



# Vrancart®

carton ondulat - hârtii pentru carton ondulat  
hârtii igienico-sanitare

## THE REPORT OF THE BOARD OF ADMINISTRATORS FOR THE FINANCIAL YEAR 2015

<b>Name of the issuing entity:</b>	<b>VRANCART S.A.</b>
<b>Registered office:</b>	<b>Adjud, 17 Ec. Teodoroiu Street, Vrancea</b>
<b>Tel./Fax no.:</b>	<b>0237-640.800/0237-641.720</b>
<b>Tax Identification Number:</b>	<b>1454846</b>
<b>Registered with the Trade Registry under no.:</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>the 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 Law no. 15/1990 in 1991, as a joint-stock company with juridical personality.

#### *General presentation*

<b>Trade company name</b>	„VRANCART”
<b>Type of company</b>	Joint-stock company
<b>Address</b>	17 Ecaterina Teodoroiu Street, Adjud, Vrancea County, 625100
<b>Telephone / Fax no.:</b>	0237.640.800 / 0237.641.720
<b>Registered with the Trade Registry under no.:</b>	J39/239/1991
<b>Tax code</b>	1454846
<b>Tax Identification Number</b>	RO1454846
<b>Share capital</b>	86.371.792 lei
<b>The nominal value of shares</b>	0,10 lei/share
<b>Number of shares</b>	863.717.920

The company has its registered office in Adjud and also has working points opened in the following localities: Bucharest, Iași, Focșani, Ploiești, Botoșani, Sibiu, Constanța, Arad, Brașov, Pitești, Timișoara, Bacău, Cluj, Craiova, Baia Mare and Târgu Mures.

The main object of activity of „VRANCART” (NACE code 1721) is represented by the manufacturing and trading 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 production 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 the 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>20.820 thousand lei</b>
<b>b) turnover</b>	<b>209.849 thousand lei</b>
<b>c) export</b>	<b>43.984 thousand lei</b>
<b>d) operating costs</b>	<b>192.011 thousand lei</b>
<b>e) % of the market held</b>	

2015	Tissue papers	- 13%
	Paperboards	- 26%
	Corrugated cardboard	- 12%

<b>f) liquid funds at the year end</b>	<b>1.320 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	2015	2014	2013
Paperboards mill	to	74.437	66.641	60.081
Corrugated cardboard and packaging mill	to	39.894	38.303	38.211
Tissue paper mill	to	18.576	19.944	17.481

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	2015	2014	2013
Paperboards mill	%	27%	24%	20%
Corrugated cardboard and packaging mill	%	48%	48%	51%
Tissue paper mill	%	24%	25%	26%
Other activities	%	1%	3%	3%

Out of the total production of paperboards, 52% in 2015 (59% in 2014 and 60% in 2013) 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 2015, by groups of fixed assets were as follows:

Investments made	Value (Lei)
Buildings and building improvements	1.446.541
Technological equipment	6.727.749
Apparatus and working installations	1.093.815
Means of transport and other fixed assets	8.650.515
<b>TOTAL</b>	<b>17.918.620</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 2015 was of approximately 37%, which required giving a particular attention to this activity sector.

In 2015, we purchased 115.901 to of waste paper, out of which class II (cardboard): 91.886 to, class III (white printed paper): 23.630 to and class IV (mixture of paper and cardboard): 385 to. Out of

the amount of waste paper purchased, 61.545 to was purchased through our own collection centres, 0,3% less than during the previous year.

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	2015	2014	2013
Purchase through the collection centres	To	61.545	61.757	54.686
	% out of the total amount purchased	53%	60%	61%
Direct purchase (in Adjud)	To	54.356	41.253	34.987
	% out of the total amount purchased	47%	40%	39%
Total purchases	to	115.901	103.010	89.673
	%	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	2015	2014	2013
Paperboards mill	to	34.333	28.966	23.677
Corrugated cardboard and packaging mill	to	39.758	38.353	38.287
Tissue paper mill	to	18.688	19.785	17.789

#### The state of competition

In each market segment, there are several manufacturers of products similar to those produced by „VRANCART”.

