

TERAPLAST SA

CONSOLIDATED FINANCIAL STATEMENTS

Prepared in accordance with
Minister of Public Finance Order
no. 2844/2018 approving the accounting regulations compliant with
the International Financial Reporting Standards,
as of and for the year ended

31 DECEMBER 2018

TERAPLAST SA
Consolidated Financial Statements
Prepared in accordance with the
International Financial Reporting Standards
31 December 2018

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of TERAPLAST SA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Teraplast SA ("the Company") and its subsidiaries (together referred to as "the Group") with official head office in Bistrita, Romania, identified by sole fiscal registration number 3094980, which comprise the consolidated statement of financial position as at December 31, 2018, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Order of the Minister of Public Finance no. 2844/2016, approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 ("Regulation (EU) No. 537/2014") and Law 162/2017 („Law 162/2017"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to the audit of the financial statements in Romania, including Regulation (EU) No. 537/2014 and Law 162/2017 and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the “Auditor’s responsibilities for the audit of the consolidated financial statements” section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Description of each key audit matter and our procedures performed to address the matter

1. Business combinations and purchase price allocation

In January 2018, Teraplast gained control over Depaco SA, which until this date it was considered an associate, and as such Teraplast became the majority shareholder of the subsidiary. From an accounting perspective, management recorded this transaction as a business combination and assessed the consideration transferred as being the sum of the consideration paid and the fair value of the purchase commitment for another 32% of the subsidiary’ shares from the previous shareholders. Therefore, as at acquisition date, Group management determined the percentage of ownership in Depaco to be 99%. The difference between the consideration transferred and the fair value of the assets and liabilities acquired, as determined through a purchase price allocation report, resulted in the recognition of a goodwill in amount of RON 35 million.

We considered this a key audit matter because the transaction is significant to the consolidated financial statements, judgment was involved in the valuation of the acquired assets and liabilities and on the purchase price allocation and the associated accounting was complex.

Teraplast Group’s disclosures regarding its accounting policy, judgments and assumptions used for Business Combinations are included in Note 3 to the consolidated financial statements.

How our audit addressed the key audit matter

Our audit procedures focused on the accounting for the business combination and on the determination of the fair value of assets and liabilities acquired; for the latter, we involved our internal valuation specialists to assist us in evaluating the key assumptions and methodologies used by the Teraplast Group in allocating the purchase price. Our audit procedures in respect of the acquisition of Depaco included, among others, the following:

- Read the sales and purchase agreement and the purchase commitment agreement and other documents in relation to this acquisition to evaluate management’s assessment that the transaction falls within the business combination definition, as well as the acquisition date;

- ▶ Involved our IFRS specialists to assist us in evaluating compliance with IFRS 3 requirements pertaining to fair valuation;
- ▶ Assessed the competence, capabilities and objectivity of the external valuation expert used by the Group;
- ▶ Analyzed the assessment made by the management and the appraiser when recognizing and measuring the identifiable assets acquired and the liabilities assumed;
- ▶ Analyzed the methodology used by the external valuation expert and validated by management in order to determine its compliance with valuation standards;
- ▶ Tested on a sample basis the mathematical accuracy of key computations observed within the valuation report prepared by the independent appraiser;
- ▶ Evaluated management's assessment of the fair value of consideration transferred;
- ▶ Evaluated the key assumptions and estimates (such as: revenues, costs, growth rates, operating margins, working capital needs and the capital expenditure) used to determine the fair value of the assets acquired and liabilities assumed, including the determination of the market values and discount rates;
- ▶ Analyzed management's assessment of the existence of contingent consideration payable arising from the transaction and, if applicable, its measurement;
- ▶ Evaluated the accuracy and completeness of the management's computation of goodwill generated by the transaction.

We have further assessed the adequacy of the disclosures about the business combination in the consolidated financial statements.

2. Recoverability of the carrying value of the Group's property, plant and equipment and goodwill

Teraplast Group manufactures various plastic and metal components for the construction industry and consequently operates significant property, plant and equipment with a carrying value of RON 215 million as at 31 December 2018. The financial year 2018 was affected by the lack of significant infrastructure projects in Romania, which was not fully offset by private construction activity, therefore the Group's results were lower than the management's expectations.

