

## Presentation of the impact of IFRS implementation on Mecanica Ceahlau S.A. as of 31 December 2012

Mecanica Ceahlau compiled for the first time individual financial statements compliant to IFRS for the financial exercise closed on 31 December 2012.

IFRS does not provide a standard format for the presentation of such individual financial statements compiled by the company. IAS 1 *Presentation of financial statements* gives general provisions for the presentation of financial statements, guidelines as to the structure and minimum provisions with respect to their content.

A full set of individual financial statements compliant with IFRS compiled by Mecanica Ceahlau S.A. as of 31 December 2012 includes: the status of financial standing; the status of the overall outcome; the status of modifications to own capitals; the status of cash flow; notes regarding a summary of the significant accounting policies, and other explanatory information. Moreover, during the preparation of the individual financial statements in compliance with IFRS, it is necessary to observe the principles regarding the following: the accurate presentation and compliance with IFRS, the continuity of activity, accounting of commitments, the significance threshold and aggregation, compensation, comparative data, and consistency of presentation.

The objective of the IFRS financial statements is to provide data on the financial standing, financial performance, and cash flow, useful for a wide range of users in making economic decisions. Moreover, they present the outcome of resources management providing information on debts, own capitals, returns and expenditure, including gains and loss, cash flow. These data together with the information in the notes to the financial statements help users estimate future cash flows and, mainly, their placing in time and estimating the degree of their certainty.

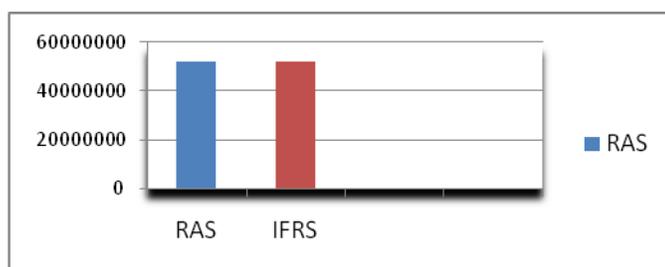
### 1. Comparative status between the positions of the RAS and IFRS financial statements, respectively, for Mecanica Ceahlau

#### 1.1 Comparative status of the assets as of 31 December 2012

Index	RAS	IFRS	Balance
Non-tangibles	116,826	116,546	(280)
Tangibles	24,518,658	23,960,471	(558,187)
Investments in real estate	-	509,492	509,492
<b>Total immobilised assets</b>	<b>24,635,484</b>	<b>24,586,509</b>	<b>(48,975)</b>
Stocks	7,979,903	7,969,226	(10,677)
Commercial debts and other debts	7,489,367	7,548,739	59,372
Expenditure recorded in advance	1,092	1,092	-
Cash and cash equivalent	12,224,571	12,224,571	-
<b>Total current assets</b>	<b>27,694,933</b>	<b>27,743,628</b>	<b>48,695</b>
<b>Total assets</b>	<b>52,330,417</b>	<b>52,330,137</b>	<b>(280)</b>

Note: figures are expressed in RON unless provided otherwise;

In compliance with IFRS, Total assets display a decrease as compared to the total assets active RAS, motivated mainly by the record of classified tangibles, in compliance with IFRS, under the category of real estate tangibles.



## 1.2 Real estate investments and tangibles

Index	RAS	IFRS	Balance
Non-tangibles	116,826	116,546	(280)
Tangibles	24,518,658	23,960,471	(558,187)
Real estate investments	0	509,492	509,492
<b>Total tangibles</b>	<b>24,635,484</b>	<b>24,586,509</b>	<b>(48,975)</b>

Pursuant to the provisions of IAS 40 *Real estate investments*, a real estate investment is a property (land area or building – o part of a building – or both) owned with a view to obtaining returns from rent or to increasing the value of the capital, or both, and not to be used in order to produce or supply goods =or services or with administrative goals or to be sold during the normal development of the operations. This category of assets is not provided for under RAS.

The value of real estate investments, i.e., 509,492 lei, has been re-classified from the value of tangibles, with a view to preparing the IFRS financial statements. As to the tangibles, Mecanica Ceahlau has opted for the revaluation model allowed by IAS 16 *Tangibles*, as there are no comparatively major differences to the values recorded under RAS for such category.