*On the paperboards market in Romania* there were three competitors in 2015. The production capacities of the paper production plants and the main characteristics defining them, by producers, are as follows:

Producers	Annual production capacity (to/an)	The maximum working speed of the machine (m/min)	The 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>

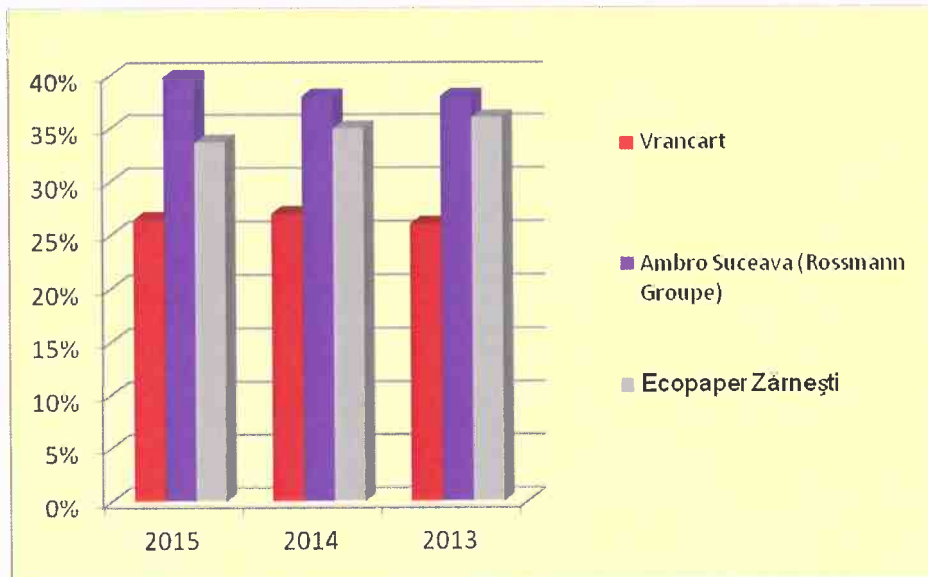
All the three mills use corrugated cardboard waste (waste paper) as raw material for the production of paper and the products obtained are similar from the point of view of their characteristics and quality and only their name differs from one manufacturer to another.

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	2015	2014	2013
Ambro Suceava (Rossmann Group)	40%	38%	38%
Ecopaper Zărnești	34%	35%	36%
<b>Vrancart Adjud</b>	<b>26%</b>	<b>27%</b>	<b>26%</b>
<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 2015 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 shipping 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 2015, a new corrugated cardboard machine was put into operation at Baia Mare, with a yearly production capacity of 10 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 per year. The consumption during 2015 was 322 thousand tons, meaning 45% of the total production capacities. In 2015, the corrugated cardboard packaging consumption recorded an increase by 13% 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 shipping of goods to the customer's mill, etc.).