As at 31 December 2018 the management identified that impairment indicators exist for some of the Group's CGUs and performed separate impairment testing in respect of the following CGUs: PVC and polyethylene pipes and PVC profiles with a related total carrying value of property, plant and equipment of RON 91 million, resulting in no impairment loss being recognized.

The impairment test is significant to our audit due to the size of the Group's property, plant and equipment, with a carrying value representing 32.1% of the balance sheet total assets as at 31 December 2018 and because the assessment process is complex, requires significant management judgment and is based on assumptions that are affected by expected future market conditions in Romania and surrounding countries. The assumptions include forecasts of sales volumes and prices, cost of raw materials and overall construction market and general economic conditions.

Also, according to IFRS, goodwill should be tested for impairment any time impairment triggers are identified, but at least annually. The impairment test over the goodwill resulted from the business combination of Depaco was significant for our audit because the assessment process is complex, it requires significant estimates and management judgement and is based on assumptions derived from the future evolution and the results of this subsidiary.

The Group's disclosures about property, plant and equipment, goodwill and related impairment assessment are included in Note 3 (Judgements, Estimates and Assumptions), Note 13 and Note 12 (Property, Plant and Equipment) to the consolidated financial statements.

How our audit addressed the key audit matter:

Our audit procedures included, among others, the following:

- we obtained the analysis performed by management and evaluated the key assumptions underlying management's assessment of potential impairment of the cash generating units;
- we analyzed the methodology used by management to assess its compliance with IAS 36 for the method applied (value in use);
- we tested the mathematical accuracy of the impairment model used;
- we assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance;
- we evaluated the Group's key assumptions and estimates used to determine the discount rate, the future operating cash flows, the growth rates, operating margins, working capital needs and the capital expenditure;
- we involved our valuation specialists to assist us in the evaluation of key assumptions and estimates used by the Group, including the determination of the discount rates. We also evaluated whether or not certain assumptions on which the valuation was based, individually and taken as a whole, considered: i) the economic environment of the industry, and the Group's economic circumstances; ii) existing market information; iii) the business plans of the Group including management's expectations; iv) the risks associated with the cash flows, included the potential variability in the amount and timing of cash flows and the related effect on the discount rate; v) specific requirements of IFRS.
- we performed a sensitivity analyses for the discount rates applied and the assumptions for revenue levels adopted and considered the information used to derive the most sensitive assumptions
- We further assessed the adequacy of the Group's disclosures about the impairment testing of property, plant and equipment and goodwill in the financial statements.

Other information

The other information comprises the Consolidated Administrators' Report which includes the Non-Financial declaration but does not include the consolidated financial statements and our auditors' report thereon. The Corporate responsibility and sustainability report will be published separately. Management is responsible for the other information.



Our audit opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Order of the Minister of Public Finance no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

Report on Other Legal and Regulatory Requirements

Reporting on Information Other than the Consolidated Financial Statements and Our Auditors' Report Thereon

In addition to our reporting responsibilities according to ISAs described in section "Other information", with respect to the Consolidated Administrators' Report, we have read the Consolidated Administrators' Report and report that:

- a) in the Consolidated Administrators' Report we have not identified information which is not consistent, in all material respects, with the information presented in the accompanying consolidated financial statements as at December 31, 2018;
- b) the Consolidated Administrators' Report identified above includes, in all material respects, the required information according to the provisions of the Ministry of Public Finance Order no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, Annex 1 points 15 - 19;
- c) based on our knowledge and understanding concerning the entity and its environment gained during our audit of the consolidated financial statements as at December 31, 2018, we have not identified information included in the Administrators' Report that contains a material misstatement of fact.

Other requirements on content of auditor's report in accordance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

Appointment and Approval of Auditor

We were appointed as auditors of the Group by the General Meeting of Shareholders on 21 September 2017 to audit the consolidated financial statements for the financial years ended December 31, 2017 and 2018. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 2 years, covering the financial years ended December 31, 2017 and December 31, 2018.

Consistency with Additional Report to the Audit Committee

Our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 21 March 2019.