The balance, i.e., 48,975 lei, pertaining to non-corporeal and tangibles comes from:

- Reclassifying the value of 280 lei, re-treatment of non-corporeal immobilisation in compliance with IAS 38 via the profit and loss accounts;
- Reclassifying the value of 509,492 lei, representing tangibles pursuant to RAS owned to be rented under the category of real estate investments in compliance with IFRS;
- Reclassifying the value of 48,695 lei, advance for tangibles in commercial debts and other debts.

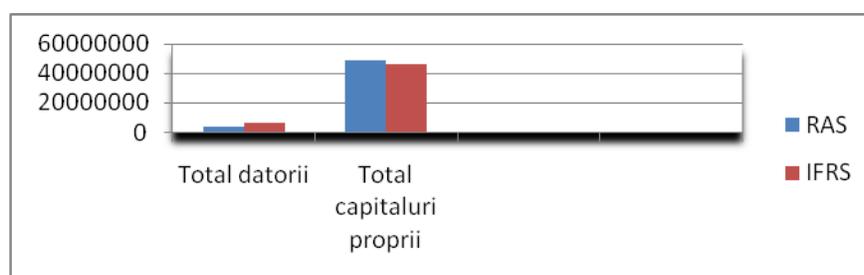
## 1.3 Comparative status of stocks as of 31 December 2012

Index	RAS	IFRS	Balance
Stocks	7,979,903	7,969,226	(10,677)
Commercial debts and other debts	7,489,367	7,548,739	59,372
Expenditure recorded in advance	1,092	1,092	-
Cash and cash equivalent	12,224,571	12,224,571	-
<b>Total current assets</b>	<b>27,694,933</b>	<b>27,743,628</b>	<b>48,695</b>

The balance of 48,695 lei pertaining to stocks comes from reclassifying advance payments in the amount of (10,677) lei from stocks, pursuant to RAS, in commercial debts and other debts, in compliance with IFRS;

#### 1.4 Comparative status of debts and own capitals as of 31 December 2012

Index	RAS	IFRS	Balance
Provisions for risks and expenditure	499.324	641.070	141.746
Debts concerning postponed tax on profit		2.752.766	2.752.766
Commercial debt and other debts	2.841.722	2.841.722	-
Returns recorded in advance	83.171	104.882	21.711
<b>Total debts</b>	<b>3.424.217</b>	<b>6.340.440</b>	<b>2.916.223</b>
Social capital	23.990.846	23.990.846	-
Reserves	23.322.360	15.842.240	(7.480.120)
Outcome of the exercise	5.993.042	7.406.938	1.413.896
Outcome reported	(4.042.089)	1.924.142	5.966.231
Other items of own capitals	(357.959)	(3.174.468)	(2.816.509)
<b>Total own capitals</b>	<b>48.906.200</b>	<b>45.989.700</b>	<b>(2.916.500)</b>



The differences between RAS and IFRS total debts come from applying the provisions of IAS 12 "Tax on Profit".

The main differences on own capitals are generated by the record of the IAS 12 application and the differences obtained by Mecanica Ceahlau as per the two reporting frameworks, by decreasing reserves from the revaluation of tangibles and the record under debts concerning postponed tax on profit.

#### 1.5 Debts concerning postponed tax on profit

Index	RAS	IFRS	Balance
Provisions for risks and expenditure	499,324	641,070	141,746
Debts concerning postponed tax on profit		2,752,766	2,752,766
Commercial debts and other categories	2,841,722	2,841,722	
Returns recorded in advance	83,171	104,883	21,712
<b>Total debts</b>	<b>3,424,217</b>	<b>6,340,441</b>	<b>2,916,224</b>

Pursuant to the provisions of IAS 12 *Tax on Profit*, the postponed tax on profit is recorded for the temporary balances between the accounting value and the fiscal base of the company assets and debts. Debts incurred by postponed tax on profit are recorded either under profit or loss, or under other items of the overall outcome, according to the accounting regulations regarding the item that has generated such debts.

