



corrugated cardboard – paperboards –  
tissue paper

# **MANAGEMENT BOARD'S REPORT FOR THE FINANCIAL YEAR 2014**

<b>Issuing entity's name:</b>	<b>VRANCART S.A.</b>
<b>Registered office:</b>	<b>Adjud, 17 Ecaterina Teodoroiu Street, Vrancea</b>
<b>Telephone/ fax number:</b>	<b>0237-640.800/0237-641.720</b>
<b>Sole registration code with the Trade Registry Office:</b>	<b>1454846</b>
<b>Registration number with the Trade Registry:</b>	<b>J39/239/1991</b>
<b>Subscribed and paid-in share capital:</b>	<b>86.371.792 lei</b>
<b>The regulated market onto which the securities issued are traded:</b>	<b>Bucharest Stock Exchange</b>

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## 1. ANALYSIS OF THE ACTIVITY OF „VRANCART” S.A.

### 1.1.1. General information

„VRANCART” was established under the Law no. 15/1990 in 1991, as a joint stock company with juridical personality.

#### *General presentation*

Trade company's name	„VRANCART”
Type of company	Joint stock company
Address	17 Ecaterina Teodorescu Street, Adjud, Vrancea County, 625100
Telephone / Fax	0237.640.800 / 0237.641.720
Registration number with the Trade Registry	J39/239/1991
Sole identification code	1454846
Tax Identification Number	RO1454846
Share capital	86.371.792 lei
Nominal value of shares	0,10 lei/share
Number of shares	863.717.920

The company has its registered office in Adjud and has working points opened in the following cities: Bucharest, Iași, Focșani, Ploiești, Botoșani, Sibiu, Constanța, Arad, Brașov, Pitești, Timișoara, Bacău and Cluj-Napoca.

The main object of activity of „VRANCART” (NACE code 1721) is represented by the manufacturing and trade of the following products:

- single-faced corrugated cardboard, double-faced corrugated cardboard, double-double faced corrugated cardboard with B, C, B+C, E+C flutes, corrugated cardboard with micro-flutes;
- corrugated cardboard packaging (boxes) of various sizes, die-cut and printed;
- paperboards in various assortments;
- tissue papers in various assortments;
- paper strips for the manufacturing of paper cores;
- paper cores.

Besides the productive activities resulting in the products mentioned above, VRANCART also performs activities to support its main activities (supporting activities): the production of utilities (industrial water, treated water for thermal boilers, process steam, waste water clarifying), mechanical maintenance, electric and automation activities, predictive maintenance of technological machines, quality control, transports (to the company's working points and to customers) and others.

#### **General evaluation items:**

<b>a) gross book result</b>	<b>20.967 thousand lei</b>
<b>b) turnover</b>	<b>197.476 thousand lei</b>
<b>c) export</b>	<b>38.216 thousand lei</b>
<b>d) operating costs</b>	<b>176.973 thousand lei</b>
<b>e) % of the market held</b>	

2014	Tissue paper	14%
	Fluting paper	27%
	Corrugated cardboard	13%

<b>f) liquid funds at the year end</b>	<b>2.353 thousand lei</b>
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### 1.1.2. Evaluation of the Company's technical level

The main production activities of „VRANCART” are organised by three different lines of business managed based on their own budgets, component parts of the general budget of the company that manufactures products for three different markets, namely:

- the paperboards market;
- the corrugated cardboard and corrugated cardboard packaging market;
- the tissue paper market.

The evolution of VRANCART's production on these markets in the past 3 years is presented in the table below:

Profit centre	MU	2014	2013	2012
Paperboards mill	to	66.641	60.081	56.386
Corrugated cardboard and packaging mill	to	38.303	38.211	40.044
Tissue paper mill	to	19.944	17.481	18.900

The share of each category of products in the total turnover of the Company in the past 3 years is presented in the table below:

Profit centre	MU	2014	2013	2012
Paperboards mill	%	24%	20%	15%
Corrugated cardboard and packaging mill	%	48%	51%	54%
Tissue paper mill	%	25%	26%	28%
Other activities	%	3%	3%	3%

Out of the total production of paperboards, 59% in 2014 (60% in 2013 and 68% in 2012) is used for our own production of corrugated cardboard, and the remaining amount is intended for sale to other corrugated cardboard manufacturers, especially outside the country.

The investments made in 2014, by groups of fixed assets were as follows:

Investments made	Value (Lei)
Buildings and building improvements	127.983
Technological equipment	5.843.412
Apparatus and working installations	145.129
Means of transport and other fixed assets	826.666
<b>TOTAL</b>	<b>6.943.190</b>

### 1.1.3. Evaluation of the technical and material supply activity

The main raw material of the paper mills of „VRANCART” is waste paper.

From the analysis of the production costs structure, it can be observed that the share of expenses related to waste paper in 2014 was of approximately 30%, which required giving a particular attention to this activity sector.

In 2014, we purchased 103.010 to of waste paper, out of which class II (cardboard): 78.601 to, class III (white printed paper): 23.711 to and class IV (mixture of paper and cardboard): 698 to. Out of the amount of waste paper purchased, 61.757 to was purchased through our own 15 collection centres, 12,93% more than in 2013.

The evolution of waste paper collection through our own collection centres and at the company's headquarters, in the past 3 years, is presented below:

Waste paper purchase	MU	2014	2013	2012
	to	61.757	54.686	43.191
Purchase through the collection centres	% of the total purchases	60%	61%	53%
	to	41.253	34.987	38.520
Direct purchase (in Adjud)	% of the total purchases	40%	39%	47%
Total purchases	to	103.010	89.673	81.711
	%	100%	100%	100%

#### 1.1.4. Evaluation of the sales activity

The evolution of delivery of the products of „VRANCART” by each market segment in the past 3 years is presented in the table below:

Profit centre	MU	2014	2013	2012
Paperboards mill	to	28.966	23.677	17.764
Corrugated cardboard and packaging mill	to	38.353	38.287	39.849
Tissue paper mill	to	19.785	17.789	18.724

#### The state of competition

On each market segment there are several manufacturers of products similar to those manufactured by „VRANCART”.