Provision of Non-audit Services

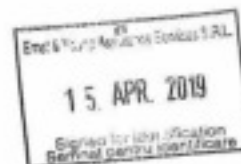
No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Group and we remain independent from the Group in conducting the audit.

In addition to statutory audit services and services disclosed in the Consolidated Administrators' Report and in the consolidated financial statements, no other services were provided by us to the Company, and its controlled undertakings.

On behalf of,

Ernst & Young Assurance Services SRL
15-17, Ion Mihalache Blvd., floor 21, Bucharest, Romania

Registered in the electronic Public Register under No. 77



Name of the Auditor/ Partner: Alexandru Lupea
Registered in the electronic Public Register under No. 273

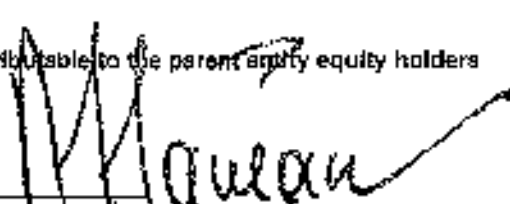
Bucharest, Romania
15 April 2019

TERAPLAST SA
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
31 December 2018

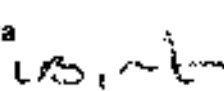
(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

| | Nota | Financial year | |
|---|------|--------------------|--------------------|
| | | 31 December | 31 December |
| | | 2018 | 2016 |
| | | RON | RON |
| Revenues total from customer contracts, out of which: | 4 | 804,512,187 | 422,276,070 |
| Revenues from sale of finished products | | 874,825,885 | 376,858,937 |
| Revenues from the sale of merchandise | | 126,426,583 | 42,166,328 |
| Revenues from service rendering | | 3,459,729 | 1,245,812 |
| Other operating revenue | 5 | 1,821,873 | 3,784,368 |
| Changes in inventories of finished goods and work in progress | | 9,129,738 | 11,028,505 |
| Works and services in progress | | 495,838 | - |
| Raw materials, consumables used and merchandise | 6 | (805,376,072) | (313,344,030) |
| Employee benefit expenses | 9 | (68,406,348) | (40,348,001) |
| Amortization and the adjustments for impairment of non-current assets, net | 8 | (30,860,208) | (19,100,355) |
| Adjustments for the impairment of current assets, net | | (1,640,803) | (1,481,591) |
| Expenses with provisions, net | 8 | (208,780) | 2,614,457 |
| Gains / (Losses) from the outflow/valuation of tangible and intangible assets | 7 | 15,134 | 82,367 |
| Gains / (Losses) from the outflow of assets held for sale | 19 | 185,894 | - |
| Gains / (Losses) from the outflow/fair value measurement of investment properties | 7 | (245,552) | 336 |
| Other operating expenses | 10 | (75,010,873) | (41,255,034) |
| Operating result | | 34,722,232 | 24,237,453 |
| Financial expenses | 5 | (4,435,430) | (5,075,283) |
| Expenses on interest, net | 5 | (7,577,317) | (2,560,156) |
| Financial income | 5 | 3,824,694 | 4,018,148 |
| Dividend revenues | 5 | 75,200 | 81,046 |
| Financial result, net | 5 | (8,612,853) | (3,538,275) |
| Share of the result of joint ventures accounted for under the equity method | | - | 574,187 |
| Profit before tax | | 26,159,379 | 21,283,325 |
| Income tax expense | 11 | (3,520,673) | (2,693,989) |
| Profit for the year | | 22,638,706 | 18,589,336 |
| Profit or loss for the period | | | |
| Attributable to | | | |
| Parent entity equity holders | | 21,878,022 | 18,236,827 |
| Non-controlling interests | 22 | 760,684 | 332,509 |
| Result for the financial year | | 22,638,706 | 18,589,336 |
| Other comprehensive income | | | |
| Revaluation of fixed assets | 12 | (700,722) | - |
| Deferred tax | 11 | 128,968 | - |
| | | (563,754) | |
| Comprehensive income | | 22,074,952 | 18,589,336 |
| Attributable to | | | |
| Parent entity equity holders | | 21,314,286 | 18,236,827 |
| Non-controlling interests | | 760,684 | 332,509 |
| Comprehensive income | | 22,074,952 | 18,589,336 |
| Number of shares | | 886,040,555 | 690,701,558 |
| Earnings per share attributable to the parent entity equity holders | | 0.02 | 0.03 |