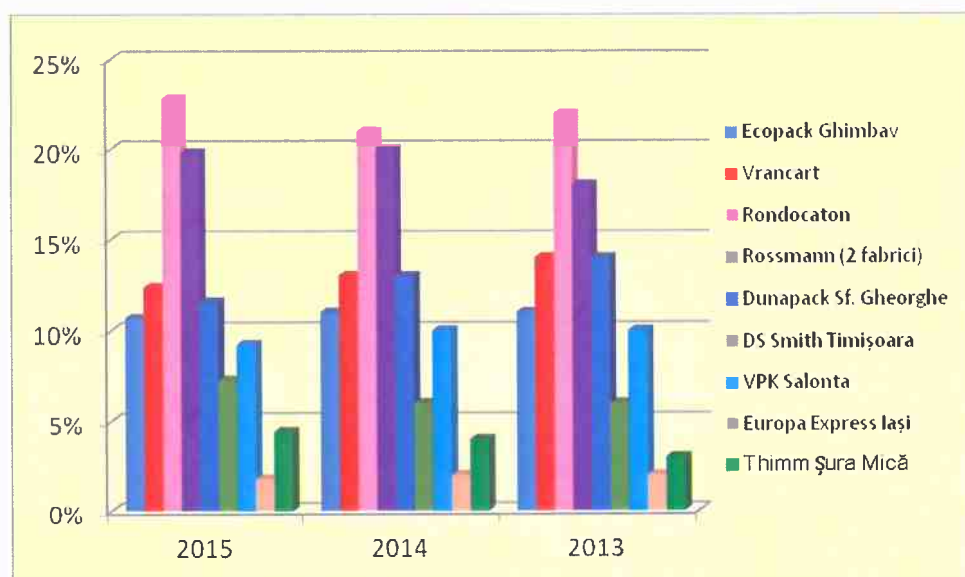
## Corrugated cardboard manufacturers in 2015 in Romania

No.	Producer's name	Amount delivered in 2015 (to)	Production capacity (to/year)	Degree of covering of the capacity (%)	Boxes out of the total amount delivered (to)	Share of boxes out of the total amount (%)
1	Rondocarton (with 2 mills)	73.466	160.000	46%	53.844	73%
2	Rossmann (with 2 mills)	63.680	120.000	53%	57.377	90%
3	<b>Vrancart Adjud</b>	<b>39.758</b>	<b>68.000</b>	<b>58%</b>	<b>4.222</b>	<b>11%</b>
4	Dunapack Sf. Gheorghe	37.244	80.000	47%	23.610	63%
5	Ecopack Ghimbav	34.392	80.000	43%	25.703	75%
6	VPK Salonta	29.746	60.000	50%	18.126	61%
7	DS Smith Timișoara	23.449	60.000	39%	23.449	100%
8	Thimm Sura Mica	14.216	25.000	57%	12.335	87%
9	Europa Expres Iași	5.798	40.000	14%	5.798	100%
10	Vilcart Călimanești	does not report	30.000	does not report data to the Romanian Association of Corrugated Cardboard Manufacturers		
<b>TOTAL</b>		<b>321.749</b>	<b>723.000</b>	<b>45%</b>	<b>224.464</b>	<b>70%</b>

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

Producers	2015	2014	2013
Rondocarton (Cluj+Târgoviște)	23%	21%	22%
Rossmann Group (Romcarton Bucharest + Ambro Suceava)	20%	20%	18%
Dunapack Sf. Gheorghe	12%	13%	14%
<b>Vrancart Adjud</b>	<b>12%</b>	<b>13%</b>	<b>14%</b>
Ecopack Ghimbav	11%	11%	11%
VPK Packaging	9%	10%	10%
SCA Timișoara (DS Smith)	7%	6%	6%
Thimm Packaging	4%	4%	3%
Europa Express	2%	2%	2%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: ROMPAP, Informative bulletins