*On the paperboards market in Romania* there were three competitors in 2014. The production capacities of the paper production plants and the main characteristics defining them, by producers, are as follows:

Producers	Annual production capacity (to/year)	Maximum working speed of the machine (m/min)	Working width of the machine (mm)
Ambro Suceava – Rossmann Group	150.000	600	5000
Ecopaper Zărnești	100.000	400	4400
<b>Vrancart Adjud</b>	<b>75.000</b>	<b>350</b>	<b>4600</b>
<b>Total</b>	<b>325.000</b>	<b>-</b>	<b>-</b>

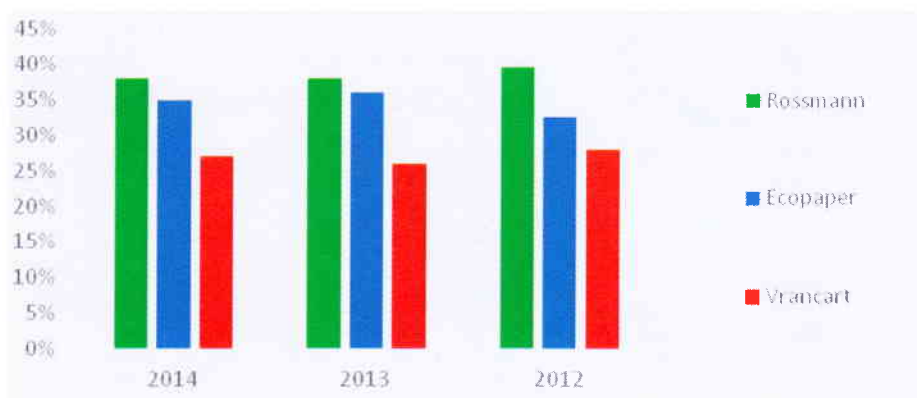
All the three mills use corrugated cardboard waste (waste paper) as raw material for the production of paper and the products obtained are similar from the point of view of characteristics and quality and only their name differs from one manufacturer to another.

All the three domestic manufacturers of paper also own corrugated cardboard and corrugated cardboard packaging mills, so that most of their own paper production is intended for their own consumption.

### Market share evolution for paperboards

Producers	2014	2013	2012
Ambro Suceava (Rossmann Group)	38%	38%	40%
Ecopaper Zărnești	35%	36%	33%
Vrancart Adjud	27%	26%	28%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: ROMPAP, Informative bulletins



*On the corrugated cardboard and corrugated cardboard packaging market*, in 2014 there were 10 competitors, out of which 2 have two mills each (Rossmann and Rondocarton).

The corrugated cardboard market is a **regional market** due to the high transport costs for long distances. It is a **highly competitive** market, and in Romania **the orientation of consumers is towards products with low prices and average quality**. It must be stated that in 2013, a new cardboard machine was put into operation at Thimm Șura Mică, with a yearly production capacity of 25 thousand tons.

The totalized production capacity of the 12 corrugated cardboard mills that reported to the Romanian Association of Corrugated Cardboard Manufacturers is 723 thousand tons yearly. The consumption during 2014 was 293 thousand tons, meaning 41% of the total production capacities. In 2014, the corrugated cardboard packaging consumption recorded an increase by 12% from the previous year and there is still an increase tendency on this segment. These figures reflect **the excess of offer in relation to the demand**, on this market, which leads to **great advantages for the buyer** (low prices, very long payment terms – up to 120 days from delivery, the transport provided ex works to the beneficiary at the supplier's expense) to the **producer's disadvantage** (low profitability, the long term for the recovery of money from the market, additional costs related to the logistics necessary to provide the transport of goods to the customer's mill, etc.).



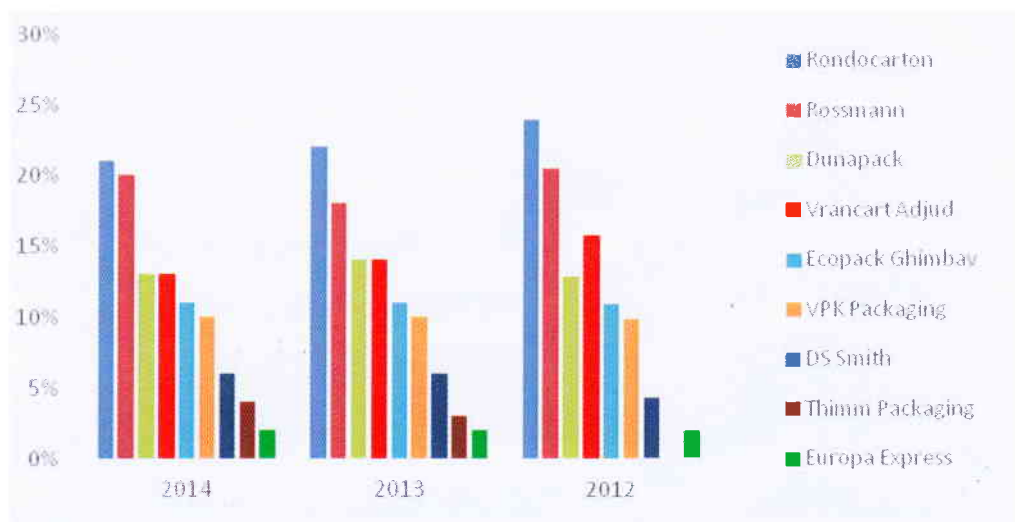
## Corrugated cardboard manufacturers in 2014 in Romania

No.	Producer's name	Amount delivered in 2014 (to)	Production capacity (to/year)	Degree of covering the capacity (%)	Boxes out of the total amount delivered (to)	Share of boxes in the total amount (%)
1	Rondocarton (with 2 mills)	61.673	160.000	39%	44.818	73%
2	Rossmann (with 2 mills)	58.092	120.000	48%	51.641	89%
3	<b>Vrancart Adjud</b>	<b>38.353</b>	<b>68.000</b>	<b>56%</b>	<b>4.230</b>	<b>11%</b>
4	Dunapack Sf Gheorghe	37.935	80.000	47%	24.117	64%
5	Ecopack Ghimbav	32.924	80.000	41%	23.608	72%
6	VPK Salonta	29.257	60.000	49%	16.862	58%
7	DS Smith Timișoara	18.311	60.000	31%	16.931	92%
8	Thimm Șura Mică	11.223	25.000	45%	11.223	100%
9	Europa Expres Iași	5.616	40.000	14%	5.591	99%
10	Vilcart Călimanești	does not report	30.000	does not report data to the Romanian Association of Corrugated Cardboard Manufacturers		
<b>TOTAL</b>		<b>293.384</b>	<b>723.000</b>	<b>41%</b>	<b>199.021</b>	<b>68%</b>