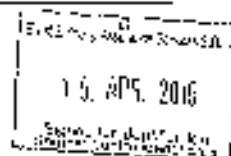
Alexandru Stanean
 CEO



Ioana Birta
 CFO



The accompanying notes from 1 to 34 are an integral part of these consolidated financial statements.
 English translation is for information purposes only. Romanian language text is the official text for submission.



TERAPLAST SA
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
for the financial year ended 31 December 2018

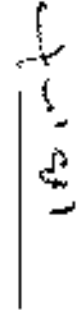
(all amounts are expressed in Romanian Lei ("RON") unless otherwise stated)

| | Total share capital | Other capital reserves | Share premium | Revaluation reserves | Legal reserve | Treasury shares | Cumulated retained earnings | Capital attributable to controlling interests | Non-controlling interests | Total equity |
|--|---------------------|------------------------|---------------|----------------------|---------------|-----------------|-----------------------------|---|---------------------------|--------------|
| | RON | RON | RON | RON | RON | RON | RON | RON | RON | RON |
| Balance as at 1 January 2017 | 56,843,268 | 450,980 | 27,394,726 | 21,741,823 | 42,407,036 | (512,207) | 94,473,824 | 215,608,949 | 334,638 | 216,223,646 |
| Result for the year | - | - | - | - | - | - | 10,256,627 | 18,236,627 | 832,509 | 18,639,316 |
| Other comprehensive income | - | - | - | - | - | - | - | - | - | - |
| Total comprehensive income | - | - | - | - | - | - | 10,256,627 | 18,236,627 | 832,509 | 18,639,316 |
| Share capital increase from reserves (Note 20) | 29,047,831 | - | - | - | - | - | 129,047,831 | - | - | - |
| Legal reserve setting (Note 21) | - | - | - | - | 1,631,398 | - | (1,631,398) | - | - | - |
| Own shares redemption (Note 20) | - | - | - | - | - | (663,395) | - | (663,396) | - | (663,396) |
| Losses related to own shares sale | - | - | - | - | - | 61,727 | (61,727) | - | - | - |
| Employee benefits in the form of financial instruments (Note 33) | - | (450,980) | - | - | - | 450,980 | - | - | - | - |
| Realized revaluation reserve (Note 12) | - | - | - | (2,089,708) | - | - | 2,089,708 | - | - | - |
| Dividends paid | - | - | - | - | - | - | (9,572,712) | (9,572,712) | (191,848) | (9,764,560) |
| Other equity items | - | - | - | - | - | - | (339,410) | (335,410) | 14,121 | (521,289) |
| Balance as at 31 December 2017 | 85,891,097 | - | 27,394,726 | 19,652,114 | 43,939,022 | (664,386) | 78,250,993 | 224,264,297 | 489,489 | 224,743,737 |

Alexandru Stanean
 CFO



Ioana Birfa
 CFO



The accompanying notes from 1 to 34 are an integral part of these consolidated financial statements.
 English translation is for information purposes only. Romanian language text is the official text for subsidiaries.

TERAPLAST SA
 15.12.2018
 18.639.316

TERAPLAST SA
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
for the financial year ended 31 December 2018
(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