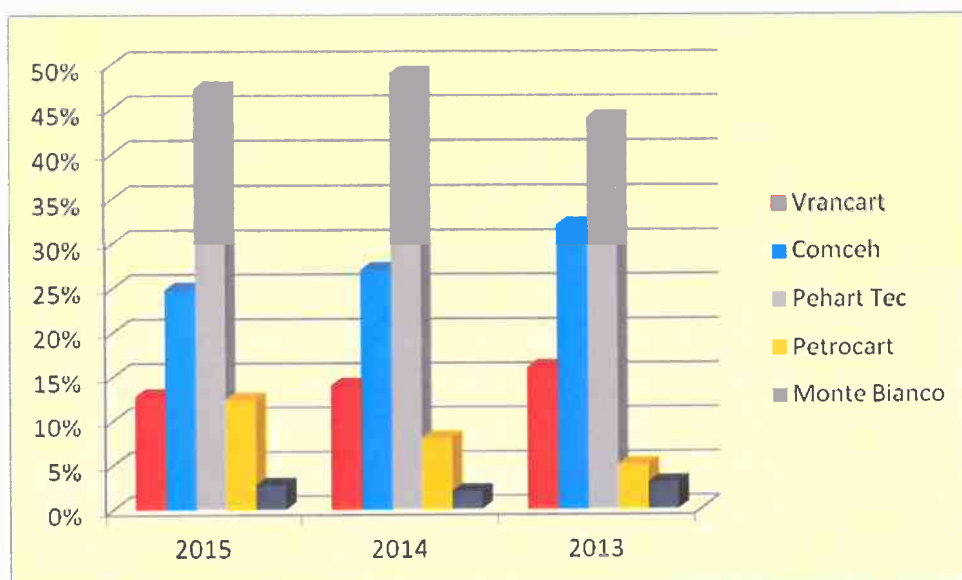


*On the tissue paper market*, with a market share of 13% in 2015, (taking into account only the domestic production), „VRANCART” remains one of the major tissue paper manufacturers in Romania. Still, this can change starting from 2016 following the production capacity increase at Petrocart Piatra Neamț. 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 (the machine produces two-layered paper, from waste paper or cellulose), while Vrancart will remain at a production capacity of 25.500 to/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 2015 compared to 2014, due to the increase of the internal production by approximately 6.000 tons, with the start-up of two new production capacities in Romania for the range of products made of cellulose. “Vrancart” manufactures mainly one-layered and two-layered products made of waste paper, targeted at the average quality market segment, while the market is mainly focused on cellulose products with two or more layers.

#### Market share evolution for tissue papers

Producers	2015	2014	2013
Pehart Tec Petrești	47%	49%	44%
Comceh Călărași	25%	27%	32%
<b>Vrancart Adjud</b>	<b>13%</b>	<b>14%</b>	<b>16%</b>
Petrocart Piatra Neamț	12%	8%	5%
Montebianco Targoviște	3%	2%	3%
<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 2015 was 902 employees, out of which:

- 147 higher education graduates
- 357 high school graduates
- 2874 vocational school graduates
- 124 middle school graduates

Out of the total number of employees, 297 are trade union members (there is only one union within the company).

The labour force fluctuation index during 2015 was 21% (the number of employees that 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 main activity onto the environment**

Summarized description of the impact of the issuer's main 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. 1/18.03.2015**. The activity of Vrancart S.A. was re-authorised on 18.03.2015, valid until 18.03.2025.

#### **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 the 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 by the Vrancea Directorate of Public Health

- determinations of the noise level at the limit of the location were carried out by SC Laboratoarele Tonnie SRL Poiesti (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 2015, according to the Integrated Environment Authorisation, with S.C. EnEco Consulting S.R.L. (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 2015, it was revised under no. 190/28.07.2015.

In 2015, 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 from the wastewater treatment plant are stored in the temporary waste facility and co-incinerated in our own plant, and the resulting process steam is used at the paperboards manufacturing plant and/ or at the tissue paper manufacturing plant.

The ash resulting from the co-incineration of our own technological wastes is not a hazardous waste. From the start-up of the waste co-incineration boiler in 2008, the resulting ash was deposited in 2 concrete pools, half underground, within the wastewater treatment plant, with a volume of 500 m<sup>3</sup> each. The 1<sup>st</sup> pool was closed in December 2014 and the 2<sup>nd</sup> pool is currently filled in a proportion of 90-95% and will be finally closed after it is completely filled.

Following the closing of the 2<sup>nd</sup> pool, the solution for the final removal of the ash in the next period is to build 2 more concrete pools available within the Wastewater Treatment Section, with a total

capacity of 27.682 m<sup>3</sup>(the decommissioned pool within the biological treatment plant and the emergency pool). The obligation related to the adequate arrangement and the final closing is in accordance with the provisions of Order no. 757/2004.

