directors.

Objectives of the "internal audit" are:

- assisting the executive management by providing an independent assessment of efficiency and efficacy of internal control framework implemented by the management;
- assessment of the good funds management and patrimonial integrity;
- assessment of reliability of accounting and IT systems;
- provision of compliance with company's policies and processes during all activities performed and structures implemented;
- provision of review of policies, processes and control mechanisms, so that they remain effective and adequate for activities performed by the company;
- provision of recommendations for permanent improvement of the internal control system, so that it operates with optimum efficacy and remains cost-efficient, reflecting adequate control practices;
- promotion of an effective coordination with the activities of external auditor, in order to prevent any activity overlaps.

In conclusion, the general objective of "internal audit" is improvement of the management of audited structures, by provision of objective assessments of evidencing elements, performed to provide to audited structures an independent and objective assessment of risk management processes, of control and governance processes and consulting activities destined to add value and to improve governance processes at company level;

Activities performed by internal audit in 2016



RAPORTUL DE ACTIVITATE AL CONSILIULUI DE ADMINISTRATIE PRELIMINAR 2016

Missions accomplished by the internal auditor based on the 2016 auditing plan were routine missions. Internal auditor's opinion, results of activities, conclusions, recommendations and proposals, as well as the plan of measures to be taken during auditing were included in internal audit report and presented to the Auditing Committee under the Board of Directors.

The executive management took the measures required to manage and mitigate risks identified and included in internal audit reports.

**CHAIRMAN OF THE BOARD OF DIRECTORS,
Trifa Aurelian-Mircea-Radu**

**GENERAL DIRECTOR
Laura Elena Arghirescu**

**FINANCIAL DIRECTOR,
Gabriela Marian**



PRELIMINARY ACTIVITY REPORT OF THE BOARD OF DIRECTORS FOR 2016

Appendix no. 1

A. ELEMENTS OF FINANCIAL STATEMENT – PRELIMINARY DATA

I. Assets representing 10% of total assets

					-RON-
	Analytic on-balance indicators that exceed 10% of total assets	2014	2015	2016	% of total assets
	TOTAL ASSETS	57,158,669	58,320,372	58,718,390	
1.	Lands and buildings	18,542,691	18,038,612	17,630,080	30
2.	Finished products and goods	7,626,386	11,458,207	11,397,152	19
3.	Trade receivables	13,066,527	14,902,641	12,381,224	21

II. Liabilities exceeding 10% of total liabilities

					-RON-
	Analytic on-balance indicators that exceed 10% of liabilities	2014	2015	2016	% of total liabilities
	TOTAL LIABILITIES	57,158,669	58,320,372	58,718,390	
1.	Reserves	16,345,307	19,080,554	18,969,047	32
2.	Subscribed and paid-up capital	23,990,846	23,990,846	23,990,846	41
3.	Balance carried forward	8,081,493	8,195,008	9,117,566	16

B. GLOBAL RESULT – PRELIMINARY DATA

					-RON-
	Analytic indicators in profit and loss account that exceed 20 % of turnover	2014	2015	2016	% of 2016 turnover
	NET TURNOVER	23,997,285	29,819,814	37,324,149	
1	Production sold	22,289,740	24,844,313	28,040,655	75
2	Expenditures with cost of goods sold	7,949,823	11,728,144	17,525,422	47
3	Expenditures with salary, contributions and other employee benefits	6,536,813	6,675,117	6,714,118	18



TREASURY FLOW STATEMENT – PRELIMINARY DATA

For the financial result ended on December 31st	2014	2015	2016
Cash payments received from clients	22,692,514	31,145,239	43,778,579
Payments to suppliers and employees	(23,708,282)	(33,867,035)	(39,274,618)
Cash flow from operations	(1,015,768)	(2,721,796)	4,503,961
Interests paid	-	(24,849)	4,843
Profit tax paid	(508,237)	(255,323)	240,743
Net cash flow from operations	(1,524,005)	(3,001,968)	4,258,375
Cash flow from investments			
Interests received	294,921	112,475	2,307
Redemption of fund units	(5,460,407)	2,596,792	-
Purchase of tangible assets	(2,004,025)	(212,674)	(249,006)
Short-term investments	-		
Dividends paid	-	(1,321,489)	(1,147,886)
Net cash flow from investments	(7,169,511)	1,175,104	(1,394,585)
Cash flow from funding activities			
Repayment of loans			
Payment of financial leasing debts	(121,461)	(171,273)	(176,344)
Net cash flow (used in) funding activities	(121,461)	(171,273)	(176,344)
Net increase (decrease) of cash and cash-equivalent	(8,814,977)	(1,998,137)	2,687,446
Cash and cash equivalent on January 1 st	13,188,711	4,372,604	2,343,920
Effects of exchange rate variation on cash	(1,130)	(30,547)	(28,362)
Cash and cash equivalent on December 31st	4,372,604	2,343,920	5,003,004