| | Total share capital RON | Other capital reserves RON | Share premium RON | Revaluation reserves RON | Legal reserve RON | Treasury shares RON | Cumulated retained earnings RON | Capital attributable to controlling interests RON | Non-controlling interests RON | Total equity RON |
|--|----------------------------|-------------------------------|----------------------|-----------------------------|----------------------|------------------------|------------------------------------|--|----------------------------------|---------------------|
| Balance as at 1 January 2018 | 68,891,087 | - | 27,394,726 | 19,852,114 | 13,939,022 | (663,398) | 78,250,083 | 224,254,257 | 489,490 | 224,743,737 |
| Rebut for the year | - | - | - | (563,754) | - | - | 21,876,022 | 31,876,022 | 760,584 | 22,898,706 |
| Other comprehensive income | - | - | - | (563,754) | - | - | (563,754) | - | - | (563,754) |
| Total comprehensive income | - | - | - | (563,754) | - | - | 21,725,022 | 21,314,268 | 760,694 | 22,074,962 |
| Share capital increase from reserves (Note 20) | 21,333,430 | - | - | - | - | - | (21,333,430) | - | - | - |
| Legal reserve setting (Note 21) | - | - | - | - | 1,577,142 | - | (1,577,142) | - | - | - |
| Own shares redemption (Note 20) | - | - | - | - | - | (819,529) | - | (809,529) | - | (809,529) |
| Employee benefits in the form of financial instruments (Note 33) | - | 1,472,825 | - | - | - | - | - | 1,472,925 | - | 1,472,925 |
| Consolidation adjustments related to the purchase of Depeaco (Note 22) | - | - | - | (1,389,807) | - | - | 1,369,807 | - | 1,615,926 | 1,615,926 |
| Realized revaluation reserve (Note 12) | - | - | - | - | - | - | (10,069,404) | (10,069,404) | (1,101,638) | (11,171,042) |
| Dividends declared | - | - | - | - | - | - | - | - | - | - |
| Other equity items increases / (reductions) (Note 23) | (53) | - | - | - | - | - | (12,657) | (12,110) | 291,005 | 198,096 |
| Balance as at 31 December 2018 | 107,024,627 | 1,472,825 | 27,394,726 | 17,058,624 | 15,616,184 | (1,472,928) | 68,626,438 | 235,150,407 | 1,955,458 | 238,116,866 |

As of 31 December 2017 and 31 December 2018, the revaluation reserves include amounts representing the realized revaluation surplus related to tangible assets land and buildings.

Alexandru Stanean
 CFO

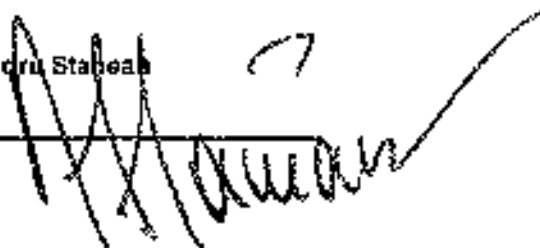
Ioana Birta
 CFO

Ioana Birta

TERAPLAST SA
CONSOLIDATED CASH FLOW STATEMENT
for the financial year ended 31 December 2018
(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|--|-----------------------------------|-----------------------------------|
| Notes | RON | RON |
| Cash flows from operating activities: | | |
| Net profit before tax | 26,159,379 | 21,263,325 |
| Losses / (Gains) from the sale of assets (fixed assets) and retirement impairment and amortization of non-current assets | (15,131) | (82,367) |
| Provisions for risks and expenses, net | 30,800,206 | 19,100,355 |
| Adjustments to doubtful customers | 200,790 | (2,614,451) |
| Adjustments for inventory impairment | 1,050,428 | 412,313 |
| Dividend revenues | 490,375 | 1,069,278 |
| (Gains) / loss from the measurement of investment property | (75,200) | (61,045) |
| Loss from the valuation of financial investments | 245,552 | (395) |
| Interest expense | 484,852 | - |
| Gain from gaining control over an associate | 7,677,317 | 2,560,186 |
| Gain from gaining control over an associate | - | (2,505,104) |
| Operating profit before changes in working capital | 66,765,528 | 39,121,156 |
| Increase in trade and other receivables | (20,431,207) | (17,992,153) |
| Increase in inventories | (52,396,275) | (29,411,793) |
| Increase in trade and other payables | 25,428,887 | 20,472,743 |
| Income tax paid | (3,151,254) | (2,754,256) |
| Interest paid, net | (7,577,317) | (2,560,186) |
| Share of the profit or loss of the joint ventures accounted for under the equity method | - | (574,147) |
| Revenues from subsidies | (753,669) | (403,440) |
| Cash from operating activities | 7,886,483 | 11,837,924 |
| Cash flows from investment: | | |
| Payments for acquisition of tangible and intangible assets, other long-term receivables | (32,059,205) | (54,561,549) |
| Acquisition of investments – Depaco, net of purchased cash | (6,185,777) | (39,246,860) |
| Acquisition of investments – Politub, net of purchased cash | - | (6,751,707) |
| Receipts from the sale of tangible assets | 2,048,118 | 485,130 |
| Own share redemption net of exercising the options | (309,829) | (512,669) |
| Losses related to own shares sale | - | 81,727 |
| Net cash from investment | (37,006,655) | (112,646,137) |
| Cash flows from financing activities: | | |
| Payment of finance lease liabilities | (1,051,141) | (845,351) |
| Dividends received | 75,200 | 81,045 |
| Dividends paid | (11,171,642) | (9,764,580) |
| Loans reimbursement | (15,985,550) | (17,291,680) |
| Loans drawings | 18,870,485 | 90,286,417 |
| Net drawings from credit lines | 55,153,837 | 34,327,772 |
| Net cash from finance activities | 39,921,730 | 36,793,636 |
| Net increase / (decrease) in cash and cash equivalents | 10,801,708 | (4,016,573) |
| Cash and cash equivalents at the beginning of the financial year | 12,015,602 | 16,032,373 |
| Cash and cash equivalents at the end of the financial year | 22,817,571 | 12,015,802 |