## Market share evolution for corrugated cardboard and corrugated cardboard packaging

Producers	2014	2013	2012
Rondocarton (Cluj+Târgoviște)	21%	22%	24%
Rossmann Groupe (Romcarton Bucharest + Ambro Suceava)	20%	18%	20%
Dunapack Sf. Gheorghe	13%	14%	13%
<b>Vrancart Adjud</b>	<b>13%</b>	<b>14%</b>	<b>16%</b>
Ecopack Ghimbav	11%	11%	11%
VPK Packaging	10%	10%	10%
SCA Timișoara (DS Smith)	6%	6%	4%
Thimm Packaging	4%	3%	0%
Europa Express	2%	2%	2%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: ROMPAP, Informative bulletins



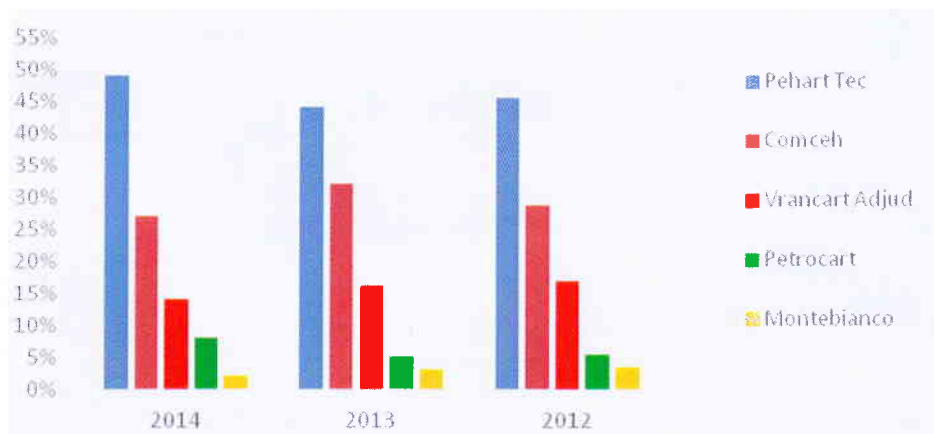


**On the tissue paper market**, with a market share of 14% in 2014, (taking into account only the domestic production), „VRANCART” remains one of the major tissue paper manufacturers in Romania. Still, this can change starting from 2015 following the production capacity increase at Petrocart Piatra Neamț. The tissue paper products market will increase in the following period due to the increase of the competitors’ production capacities. For example, at Petrocart Piatra Neamț the production capacity increased from 10.000 tons/ year (capacity used mainly to obtain one layered tissue paper) to 25.000 tons/ year (mainly one layered tissue paper made of waste paper). These manufacturers will have the possibility to increase the amounts of paper sold until reaching their production capacity, as the market and consumption grow. Due to this reason, the market shares held by the tissue paper manufacturers will change over the next period.

„VRANCART” recorded a reduction of the market share in 2014 from 2013, although in absolute value the amount delivered increased by approximately 2.000 tons, with the start-up in Romania of two new production capacities for the range of products made from cellulose. “VRANCART” manufactures mainly waste paper products with one or two layers, aiming at the average quality market segment, while the market is mainly focused on cellulose products with one or more layers.

#### Market share evolution for tissue papers

Producers	2014	2013	2012
Pehart Tec Petrești	49%	44%	45%
Comceh Călărași	27%	32%	29%
Vrancart Adjud	14%	16%	17%
Petrocart Piatra Neamț	8%	5%	6%
Montebianco Targoviște	2%	3%	4%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>



#### 1.1.5. Evaluation of the aspects related to the Company’s employees/ personnel

a) Specification of the number and level of training of the trade company’s employees, as well as of the degree of unionization of the labour force;

The average number of employees in 2014 was 903 employees, out of which:

- 144 higher education graduates
- 350 high school graduates
- 284 vocational schools graduates
- 125 middle school graduates

Out of the total number of employees, 237 are trade union members (there is only one union within the company).

The labour force fluctuation index during 2014 was 23% (the number of employees who left the company/ average number of personnel x100).

b) Description of the relationships between the managers and the employees, as well as of any conflicting elements characterizing these relationships.

There were no conflicting relationships between the company's management and the employees.

#### **1.1.6. Evaluation of the aspects related to the impact of the issuer's base activity onto the environment**

Summarized description of the impact of the issuer's base activities onto the environment as well as of any existing or foreseen litigations in relation to the violation of the environmental protection laws.

**VRANCART S.A.** has implemented an integrated quality-environment-health management system according to ISO 9001/2008; ISO 14001/2004 and OHSAS 18001/2007, certified by Lloyd's Register England, Bucharest Agency.

The impact of the company's activity onto the environment is being constantly monitored through the implementation of the Environmental Management System and implicitly through the compliance with the laws in force and the **INTEGRATED ENVIRONMENT AUTHORISATION no. 16/07.06.2007 as revised on 22.05.2009** and on **16.12.2013**. In November 2014 we started the re-authorisation process, in compliance with the legal steps. The estimated date for issuance by the Vrancea Environmental Protection Agency is 25.03.2015.

#### **ENVIRONMENTAL FACTOR: AIR**

The following result from the activity of VRANCART S.A.:

- hot air emissions (after the moist air from drying paper goes through absorption hoods) that are evacuated through exhaust chimneys at high altitude.
- emissions from the combustion gases from the process steam generating boiler (CTAT), from 3 process steam generators and a plant for the co-incineration of production wastes, that are evacuated through chimneys at high altitude.
- emissions resulting from the manufacturing processes – spread dust emissions due to the handling of auxiliary solid materials and the converting of tissue paper.
- noise resulting from the operation of burning and production plants.

On 12.06.2014, the greenhouse gas emissions authorisation no. 126/05.03.2013 for the period between 2013 and 2020 was revised.

According to the requirements of the Integrated Environment Authorisation, we carried out the following:

- determinations for the ambient environment were carried out in May by the Vrancea Directorate of Public Health
- determinations of the noise level at the limit of the location were carried out in December by SC Laboratoarele Tonnie SRL Poiești (laboratory accredited according to ISO 17025).

The results proved that the values measured are below the maximum values allowed. Measurements for the pollutants generated by the fixed assets were performed in 2014, according to the Integrated Environment Authorisation, with ICPET ECO (laboratory accredited according to ISO 17025); the results were below the maximum limits allowed.

We believe that VRANCART's activity has an insignificant **impact onto the air environmental factor**, and the level of emissions to the air falls under the provisions of:

- the Government Decision no. 1218/2006 as completed by the Government Decision no. 1/2012 and the Government Decision no. 355/2007 for exhausts and powders
- the Government Decision no. 493/2006 for noise
- the Government Emergency Ordinance no. 508/2002 and the Government Emergency ordinance no. 933/2002 for the microclimate
- the Order no. 462/1993 of the Minister of Water, Forests and Environmental Protection for the approval of the technical conditions on the protection of atmosphere and of the Methodological norms on the determination of atmospheric pollutant emissions generated by stationary sources.
- Law no.104/2011 on the quality of the ambient air.
- the Government Decision no. 780/2006 on the determination of the trading scheme for the greenhouse gas emissions certificates.
- Law no. 278/2013 on industrial emissions

#### **ENVIRONMENTAL FACTOR: WATER**

VRANCART S.A., holds the “**Water Management Permit no. 1/04.02.2008**”, as revised on **04.11.2013** valid until 04.02.2017.