The balance of 2,916,224 lei is the cumulated effect of the following re-treating adjustments:

The provisions for risks and expenditure, i.e., the amount of 141,746 lei, with the following re-treating adjustments:

- setting up supplementary provisions as per IAS 37 "employees' benefits", i.e., the amount of 30,535 lei;
- provisions for vacations not performed, i.e., the amount of 9,472 lei;
- provisions for contracts entered with dealers, i.e., the amount of 101,739 lei;

Debts regarding the postponed tax on profit:

- record of the debt regarding the postponed tax on profit, in compliance with IFRS, i.e., the amount of 2,752,766 lei.

Returns recorded in advance:

- record of returns in advance as per IAS 18, i.e., the amount of 21,711 lei, the balance comes from adjusting the returns from end product sales, representing returns from interest;

## 1.6 Reserves

Index	RAS	IFRS	Balance
Reserves from revaluation	17,695,133	13,329,404	(4,365,729)
Legal reserves	1,685,214	1,685,214	-
Reserves representing surplus from revaluation reserves	3,114,391	0	(3,114,391)
Other reserves	827,622	827,622	-
<b>Total reserves</b>	<b>23,322,360</b>	<b>15,842,240</b>	<b>(7,480,120)</b>

The balance of (7,480,120) lei, pertaining to reserves from revaluing tangibles, comes from:

- the amount of (4,365,729) lei cancellation of surplus from reserves coming from the revaluation of realized tangibles for all re-assessments performed after 01 January 2004, while the differences between RAS and IFRS represent the cumulative effect of the unification and permanence of methods for recalculating depreciation of surplus resulting from revaluation by the depreciation method;
- (3,114,391) the differences between RAS and IFRS, the revaluation surpluses existing in the balance at the close of the financial year on 31 December 2012, are presented in retained earnings representing surplus from revaluation reserves.

## 1.7 Reported outcome

Index	RAS	IFRS	Balance
Outcome of the exercise	5,993,042	7,406,938	1,413,896
Reported outcome	(4,042,089)	1,924,142	5,966,231
Other items of own capitals	(357,959)	(3,174,468)	(2,816,509)

The balance between the RAS values and IFRS of the 2012 exercise outcome represents the cumulative effect of registering all the re-treating adjustments impacting on the profit or loss account in prior periods and the current period. The balance of 1,413,896 lei, the result of the 2012 exercise, in compliance with IFRS, is larger than the result under RAS, since after re-treating, some adjustments and provisions, recognized as expenses in previous periods, were recognized as returns in 2012:

- ✓ 110,719 lei returns from postponing payments to be cashed over the normal crediting limits in the previous years;
- ✓ 1,333,379 lei adjustments of balances between RAS and IFRS values of the 2012 exercise outcome;
- ✓ (28,393) lei returns from postponing din payments to be cashed over the normal crediting limits in 2012;
- ✓ (1,809) lei resuming under returns of the postponed tax on profit, fiscal facilities for 2012;

The balance of 5,966,231 lei, the outcome of the 2012 exercise reported also includes surpluses from net and gross revaluations determined following re-treatment between the RAS and IFRS values:

- ✓ (261,036) lei increase of the result reported (loss) in the previous years as an effect of adjustments of the profit and loss account of the financial exercise closed on de 31 December 2012; (account 117.1: 4,303,125 lei )
- ✓ (28,135) lei, reported result from correction of the accounting errors in the previous years; (account 117.4 : 28,135 lei);
- ✓ 7,508,255 lei, record of surplus obtained from reserves in revaluation as an effect of adjustments to profit and loss account of the financial exercise closed on 31 December 2012; (account 117.5: 7,508,255 lei
- ✓ (1,252,853) lei, reported result from the effect of adjustments to the profit and loss account of the financial exercise closed on 31 December 2012. (account 117.7: 1,252,853 lei);