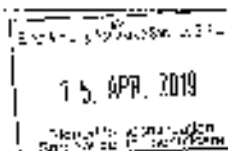
Alexandru Stăneș
CEO



Ioana Birta
CFO

Ioana Birta

The accompanying notes from 1 to 24 are an integral part of these consolidated financial statements.
 English translation is for information purposes only. Romanian language text is the official text for submission.



1. GENERAL INFORMATION (continued)

During 2017, the Group concluded agreements for the acquisition of 87% of Depaco, the second player on the metallic file market, through the Weiterbest brand. TeraPlast gained control over Depaco in January 2018, after a favorable approval issued by the Competition Council. As at 31 December 2017, Depaco is jointly controlled with the other shareholders, therefore, the company is consolidated under the equity method. The Depaco SRL company is consolidated as a subsidiary starting January 2018.

Also in 2017, TeraPlast signed a sale-purchase promise agreement with the minor shareholders of Depaco for the acquisition of the rest of their investment up to 99% of the company. The transaction will be finalized in 4 years at most, at a price correlated with Depaco's results in the following years. For further details, see note 15.

The acquisitions continued with the takeover of Politub, one of the most important players on the water and gas pipes market, which became in full part of the TeraPlast portfolio starting October 2017. Starting December 2017, Politub transferred the business to TeraPlast as a whole, and it became the Polyethylene Pipe Division of TeraPlast.

Until September 2017, the Company held 50% of the shares of Politub SA ("Politub"), controlling Politub jointly with the other shareholder, New Sootub. Therefore, until 30 September 2017, Politub was a joint venture, consolidated under the equity method. In August 2017, the Company bought from New Sootub 49.99% of the Politub shares, for EUR 2.6 million. On 28 September 2017, the Company received the Competition Council approval for the sole control over Politub; as a result, Politub is consolidated starting 1 October 2017. As at 31 December 2017, the Politub business was bought by the Company.

Politub SA's main activities include the production of pipes from average and high density polyethylene for water, gas transport and distribution networks, but also for telecommunications, sewerage systems or irrigations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. SIGNIFICANT ACCOUNTING POLICIES

2.1. Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the provisions of Order no. 2844/2016 approving the Accounting regulations compliant with the International Financial Reporting Standards applicable to trading companies whose securities are admitted to trading on a regulated market, as subsequently amended and clarified ("OMFP 28422/2016"). These provisions are compliant with the provisions of the International Financial Reporting Standards adopted by the European Union ("EU IFRS"), except for the provisions of IAS 21 *The effects of changes in foreign exchange rates* concerning the functional currency.

For the purpose of preparing these financial statements according to the Romanian legal provisions, the Company's functional currency is considered to be the Romanian Lei (RON).