In 2014, the waste water evacuated from the wastewater treatment plant of VRANCART in the Siret river fell within the limits imposed by the Water Management Permit, as revised, according to the current monitoring and the determinations carried out by SC Laboratoarele Tonnie SRL Poiesti (laboratory accredited according to ISO 17025).

The “Plan for the Prevention and Control of Accidental Pollution” is revised on a yearly basis according to the Order no. 278/1997 of the Minister of Water, Forests and Environmental Protection, approving the framework methodology for the preparation of the plans for the prevention and control of accidental pollution; this plan is submitted to the Vrancea Water Management System and to the Bacau Water Basin Administration.

#### **ENVIRONMENTAL FACTOR: SOIL**

Within the environmental management system, there were established clear rules to provide the compliance with the legal provisions on waste.

VRANCART S.A. ceased storing manufacturing wastes in its own warehouses on 31.12.2006, according to the Government Decision no. 349/2005. The post-closure monitoring is being performed according to the legislation in force.

The manufacturing wastes and the sludge at the wastewater treatment plant are stored in the temporary warehouse and co-incinerated in our own plant, the resulting process steam is used at the paperboards manufacturing plant and/ or at the tissue paper manufacturing plant.

According to the requirements for the protection of soil in the “Integrated Environmental Permit”, in December 2014 there were carried out determinations of the concentrations of pollutants by SC Laboratoarele Tonnie SRL Poiești (laboratory accredited according to ISO 17025). The results showed that the measured values are below the maximum levels allowed.

Controls were carried out by the Vrancea Environmental Guard, the Vrancea Environmental Protection Agency, the Siret Bacau Water Basin Administration and the Vrancea Water Management System.

The findings were recorded in the control protocols – the quality indicators of purified water did not exceed the normal values, according to those presented in the Environmental factor: Water, without any other violations of the legislation in force.

### 1.1.7. Evaluation of the research and development activity

In 2014, the main objective of the research and development activity was to find solutions for the effective usage of the rejects from the paper manufacturing processes.

To this respect, Vrancart collaborated with research and development institutions in the European Union for the development of a project called “Tools for Resource-Efficient use of recycled Fibre materials” (REFFIBRE Project). This project was filed in November 2013 and its completion is due in November 2016. The project coordinator is Teknologian Tutkimuskeskus (with the acronym VTT) and its partners are Papiertechnische Stiftung (with the acronym PTS), Instituto Tecnológico del Embalaje, Transporte y Logística (with the acronym ITENE), Bumaga BV (with the acronym Bumaga), The Confederation of European Paper Industries (with the acronyms CEPI), Technische Universität Darmstadt, Utzerntorf Paper, Holmen AB, Alucha and Vrancart SA.

### 1.1.8. Evaluation of the company’s activity on risk management

The company’s risk management policies are defined so as to provide the identification and analysis of the risks that the company is facing, to establish the appropriate limits and controls, as well as to monitor the risks and to meet the limits established. The risk management policies and systems are periodically revised to reflect the modifications occurred in the market conditions and the Company’s activities. Through its management and training standards and procedures, the company aims to develop an orderly and constructive control environment, where all the employees understand their roles and obligations.

The company is exposed to the following risks from using financial instruments:

- credit risk;
- liquidity risk;
- market risk.

**Credit risk** is the risk that the Company bears a financial loss following its failure to meet its contractual obligations to its partners. The maximum exposure to the credit risk was:

<b>Book value</b>	<b>Dec. 31<sup>st</sup>, 2014</b>	<b>Dec. 31<sup>st</sup>, 2013</b>
Trade receivables and other receivables	44.513.515	38.276.709
Cash and cash equivalents	2.352.952	1.467.002
<b>Total</b>	<b>46.866.467</b>	<b>39.743.711</b>

The company covers the credit risk through the preparation and implementation of relevant credit policies (e.g. each new customer is analysed on an individual basis from the reliability point of view before being given the standard payment and delivery conditions of the Company; purchase limits are established for each separate customer), the customers failing to meet the conditions established by the Company may make transactions with it only after making an advance payment.

**Liquidity risk** – The company makes sure that it has sufficient cash to cover the operating expenses. The following table shows the residual contractual maturities of the financial liabilities as at the end of the reporting period, including the estimated payments of interest:



<b>December 31<sup>st</sup>, 2014</b>	<b>Book value</b>	<b>Contractual cash flows</b>	<b>less than 1 year</b>	<b>1 - 5 years</b>	<b>over 5 years</b>
Loans*	45.408.493	47.344.298	25.575.002	21.769.296	-
Trade liabilities and other liabilities	24.410.993	24.475.504	23.590.833	884.671	-
<b>Total</b>	<b>69.819.486</b>	<b>71.819.802</b>	<b>49.165.835</b>	<b>22.653.967</b>	<b>-</b>

<b>December 31<sup>st</sup>, 2013</b>	<b>Book value</b>	<b>Contractual cash flows</b>	<b>less than 1 year</b>	<b>1 - 5 years</b>	<b>over 5 years</b>
Loans*	64.744.145	71.785.672	50.911.960	15.832.855	5.040.856
Trade liabilities and other liabilities	23.652.744	22.922.113	21.006.068	1.916.044	-
<b>Total</b>	<b>88.396.888</b>	<b>94.707.785</b>	<b>71.918.029</b>	<b>17.748.900</b>	<b>5.040.856</b>

\* Out of the total banking and non-banking exposure in the amount of 74 million lei as at 31.12.2014 (respectively 73,44 million lei as at 31.12.2013), 41 million lei consist of credit lines that are renewed on a yearly basis. The company considers that it will be able to renew these facilities in the next period as well.

VRANCART's management considers that it is taking all the measures necessary to support the sustainability and development of the Company's business, under the current conditions, through:

- the constant monitoring of liquidity;
- the performance of short-term forecasts on net liquidity;
- the monitoring of the cash flow input and output (on a daily basis), the evaluation of the effects onto the debtors, of the limited access to financing and of the economic environment in Romania.

**Market risk.** The objective of managing this risk is to maintain the exposures related to the exchange rate, the interest rate and the price of equity instruments within acceptable limits and at the same time to optimize the return on investment.