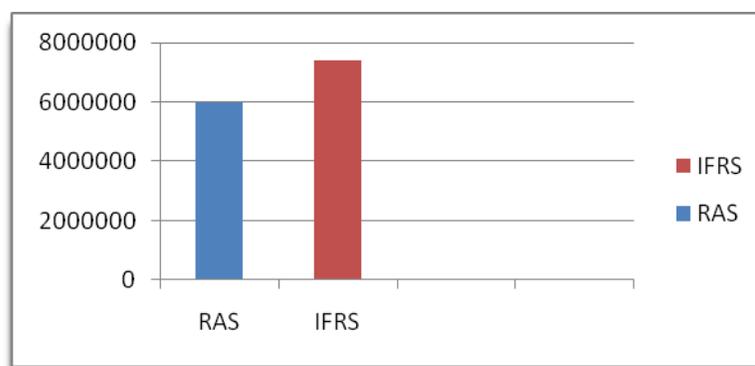
The balance of (2,816,509) lei, increase of other items of own capitals between the RAS and IFRS value comes from recognizing the postponed tax pertaining to gross reserves in the sold, pursuant to IAS 12 *Tax on Profit*, with cancellation while gross reserves decreased in the sold.

- ✓ (2,816,509) lei, record of other own capitals items, postponed tax on profit is directly assigned to the accounting value of the own capitals component of the financial exercise closed on 31 December 2012. (103.4: 2,816,509 lei).

## 2 Comparative analysis of the overall outcome status

Position in the overall outcome	RAS	IFRS	Balance
<b>Returns</b>	29,525,090	29,496,698	(28,392)
Other returns	255,420	255,420	
Stock variation	764,181		764,181
<b>Total operational returns</b>	<b>30,544,691</b>	<b>29,752,118</b>	<b>(792,573)</b>
<b>Expenditure</b>			
Expenditure concerning stocks	10,140,474	9,746,412	(394,062)
Expenditure concerning utilities	835,433	804,286	(31,147)
Expenditure concerning employees' benefits	6,930,906	6,675,841	(255,065)
Expenditure on amortization and depreciation of assets	1,552,432	1,420,538	(131,894)
Gains / loss from transfer of assets	369,906	369,906	-
Adjustment of current assets value	22,678	(1,001,055)	(1,023,733)
Adjustment concerning provisions	154,178	(155,469)	(309,647)
Other expenditure	4,381,909	4,429,898	47,989
<b>Total operational expenditure</b>	<b>23,648,104</b>	<b>21,550,545</b>	<b>(2,097,559)</b>
<b>Outcome of Operational Activity</b>	<b>6,896,587</b>	<b>8,201,573</b>	<b>1,304,986</b>
Financial returns	762,537	873,256	110,719
Financial expenditure	499,945	499,945	-
<b>Net Financial Outcome</b>	<b>262,592</b>	<b>373,311</b>	<b>110,719</b>
<b>Profit before tax</b>	<b>7,159,179</b>	<b>8,574,884</b>	<b>1,415,705</b>
Tax on current profit	1,166,137	1,166,137	-
Tax on postponed profit		(64,988)	(64,988)
Returns pertaining to postponed profit		63,179	63,179
<b>Net Profit of the financial exercise</b>	<b>5,993,042</b>	<b>7,406,938</b>	<b>1,413,896</b>
<b>Other items of the overall outcome</b>		<b>(232,189)</b>	<b>(232,189)</b>
Decrease of reserves from revaluation		(232,189)	(232,189)
<b>Total overall outcome pertaining to the period</b>	<b>5,993,042</b>	<b>7,174,749</b>	<b>1,181,707</b>

### 2.1 Net Profit of the Exercise



The balance between the net profit of the 2012 financial exercise, pursuant to RAS, and profit in compliance with IFRS, i.e., the amount of 1,413,896 lei, is generated by the records as per the two regulating frameworks:

**(792,573) lei Total operational returns:**

- ✓ (28,393) lei, the balance resulted from the adjustment of returns from end product sales, which represent, pursuant to IAS 18, returns from interest;
- ✓ (764,181) lei, removal of stock variation, in compliance with IFRS, IAS 1, the company presents the expenditure by using a classification relying on their nature. The profit and loss account does not display the value of returns reflected in the account 711 "Returns pertaining to costs of product stocks", nor does it display the corresponding value in the expenditure accounts.