The decommissioned pool within the biological treatment plant was arranged in 2015 for the storing of ash.

According to the requirements on the protection of soil from the “Integrated Environmental Permit”, in December 2015, Laboratoarele Tonnie S.R.L. (a laboratory accredited according to ISO 17025) made determinations of the concentrations of pollutants. The results showed that the measured values are below the maximum limits allowed.

The Vrancea Environmental Guard, the Vrancea Environmental Protection Agency, the Siret Bacău Water Basin Administration and the Vrancea Water Management System performed controls. The findings were recorded in the control protocols – the quality indicators of wastewater did not exceed the limits allowed, according to the information presented in the **Water environmental factor**, without any violations of the legislation in force.

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

In 2015, 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 incurs 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>December 31<sup>st</sup>, 2015</b>	<b>December 31<sup>st</sup>, 2014</b>
Trade receivables and other receivables	43.514.704	44.513.515
Cash and cash equivalents	1.320.375	2.327.952
Restricted cash	10.786.408	25.000
<b>Total</b>	<b>55.621.487</b>	<b>46.866.467</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 trustworthiness point of view before being given the standard payment and delivery conditions of the Company; sales 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>, 2015</b>	<b>Book value</b>	<b>Contractual cash flows</b>	<b>less than 1 year</b>	<b>1 - 5 years</b>	<b>more than 5 years</b>
Loans*	51.328.515	52.734.613	37.077.763	15.656.850	-
Trade liabilities and other liabilities	21.877.216	21.890.240	21.890.240	-	-
<b>Total</b>	<b>73.205.731</b>	<b>74.624.853</b>	<b>58.968.003</b>	<b>15.656.850</b>	<b>-</b>

<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>more than 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>

\* Out of the total banking and non-banking exposure in the amount of 59 million lei as at 31.12.2015 (respectively 74 million lei as at 31.12.2014), 32,5 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 and in the European area.

**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**

In 2016, the company will continue its development process through the performing of large investments that will lead to the optimization and increase of the production capacity, as well as to the diversification of the product portfolio. Although their performance will require great investment efforts and disturbances of the production flow (for the replacement/ upgrade of equipments), the company expects its results will be at the same level as in the previous year, and during the period between 2017 and 2020 there will be a major increase of turnover and of the estimated profit.

### 1.1.10. Operating authorisations and certifications

During the previous years, VRANCART” 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 aspects 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 certificates for the ISO management systems are valid as follows:

- The Quality Management system in accordance with **ISO 9001/2008: 31.01.2018;**
- The Environmental Management system in accordance with **ISO 14001/2004: 14.09.2018;**
- Labour Health and Security Management system in accordance with **OHSAS 18001/2007: 22.09.2018.**

The re-certification and supervision audits for the control of the implementation and maintenance of each separate system were carried out in 2015. 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. 1/18.03.2015.** The activity of Vrancart S.A. was re-authorised on 18.03.2015 with validity until 18.03.2025.
- **the WATER MANAGEMENT PERMIT no. 1/04.02.2008,** as revised on 04.11.2013, valid until 04.11.2017. It was revised in 2015 under no. 190/28.07.2015.

**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 of 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 31.12.2015 (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	44.683	13.956	31%
Equipment and other fixed assets	210.109	99.053	47%

## 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 106.299 thousand lei as at 31.12.2015. The net book value of the assets purchased through financial leasing is 503 thousand lei as at 31.12.2015.

## 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 31.12.2015 is as follows:

- SIF Banat-Crisana - 74,72 %
- Legal entities - 18,47 %
- Natural persons - 6,81 %

### 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.

Through the Decision no. 4 of 30.04.2015, the Ordinary General Meeting of the Shareholders decided to distribute dividends, from the net profit for the financial year ended on December 31<sup>st</sup>, 2014, in the amount of 2.591.154 lei, respectively a gross amount of a dividend of 0,003 lei/share.