### **1.1.9. Prospects for the Company's business**

For 2015 the company aims to make great investments that will lead to the optimization and increase of the production capacity as well as to the diversification of the product portfolio. Performing these investments will lead to a slight decrease of the turnover from 2014, as a result of stopping the production stoppage, but in the period between 2016 and 2019 there will be a significant increase of turnover and of the estimated profit.

The provision of raw materials will be supported both by the policy to increase the number of waste paper collection centres through the establishment of new centres following the completion of the Innovation Green Norway co-financing project and by increasing the amounts collected in the existing centres, by endowing them with high capacity balers and with special collection vehicles, including the related containers. Following the project implementation, starting from the second half of 2015 we expect to see significant cost reduction effects, through the provision of waste paper straight from the generators – a competitive advantage of Vrancart.

### **1.1.10. Operating authorisations and certifications**

During the previous years, „VRANCART” has implemented an integrated Quality – Environment – Health and Labour Security system, certified by Lloyd's Register England, Bucharest Branch. The ISO certification takes into account several dimensions of the company's business, from

environmental protection through personnel protection and security, to the technical availability of the machines and plants involved in the production processes.

The certificates are valid for three years, with half-yearly supervision audits, in order to check the stage of implementation of the ISO standards:

- The Quality Management system in accordance with **ISO 9001/2008: 31.01.2018;**
- The Environmental Management system in accordance with **ISO 14001/2004: 05.01.2016;**
- Labour Health and Security Management system in accordance with **OHSAS 18001/2007: 22.09.2015.**

The supervision audits for the control of the implementation and maintenance of each separate system were carried out in 2014. The results proved that the management systems operate in accordance with the requirements of the standards chosen as the reference model.

„VRANCART” operates in accordance with the provisions of:

- the **INTEGRATED ENVIRONMENTAL PERMIT no. 16/07.06.2007** as revised on 22.05.2009 and on 16.12.2013, valid until 31.12.2014. In November 2014 we started the re-authorisation process, in compliance with the legal steps. The estimated term for issuance by the Vrancea Environmental Protection Agency is 25.03.2015.
- the **WATER MANAGEMENT PERMIT no. 1/04.02.2008**, as revised on 04.11.2013, valid until 04.11.2017.

**The general objectives** of the ISO management systems were included in the policies on quality, environment, labour health and security. Specific process objectives were established in order to reach the general objectives.

The ISO certificates and the related policies are available on the website [www.vrancart.ro](http://www.vrancart.ro).

## **2. THE COMPANY'S TANGIBLE ASSETS**

### **2.1. Specification of the emplacement and the characteristics of the main production capacities owned by the Company**

"Vrancart" SA Adjud is located in Adjud municipality, Vrancea county. The following production capacities operate within the company:

- a) *The corrugated cardboard machine*, with the exiting production capacity of 68.000 tons/year;
- b) *The paperboards machine*, with a production capacity of 70.000 tons/year, considering that the machine operates with raw materials consisting of 100% waste paper;
- c) *The tissue paper machine*, with a production capacity of 25.500 tons/year;

All the tangible assets are highlighted at the re-evaluated value and this represents the fair value as at the re-evaluation date less any amortisation accumulated subsequently and any accumulated impairment losses.

The fair value is based on price quotations from the market, adjusted, if applicable, so as to reflect the differences related to the nature, location or the conditions of that asset.

The re-evaluations are made by specialised assessors, members of ANEVAR (the National Association of Authorised Assessors in Romania). The frequency of re-evaluations is given by the dynamics of the markets that the land and buildings held by the Company belong to. The last re-evaluation of patrimony took place on 31.12.2013.

## 2.2. Description and analysis of the wearing degree of the Company's assets

Tangible assets items are amortised from the date when they are available for use or are in operating condition and for the assets built by the company, from the date when the asset is finalised and ready for use.

The amortisation is calculated using the linear method during the estimated useful lifetime of the assets, as follows:

- Buildings 30-60 years
- Equipment 2-16 years
- Means of transport 4-8 years
- Furniture and other tangible assets 4-10 years

The technical condition of the production installations is maintained through the performance of predictive and current maintenance works.

The degree of wear in the records as at 31.12.2014 (following the application of the re-evaluation items in accordance with IFRS) is as follows:

*(all the values are expressed in thousand lei)*

Degree of wear	Re-evaluated cost or value	Amortisation and depreciation	Wear
Buildings and special constructions	43.247	12.893	30%
Equipment and other fixed assets	194.582	83.477	43%

## 2.3. Specification of the potential problems related to the ownership on the Company's tangible assets

A part of the Company's tangible assets are mortgaged or pledged to guarantee the loans granted by banks. The net book value of these pledged or mortgaged assets is 103.468 thousand lei as at 31.12.2014. The net book value of the assets purchased through financial leasing is 2.283 thousand lei as at 31.12.2014.

## 3. THE MARKET OF THE SECURITIES ISSUED BY THE COMPANY

### 3.1. Specification of the markets in Romania and in other countries where the securities issued by the Company are traded

The shares of "VRANCART" SA are listed at the Bucharest Stock Exchange, 2<sup>nd</sup> category, with the indicative VNC, starting from July 15<sup>th</sup>, 2005.

The shareholding structure as at 31.12.2014 is as follows:

- SIF Banat-Crisana - 74,72 %
- Legal entities - 19,10 %
- Natural persons - 6,18 %

### 3.2. Description of the Company's policy on dividends.

The Company's policy on dividends is established by the Ordinary General Meeting of the Shareholders.



During the period between 2012 and 2013 there were no dividends distributed to the shareholders.

Year	Net profit	Legal reserve	Dividends	Development fund	Loss coverage	Other destinations
2012	5.249.901	309.735	-	-		4.940.166
2013	(6.822.732)	-	-	-		-
2014	18.965.225	1.048.328	2.400.000	3.763.884*	11.325.613	427.400

\*\* These amounts represent the tax facilities that the Company benefited from due to the exemption on tax related to the reinvested profit (art. 19<sup>4</sup> of the Tax Code).

The distribution of the company's profit falls under the competence of the Ordinary General Meeting of the Shareholders. For 2014, the company proposed the distribution of dividends in the total gross amount of 2.400.000 lei.

### 3.3. Description of any activities of the trade company to redeem its shares.

From its establishment, „VRANCART” S.A. Adjud has not purchased or held at any time its own shares.

### 3.4. If the trade company has any branches, specification of the number and the nominal value of the shares issued by the parent-company held by the branches.

From its establishment until now, „VRANCART” S.A. Adjud has not had any branches.