**(2,097,559) Total operational expenditure:**

- ✓ (394,062) lei, adjustments resulting from the removal of the stock variation, pursuant to IAS 1;
- ✓ (31,147) lei, adjustments resulting from the removal of utility variations, pursuant to IAS 1;
- ✓ (255,065) lei, adjustments resulting from the removal of utility variations, pursuant to IAS 1;
- ✓ (131,894) lei, adjustments resulting from the removal of variation of expenditure on amortization, pursuant to IAS 1;
- ✓ (1,023,733) lei, adjustments resulting from resuming under returns of some adjustments to the depreciation of debts incurred as a result of re-treating on the account of the reported result of the previous periods;
- ✓ (309,647) lei, provisions set up in compliance with IFRS, on the account of the reported result in the previous periods, taking into account the provisions set up for the current year via RAS;
- ✓ 47,989 lei, adjustments resulting from the removal of the stock variation effect, pursuant to IAS 1;

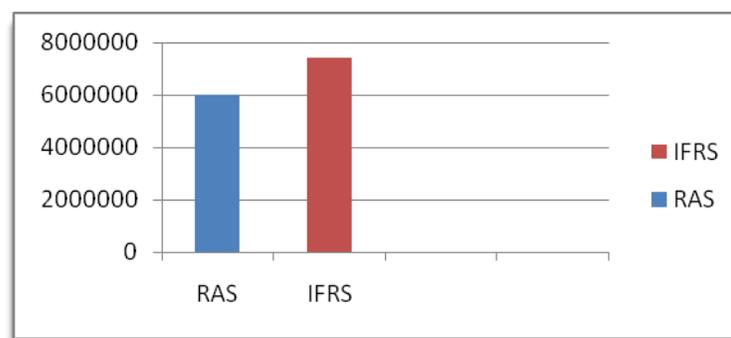
**(110,719) lei Total financial returns;**

- ✓ (110,719) lei, adjustments resulting from recognition of some returns from interest, pursuant to IAS 18, returns from moneys received beyond the normal crediting terms in the previous years.

**(1,809) lei Postponed tax on profit / current tax on profit**

- ✓ (64,988) lei, recognition of the postponed tax on profit, pursuant to IAS 12 "Tax on Profit"
- ✓ 63,179 lei, resuming under returns from postponed tax on profit recognized with a decrease of the temporary balances between the fiscal tax calculation base and the accounting tax calculation base;

**2.2 Total overall outcome pertaining to the period**



The overall outcome represents the modification of the company's own capitals over a period, determined by transactions, events, and circumstances other than transactions with shareholders (contributions of the shareholders and distributions between them). Under "Other items of the overall outcome", we have recorded all such transactions, which determine the modifications of own capitals and which were not recorded in the profit or loss account. In the case of Mecanica Ceahlau, under "Other items of the overall outcome," the company recorded the decrease from revaluation, i.e., the amount of 232,189 lei.

### 2.3. Comparative presentation of the structure of returns

Position in the overall outcome	RAS	IFRS	Balance
Returns	29,525,090	29,496,698	(28,392)
Other returns	255,420	255,420	-
Stock variation	764,181		764,181
Financial returns	762,537	873,256	110,719
Returns related to postponed tax on profit	-	63,179	63,179
<b>Total returns and gains</b>	<b>31,307,228</b>	<b>30,688,553</b>	<b>(618,675)</b>

Based on the graphs and data in the table above, one can notice that, although the volume of returns and gains, in compliance with IFRS, is smaller by 618,675 lei than the one recorded pursuant to RAS, their structure is comparable in compliance with the two reporting frameworks, the gains from sales being sizable.

Mecanica Ceahlau is ready to continue both the compilation of financial statements in compliance with IFRS, at an individual level, and the use of accounting Regulations in compliance with the International Financial Reporting Standards, applicable to companies whose movables are accepted to be transacted on a regulated market in compliance with article 125 of Law 297/2004 concerning the capital market, with further amendments and completions. For the financial exercise closed on 31 December 2012, the individual financial statements compiled in compliance with the accounting regulations as per IFRS are being audited by the company Deloitte Audit SRL, consequently there may be some modifications.

**DIRECTOR GENERAL,**  
*Ing. Neculai Timaru*

**DIRECTOR ECONOMIC,**  
*Ec. Gabriela Marian*