Year	Net profit	Legal reserve	Dividends	Development fund	Loss coverage	Other destinations
2013	(6.822.732)	-	-	-	-	-
2014	18.965.225	1.048.328	2.591.154	3.763.884*	11.325.613	236.246
2015	18.192.955	1.040.991	13.819.486	2.126.210*	-	1.206.268

\* These amounts represent tax facilities that the company benefited of from the exemption of the tax related to 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 2015, the company proposes the distribution of dividends in the gross amount of 0,016 lei/share.

### 3.3. Description of any activities of the trade company for the redemption of its own 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

On July 17<sup>th</sup>, 2015, the company completed the process related to the purchase of the shares of Giant Prodimpex Târgu Mureş, approved through the Decision no. 7 of April 30<sup>th</sup>, 2015 of the Ordinary General Meeting of the Shareholders. Following the purchase, Vrancart holds 100% of the shares of Giant Prodimpex S.R.L.

### 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 administrators

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

1. Ciucioi Ionel-Marian, aged 37, economist, Chairman of the Board of Administrators and General Manager for 2 years
2. Bîlteanu Dragoş George - economist, member of the Board of Administrators of „Vrancart” for 4 years.
3. Lakis El Najib – aged 51, economist, member of the Board of Administrators of Vrancart for 2 years
4. Drăgoi Bogdan Alexandru – aged 36, economist, interim member of the Board of Administrators of „Vrancart”, elected in December 2015
5. Avrămoiu Octavian – aged 39, legal adviser, interim member of the Board of Administrators of „Vrancart”, elected in December 2015

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

Not applicable.

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

The administrators' participation in the company's capital as at la 31.12.2015:

1. Ciucioi Ionel-Marian – 0 shares
2. Bîlteanu Dragoş George - 0 shares
3. Lakis El Najib – 0 shares
4. Drăgoi Bogdan Alexandru – 0 shares
5. Avrămoiu Octavian – 0 shares

d) the 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 some 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 Board of Administrators 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 parties.

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

a) The executive management of "Vrancart" S.A. Adjud as at 31.12.2015 was provided by Ec. Ciucioi Ionel-Marian, as General Manager and Chairman of the Board of Administrators.

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 Board of Administrators 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 an 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 Board of Administrators and of the executive management are described.

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



- The list of members of the Board of Administrators and of the members of the executive management;
- The updated articles of incorporation;

The new Code of Corporate Governance of the Bucharest Stock Exchange was adopted in September 2015, that replaces the old code and it is a set of principles and recommendations for the companies admitted to trading, for the purpose of creating an internationally attractive capital market, and our company acceded to this code.

Although the new code does not expressly provide any more the existence of the “Apply or Explain” statement, this mechanism is still maintained, as it is an element that strengthens the shareholders’ and stakeholders’ trust in the issuers, and clear, accurate and current information on the compliance with the rules of corporate governance of the listed companies is transmitted in the capital market through this mechanism.

The new Code of Corporate Governance of the Bucharest Stock Exchange includes 34 recommendations that need to be met, structured by 4 sections, out of which, on the date of its implementation (January 4<sup>th</sup>, 2016), our company complies with 24 provisions.

In reference to the provisions that our company does not comply with, entirely and partially, the company’s management took the necessary steps in order to comply with all the recommendations, and the subsequent progresses that our company records in terms of the compliance with the Code of Corporate Governance will be reported to the capital market.

## **5.2. The company’s management**

### **The Board of Administrators**

„VRANCART” is managed by a Board of Administrators 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 Board of Administrators 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 Board of Administrators elects a chairman from among its members. The chairman also holds the position of General Manager and provides the actual management of the company.

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

The election of the members of the Board of Administrators 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 members of the Board of Administrators 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 the policy for the remuneration of the administrators and of the executive management members.