### 3.5. If the trade company issued any bonds and/ or other debt securities, presentation of the modality in which the trade company pays its obligations to the holders of such securities.

From its establishment, „VRANCART” S.A. Adjud has not issued any bonds or debt securities.

## 4. THE COMPANY'S MANAGEMENT

### 4.1. The company's managers

4.1. Presentation of the list of managers of the trade company and of the following information for each manager (name, surname, age, qualification, professional experience, position and the accumulated service):

1. **Ciucioi Ionel-Marian**, aged 37, economist, President of the Management Board and General Manager for 1 year

2. **Bilteanu Dragoş George** - economist, President of the Management Board and General Manager of S.I.F. Banat-Crişana, member of the Management Board of „Vrncart” for 3 years.

3. **Lakis El Najib** – aged 51, economist, member of the Management Board of Vrncart for 1 year

4. **Cuzman Ioan**, aged 70, economist, Vice-President of the Management Board of SIF Banat-Crişana, member of the Management Board of „Vrncart” for 15 years.

5. **Grigore Aurelia Gabriela**, aged 59, economist, Deputy General Manager of SIF Banat-Crişana, member of the Management Board of „Vrncart” for 15 years.

b) any agreement, understanding or family relationship between the manager in question and another person due to which that person was appointed as manager;

Not applicable.

c) the manager's participation in the trade company's capital:

The managers' participation in the company's capital as at 31.12.2014:

1. Ciucioi Ionel-Marian – 0 shares
2. Bîlteanu Dragoş George - 0 shares
3. Lakis El Najib – 0 shares
4. Cuzman Ioan – 158.337 shares with a nominal value of 0,10 lei/share
5. Grigore Gabriela – 88.346 shares with a nominal value of 0,10 lei/share

d) list of persons affiliated to the company

The parties are considered affiliated if one of the parties has the possibility to control either directly or indirectly or to influence to a significant extent the other party through ownership or based on certain contractual rights, family relationships or relationships of any other kind, as defined by IAS 24 "Submission of information on affiliated parties".

The persons that are part of the Management Board and the Board of Directors, as well as SIF Banat-Crişana, which is the main shareholder, together with the other companies controlled by it are considered affiliated persons.

#### **4.2. The company's executive management**

a) The executive management of "Vrancart" S.A. Adjud as at 31.12.2014 was provided by ec. Ciucioi Ionel-Marian, as General Manager and President of the Management Board.

b) any agreement, understanding or family relationship between the person in question and another person due to which that person was appointed as a member of the executive management;  
- Not applicable.

c) The participation of the company's managing members in the share capital  
- None of the managing members of VRANCART hold any shares.

#### **4.3. Potential disputes or administrative procedures**

For all the persons presented at points 4.1. and 4.2., specification of the potential disputes or administrative procedures they were involved in, in the past 5 years, related to their activity within the issuing company, as well as those related to the capacity of that person to fulfil its tasks within the issuing company.

- Not applicable.

### **5. CORPORATE GOVERNANCE**

#### **5.1. The compliance with the Code of Corporate Governance (CGC) of the Bucharest Stock Exchange**

The Management Board decided on the voluntary conformation with the Code of Corporate Governance (CGC) of the Bucharest Stock Exchange, decision that was ratified by the General Meeting of the Shareholders of August 10<sup>th</sup>, 2011 and on this occasion the Corporate Governance Regulation of „VRANCART” S.A. Adjud was approved.

„VRANCART” S.A. Adjud, as issuer listed at the 2<sup>nd</sup> category of the Bucharest Stock Exchange, considers the compliance with the corporate governance principles of the Corporate Governance Code of the Bucharest Stock Exchange. The shares of “VRANCART” S.A. are listed and traded starting from 15.07.2005, at the Bucharest Stock exchange rate, 2<sup>nd</sup> category, having the symbol VNC.

The activity related to keeping the shareholders' registry was and is being performed by S.C. „Depozitarul Central” S.A. in accordance with the agreement no. 22544/08.05.2007.

Still, at the company level there are documents and rules specific to corporate governance that are available in the company's "Articles of incorporation", the Organisation and Operation Regulation, internal regulations and decisions where the functions, competences and responsibilities of the Management Board and of the executive management are described.

Information on the corporate governance policy of „VRANCART” are disseminated on the company's website, respectively [www.vrancart.ro](http://www.vrancart.ro):

- The list of members of the Management Board and of the members of the executive management;
- The updated articles of incorporation;
- The „Apply or Explain” declaration.

According to the „Apply or Explain” declaration (enclosed to the Report), „VRANCART” certifies that it has complied with 15 of the 19 principles established. The non-compliance situations refer to:

(1) The management system, which in VRANCART's case is a single-tier system and not a two-tier system as the Code of Corporate Governance recommends and that is in compliance with the company's statute, specific to the Romanian companies.

(2) In what concerns the consultative committees and commissions provided by principle 8 of the Code of Corporate Governance, the Management Board considered that it is not necessary to establish such committees and commissions, having regard to the current structure of the Management Board.

(3) In reference to the Nomination Committee, the Management Board considered that it is not necessary to establish one, having regard to the current structure of the Management Board.

(4) In reference to the Remuneration Committee, the Management Board considered that it is not necessary to establish one, having regard to the current structure of the Management Board, as the remuneration policy is approved by the General Meeting of the Shareholders.

## **5.2. The company's management**

### **The Management Board**

„VRANCART” is managed by a Management Board formed of 5 members, elected by the General Meeting of the Shareholders for a period of 4 years, with the possibility of being re-elected.

The Management Board has decision-making competences on the company's management during the period between the general meetings, except for the decisions that the law or the articles of incorporation provide exclusively for the General Meeting of the Shareholders.

The Management Board selects a president from among its members. The president also holds the position of General Manager and provides the actual management of the company.

In the current mandate of the Management Board, elected by the General Meeting of the Shareholders of 29.04.2014, the structure of the Management Board provides a balance between the executive and non-executive members, with a ratio of 1/5.

The election of the Management Board members through the shareholders' vote in the General Meeting of the Shareholders of 29.04.2014 was based on a transparent procedure, by making public the contents of the candidacy file and the criteria to meet in order to hold the position of manager in a trade company. The mandate of the Management Board members is of 4 years, according to the statutory provisions.

According to the provisions of Law no. 31/1990, the General Meeting of the Shareholders approves on a yearly basis the policy for the remuneration of the managers and of the executive management members.

According to the statutory provisions, the Management Board meets at least every three months in order to monitor the performance of the company's activity.

„VRANCART” complies with the rules regarding the behaviour and the obligations to report on the transactions with the shares issued by the company, made on their own behalf by the managers and other natural persons involved and these rules are complied with by the persons in question, in accordance with the regulations of the Financial Supervisory Authority and the specific rules are available in the Regulation of Corporate Governance of “VRANCART” that became effective in 2011.

The list of persons who have access to privileged information is constantly updated, and this situation is sent to the Financial Supervisory Authority. The obligation to give notification on the transactions made by the initiated persons is both personal and of the intermediaries and the information is disseminated through the website of the Bucharest Stock Exchange.

### **The Management Board's activity in 2014**

In 2014, the Management Board of “VRANCART” S.A. Adjud met 13 times in accordance with the statutory provisions and the managers' presence in the meetings was in accordance with the legal provisions.

The Management Board president led all the meetings in 2014.

As a result of the meetings, 29 management decisions on the company's current activity were made.

### **5.3. Respecting the shareholders' rights**

„VRANCART” respects the shareholders' rights, providing their equal treatment. For the General Meeting of the Shareholders held in 2014, respectively on 28/29.04.2014, in a dedicated section of the company's website [www.vrancart.ro](http://www.vrancart.ro) – “For Shareholders” the details on the conduct of the meeting were published: the notice to attend the General Meeting of the Shareholders, the materials related to the agenda, as well as any other information on the topics on the agenda; the forms for exercising the vote by special proxy and the form for vote by correspondence; the procedures for attendance and vote providing the orderly and effective performance of the works of the General Meeting of the Shareholders and granting the right to every shareholder to express freely its opinion on the issues under debate; on the decisions made within the General Meeting of the Shareholders and on the result of the vote.

For the financial year 2014, the information on the financial schedule, current reports, quarterly and half-yearly reports were posted on the website by the deadline.

At „VRANCART” there are two people specialised in the field of relationships with investors and for the time being this activity does not require the existence of a specialised compartment within the company.

### **5.4. Communication transparency**

„VRANCART” gives particular importance to communication transparency, taking into consideration the provision of a continuous and regular reporting, that includes all the important aspects of the company's business, the performances recorded, etc.



Also, through the company's website, the company is presented both in terms of the activities carried out and in what concerns its relationship with the shareholders and investors. Information of interest for the shareholders and investors and also the current and regular reports on the company's business are disseminated in the "For shareholders" section in Romanian and English.

## **5.5. Financial reporting**

The financial statements for 2014 were drawn up in accordance with the International Financial Reporting Standards (IFRS) (Order no. 1286/2012 with the subsequent amendments and completions) and provide a fair view, compliant with the reality of the statement of assets, liabilities, financial position and of the profit and loss account of „VRANCART”.

According to the legal provisions, the financial and accounting statements were audited by KPMG Audit SRL – an independent financial auditing company, appointed by the General Meeting of the Shareholders of 17.04.2013 for a period of two years.

## **5.6. Internal control and risk management**

Internal control monitors and checks regularly the application of the new legal provisions incidental to the company's business, verifies the compliance with the company's internal regulations that were established through internal decisions and regulations, the completion of the existing regulations or the inclusion of new regulations specific to the company's business, the establishment or improvement of the company's internal procedures.

An Internal Audit Compartment operates within „VRANCART” and it audits on a regular basis the company's activities in order to provide relevant information on the performance of these activities and procedures and on the controls performed. The internal audit activity is carried out on the basis of the company's yearly audit plan that is approved by the Audit Committee established in accordance with the provisions of principle 13 of the Code of Corporate Governance.

Within the Management Board of “VRANCART” there is an Audit Committee that examines regularly the efficiency of the financial reporting, of internal control, of the internal audit and of the risk management system adopted by the company. The Audit Committee is formed exclusively of non-executive managers.

## **5.7. Conflict of interests and transactions with stakeholders**

For the proper identification and resolution of the conflict of interests situations, providing that all the investments and sales of securities are made only for the shareholders' interests and not for any other reasons, the Management Board adopted within its Corporate Governance Regulation a standard procedure for the resolution of such potential circumstances. In case of a conflict of interests between the company's interest and the personal interest of a decision maker (member of the Management Board) or decision-making employee (member of the executive management), the solution is the withdrawal of the person in question from that decision-making process.

The internal regulations impose the prohibition for the employees to engage in affiliated transactions that are in breach of the Financial Supervisory Authority regulations.

When a conflict of interests occurs among the managers, they inform the Management Board of this issue and refrain from the debates and the vote on those issues, in accordance with the relevant legal provisions; these situations are recorded in the minutes of the Management Board meeting.

## 5.8. The corporate information regime

The standard procedure on the internal circuit and the disclosure to third parties of the documents and information on the issuer, that might influence the evolution of the market price of the securities issued by it, was regulated through the Corporate Governance Regulation.

The persons assigned with attributions in this field draw up on a regular basis notices on the implications of the normative provisions on the management of privileged information (as defined in art. 244 of Law no. 297/2004) at "VRANCART" as well as in what concerns the obligations of the persons initiated. The notice is subject to the analysis and approval by the Management Board.

## 5.9. Social responsibility

„VRANCART" constantly carries out activities related to the company's social responsibility and each year supports either directly or through foundations/ specialised associations the unprivileged categories of people from the local community where it carries out its activity.

Also, the issuer is directly involved in supporting the young talents in sports, arts and music and sponsors some activities. It also sponsors other social activities within the local community that it belongs to.

## 6. THE FINANCIAL AND ACCOUNTING STATEMENTS

The individual financial statements are drawn up by the Company in accordance with the requirements of the Order of the Ministry of Finances no. 1286 of 2012, for the approval of the accounting regulations compliant with the International Financial Reporting Standards applicable to trade companies whose securities are admitted to trading on a regulated market. The International Financial Reporting Standards (IFRS) are the standards adopted according to the procedure provided by the (EC) Regulation no. 1.606/2012 of the European Parliament and of the Council dated July 19<sup>th</sup>, 2002 on the application of the International Accounting Standards.

The individual financial statements are presented in accordance with the requirements of IAS 1 "Submission of the financial statements". The company adopted a presentation based on liquidity within the statement of financial position and a presentation of the revenues and expenditures according to their nature within the statement of comprehensive income, considering that these presentation methods provide information that is credible and more relevant than the information that would have been submitted based on other methods allowed by IAS 1.