According to the statutory provisions, the Board of Administrators 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 administrators 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 that 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 activity of the Board of Administrators in 2015**

In 2015, the Board of Administrators of “VRANCART” S.A. Adjud gathered 20 times in accordance with the statutory provisions and the administrators’ attendance in the meetings was in accordance with the legal provisions.

The chairman of the Board of Administrators led all the meetings in 2015.

As a result of the meetings, 48 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 2015, respectively on 29/30.04.2015, 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 20145, the information on the financial schedule, current reports, quarterly and half-yearly reports were posted on the website by the deadline.

Within „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 is disseminated in the “For shareholders” section in Romanian and English.

### **5.5. Financial reporting**

The financial statements for 2015 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 29/30.04.2015 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, makes recommendations for the improvement of the activities, on the 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 Board of Administrators 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 Board of Administrators 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 Board of Administrators) 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 administrators, they inform the Board of Administrators 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 meeting of the Board of Administrators.

## **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 Board of Administrators.

## **5.9. Social responsibility**

„VRANCART” constantly carries out activities related to the company's social responsibility and each year it 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> , 2015	December 31 <sup>st</sup> , 2014	December 31 <sup>st</sup> , 2013
<b>ASSETS</b>			
Tangible assets	155.347.931	153.374.631	160.726.155
Intangible assets	471.970	60.214	6.277
Financial assets	6.657.600	-	-
Receivables related to deferred tax	263.134	-	-
<b>Total fixed assets</b>	<b>162.740.635</b>	<b>153.434.845</b>	<b>160.732.432</b>
Inventories	22.827.651	19.469.560	20.061.141
Trade receivables	37.630.743	43.095.280	38.067.929
Accrued expenses	489.798	265.492	441.572
Restricted cash	10.786.408	25.000	-
Cash and cash equivalents	1.320.375	2.327.952	1.467.002
Other receivables	5.883.961	1.418.235	208.780
<b>Total current assets</b>	<b>78.938.936</b>	<b>66.601.519</b>	<b>60.246.424</b>
<b>TOTAL ASSETS</b>	<b>241.679.571</b>	<b>220.036.364</b>	<b>220.978.856</b>
<b>EQUITY</b>			
Share capital	86.371.792	86.371.792	285.599.166
Reserves	41.154.392	38.098.386	33.388.284
Retained earnings	15.389.511	2.858.341	(210.461.534)
<b>Total equity</b>	<b>142.915.695</b>	<b>127.328.519</b>	<b>108.525.916</b>
<b>LIABILITIES</b>			
Long-term trade liabilities	-	871.768	2.616.822
Long-term loans	15.110.053	20.566.606	17.305.918
Deferred income	20.958.278	18.780.826	19.280.991
Liabilities related to deferred income tax	-	490.922	1.410.609
<b>Total long-term liabilities</b>	<b>36.068.331</b>	<b>40.710.122</b>	<b>40.614.340</b>
Short-term trade liabilities	16.177.993	20.224.856	18.046.803
Short-term loans	36.218.462	24.841.887	47.438.227
Deferred income	2.745.312	1.834.478	1.421.579

Provisions	1.854.555	1.782.133	1.942.873
Debts related to current profit tax	748.831	670.775	429.678
Other liabilities	4.950.392	2.643.594	2.559.440
<b>Total current liabilities</b>	<b>62.695.545</b>	<b>51.997.723</b>	<b>71.838.600</b>
<b>TOTAL LIABILITIES</b>	<b>98.763.876</b>	<b>92.707.845</b>	<b>112.452.940</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>241.679.571</b>	<b>220.036.364</b>	<b>220.978.856</b>