### 6.1. The statement of financial position in the past 3 years

<i>(lei)</i>	December 31 <sup>st</sup> , 2014	December 31 <sup>st</sup> , 2013	December 31 <sup>st</sup> , 2012
<b>ASSETS</b>			
Tangible assets	153.374.631	160.726.155	160.758.385
Intangible assets	60.214	6.277	18.774
<b>Total fixed assets</b>	<b>153.434.845</b>	<b>160.732.432</b>	<b>160.777.159</b>
Inventories	19.469.560	20.061.141	23.050.579
Trade receivables	43.395.280	38.067.929	42.266.234
Accrued expenses	265.492	441.572	17.552
Cash and cash equivalents	2.352.952	1.467.002	1.335.534
Other receivables	1.418.235	208.780	294.941
<b>Total current assets</b>	<b>66.601.519</b>	<b>60.246.424</b>	<b>66.964.840</b>
<b>TOTAL ASSETS</b>	<b>220.036.364</b>	<b>220.978.856</b>	<b>227.741.999</b>

## EQUITY

Share capital	86.371.792	285.599.166	278.779.233
Reserves	38.098.386	33.388.284	10.246.813
Retained earnings	2.858.341	(210.461.534)	(192.352.952)
<b>Total equity</b>	<b>127.328.519</b>	<b>108.525.916</b>	<b>96.673.094</b>

## LIABILITIES

Long term trade liabilities	871.768	2.616.822	4.306.911
Long term loans	20.566.606	17.305.918	40.850.221
Long term deferred revenues	18.780.826	19.280.991	10.447.058
Debts related to deferred income tax	490.922	1.410.609	776.361
<b>Total long term liabilities</b>	<b>40.710.122</b>	<b>40.614.340</b>	<b>56.380.551</b>
Short term trade liabilities	20.224.856	18.046.803	22.092.229
Short term loans	24.841.887	47.438.227	46.943.866
Short term deferred revenues	1.834.478	1.421.579	739.007
Short term provisions	1.782.133	1.942.873	1.653.160
Other liabilities	3.314.369	2.989.118	3.260.092
<b>Total current liabilities</b>	<b>51.997.723</b>	<b>71.838.600</b>	<b>74.688.354</b>
<b>TOTAL LIABILITIES</b>	<b>92.707.845</b>	<b>112.452.940</b>	<b>131.068.905</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>220.036.364</b>	<b>220.978.856</b>	<b>227.741.999</b>

## 6.2. Statement of comprehensive income for the past 3 years

<i>(lei)</i>	2014	2013	2012
Turnover related revenues	197.475.915	183.993.448	180.279.375
Other revenues	2.536.433	2.514.415	819.899
Variation in inventories of finished products and production in progress	(192.597)	(3.017.842)	1.740.148
Expenses related to raw materials and consumables	(105.699.903)	(102.878.421)	(104.733.852)
Expenses related to goods	(2.402.057)	(2.467.493)	(2.037.281)
Expenses related to third party services	(16.887.803)	(16.940.797)	(15.772.585)
Personnel-related expenses	(27.688.051)	(28.186.194)	(25.104.730)
Amortisation and re-evaluation expenses	(16.570.097)	(26.708.221)	(11.657.999)
Other expenses	(7.724.807)	(11.512.775)	(11.279.146)
<b>Operating result</b>	<b>22.847.033</b>	<b>(5.203.881)</b>	<b>12.253.829</b>
Financial revenues	7.965	17.941	9.597
Financial expenses	(1.888.441)	(4.136.676)	(6.069.286)
<b>Profit (loss) before taxation</b>	<b>20.966.557</b>	<b>(9.322.616)</b>	<b>6.194.140</b>
Income tax expenses	(2.001.332)	2.499.884	(944.239)
<b>Profit (loss) for the year</b>	<b>18.965.225</b>	<b>(6.822.732)</b>	<b>5.249.901</b>
<b>Other comprehensive income items</b>			
Increases of the tangible assets re-evaluation reserve, net of deferred tax	-	23.166.736	3.673.863
Transfer of the re-evaluation reserve to retained earnings following the cassation of tangible assets	(121.559)	(25.265)	(1.504)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>18.843.666</b>	<b>16.318.739</b>	<b>8.922.260</b>



### 6.3. Statement of cash flow for the past 3 years

<i>(lei)</i>	2014	2013	2012
<b>Cash flows from the operating activities:</b>			
Collections from customers	231.285.036	219.989.647	212.856.827
Payments to suppliers	(146.030.631)	(150.966.257)	(149.250.847)
Payments to employees	(21.246.718)	(20.615.376)	(21.087.368)
Payments to the state budget	(24.640.963)	(22.137.458)	(25.007.695)
Income tax paid	(2.612.563)	(928.529)	(1.313.672)
<b>Net cash flows from operating activities</b>	<b>36.754.161</b>	<b>25.342.027</b>	<b>16.197.245</b>
<b>Cash flows from investment activities:</b>			
Payments to acquire assets	(14.390.439)	(4.803.999)	(6.033.399)
Collections from the sale of tangible assets	94.102	89.780	5.600
Interests collected	1.593	9.792	2.439
<b>Net cash flows from investment activities</b>	<b>(14.294.744)</b>	<b>(4.704.428)</b>	<b>(6.025.360)</b>
<b>Cash flows from financing activities</b>			
Collections from loans	16.936.771	10.264.404	1.500.446
Interests paid and reimbursement of loans	(38.510.162)	(29.870.217)	(10.097.593)
Dividends paid	(76)	(900.319)	(1.110.134)
<b>Net cash flows from financing activities</b>	<b>(21.573.467)</b>	<b>(20.506.131)</b>	<b>(9.707.280)</b>
	<b>885.950</b>	<b>131.468</b>	<b>464.605</b>
<b>Net increase (decrease) of cash and cash equivalents</b>			
<b>Cash and cash equivalents at the financial year beginning</b>	<b>1.467.002</b>	<b>1.335.534</b>	<b>870.929</b>
<b>Cash and cash equivalents at the financial year end</b>	<b>2.352.952</b>	<b>1.467.002</b>	<b>1.335.534</b>

### 7. SIGNIFICANT EVENTS OCCURRED AFTER THE FINANCIAL YEAR END

On March 4<sup>th</sup>, 2015, Vrancart received the notice of approval on the “Increase of efficiency and added value for cardboard waste” project, consisting of the purchase of machinery for the processing of corrugated cardboard. The project is conducted through Norway Grants and has a total value of 3 million Euro, out of which 1 million Euro are non-reimbursable funds.

The managers’ report was approved by the Management Board of Vrancart SA during the meeting that took place on 11.03.2015.

#### SIGNATURES

The report will be signed by the Management Board’s authorised representative, by the manager/ executive manager and the company’s financial manager.

**Ciucioi Ionel-Marian**  
Management Board President




**Arsene Vasilica-Monica**  
Financial Manager