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

<i>(lei)</i>	2015	2014	2013
Income from turnover	209.849.260	197.475.915	183.993.448
Other income	2.692.921	2.536.433	2.514.415
Variation in inventories of finished products and production in progress	1.262.639	(192.597)	(3.017.842)
Expenses related to raw materials and consumables	(110.732.572)	(105.699.903)	(102.878.421)
Expenses related to commodities	(2.814.689)	(2.402.057)	(2.467.493)
Expenses related to third party services	(16.910.184)	(16.887.803)	(16.940.797)
Personnel-related expenses	(33.327.934)	(27.688.051)	(28.186.194)
Expenses related to amortisation and depreciation of tangible assets	(17.715.321)	(16.570.097)	(26.708.221)
Other expenses	(10.510.249)	(7.724.807)	(11.512.775)
<b>Operating result</b>	<b>21.793.871</b>	<b>22.847.033</b>	<b>(5.203.881)</b>
Financial revenues	501.107	203.052	17.941
Financial expenses	(1.475.152)	(2.083.528)	(4.136.676)
<b>Profit (loss) before taxation</b>	<b>20.819.826</b>	<b>20.966.557</b>	<b>(9.322.616)</b>
Profit tax expenses	(2.626.871)	(2.001.332)	2.499.884
<b>Profit (loss) for the year</b>	<b>18.192.955</b>	<b>18.965.225</b>	<b>(6.822.732)</b>
<b>Other comprehensive income items</b>			
Increases of the tangible assets re-evaluation reserve, net of deferred tax	-	-	23.166.736
Transfer of the re-evaluation reserve to retained earnings following the cassation of tangible assets	(132.375)	(121.559)	(25.265)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>18.060.580</b>	<b>18.843.666</b>	<b>16.318.739</b>

## 6.3. Statement of cash flows in the past 3 years

<i>(lei)</i>	2015	2014	2013
<b>Cash flows from the operating activity:</b>			
Collections from customers	248.430.469	231.285.036	219.989.647
Payments to suppliers	(161.049.597)	(146.030.631)	(150.966.257)
Payments to employees	(26.291.440)	(21.246.718)	(20.615.376)
Payments to the state budget	(25.407.354)	(24.640.963)	(22.137.458)
Profit tax paid	(3.655.436)	(2.612.563)	(928.529)
<b>Net cash flows from operating activities</b>	<b>32.026.642</b>	<b>36.754.161</b>	<b>25.342.027</b>
<b>Cash flows from investment activities:</b>			
Payments to acquire tangible and intangible assets	(23.071.209)	(14.390.439)	(4.803.999)
Letters of credit for the purchase of tangible assets	(10.761.408)	(25.000)	-
Payments for the purchase of financial assets	(5.563.072)	-	-

Collections from the sale of tangible assets	395.130	94.102	89.780
Interests collected	313	1.593	9.792
<b>Net cash flows from investment activities</b>	<b>(39.000.246)</b>	<b>(14.319.744)</b>	<b>(4.704.428)</b>
<b>Cash flows from financing activities</b>			
Collections from loans	22.358.591	16.936.771	10.264.404
Interests paid and reimbursement of loans	(13.879.459)	(38.510.162)	(29.870.217)
Dividends paid	(2.513.105)	(76)	(900.319)
<b>Net cash flows from financing activities</b>	<b>5.966.027</b>	<b>(21.573.467)</b>	<b>(20.506.131)</b>
	<b>(1.007.577)</b>	<b>860.950</b>	<b>131.468</b>
<b>Net increase/ (decrease) of cash and cash equivalents</b>			
<b>Cash and cash equivalents at the financial year beginning</b>	<b>2.327.952</b>	<b>1.467.002</b>	<b>1.335.534</b>
<b>Cash and cash equivalents at the financial year end</b>	<b>1.320.375</b>	<b>2.327.952</b>	<b>1.467.002</b>

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

Not applicable.

The administrators' report was approved by the Board of Administrators of Vrancart S.A. during the meeting held on 14.03.2016.

### SIGNATURES

The report will be signed by the authorised representative of the Board of Administrators, by the manager/ the executive manager and by the financial manager of the company.

**Ciucioi Ionel-Marian**  
Chairman of the Board of Administrators



**Arsene Vasilica-Monica**  
Financial Manager