The functional currency, which reflects the substance of the concerned events and relevant circumstances for TeraPlast SA, Piastisistem SA, Teraglass Blstrita SRL and Politub SA is the Romanian Lei ("RON"). The functional currency for TeraPlast Hungary is the Hungarian Forint ("HUF"), and for TeraSteel Serbia is the Serbian Dinar ("RSD").

Until 1 July 2004, Romania was considered a hyperinflationary economy according to the criteria of IAS 29 *Financial Reporting in Hyperinflationary Economies*. In accordance with the provisions in IAS 29, the parent has discontinued the application of IAS 29 as of 1 January 2004.

These financial statements are presented in Romanian Lei ("RON") unless otherwise specifically stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of accounting

The financial statements have been prepared on a going concern basis, according to the historical cost convention adjusted to the effects of hyperinflation until 31 December 2003 for fixed assets, share capital and reserves, except for certain items of fixed assets and investment property, as presented in the Notes. The main accounting policies are presented below.

2.3. Going concern

These financial statements have been prepared under the going concern basis, which implies that the Company will continue its activity also in the foreseeable future. In order to assess the applicability of this assumption, management analyzes the forecasts concerning future cash inflows.

As of 31 December 2018, the Group current assets exceed the current liabilities by RON 76,191,194 (as of 31 December 2017: RON 56,144,171). In 2018, the Group recorded profit RON 22,638,706 (2017: profit RON 18,589,335). As detailed in Note 28, the Group gearing ratio is 42% (31 December 2017: 35%). The Group depends on financing banks, as also described in Note 23.

The budget prepared by the Group management and approved by the Board of Administration for 2019 indicates positive cash flows from operating activities, an increase in sales and profitability which contributes directly to improving liquidity and allows the Group to fulfil its contractual clauses with the financing banks. Group management believes that the support from banks is sufficient for the Group to continue its activity in the ordinary course of business, as a going concern.

Based on these analyses, management believes that the Company will be able to continue its activity in the foreseeable future and, consequently, the application of the going concern principle in the preparation of the financial statements is justified.

Basis for consolidation

The financial statements comprise the financial statement of the Parent and of its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the financial year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

Business combinations

The purchases of businesses are accounted for by using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is computed as the sum between the fair values at the purchase date of the assets transferred by the Company, the liabilities registered by the Company towards the former owners of the obtained entity and the investments in the equities issued by the Company in exchange for the control over the obtained entity. The costs related to the purchase are, in general, recognized in profit or loss when incurred.

As of the purchase date, the purchased identifiable assets and the undertaken liabilities are recognized at their fair value at the purchase date.

Goodwill is measured as the positive difference between the transferred consideration, the value of any non-controlling interests in the obtained entity and the fair value at the date of purchasing the investment in the equities previously held by the obtainer in the obtained entity (if any), and the net values at the date of purchasing the identifiable assets purchased and the liabilities undertaken. If the difference mentioned above is negative, it is recognized in profit or loss as gains from purchase under advantageous conditions.

Non-controlling interests which represent investments in equity and entitle the holders to a proportional share of the entity's net assets in case of liquidation can be measured either according to the fair value or according to the proportional share of the non-controlling interests and the recognized values of the net assets of the obtained entity. The measurement basis is chosen depending on the transaction. Other types of non-controlling interests are measured at fair value or, when applicable, according to the basis specified in other IFRS standards. When the consideration transferred by the Group in a business combination includes assets or liabilities resulted from a commitment with a contingent consideration, the contingent consideration is measured at the fair value at the date of purchase and it is included as a part of the consideration transferred in a business combination. The amendments to the fair value of the contingent consideration which are qualified as adjustments of the measurement period are adjusted retroactively based on goodwill. The adjustments of the measurement period are adjustments that arise from additional information during the "measurement period" (which cannot exceed a year from the purchase date) concerning the facts and circumstances existing at the date of purchase.

The subsequent accounting of the changes in fair value of the contingent consideration which is not included in the adjustments for the assessment period depends on the manner in which it is classified. The contingent consideration classified as equity is not revalued at subsequent reporting dates and its subsequent discounting is accounted for in equities. The contingent consideration classified as asset or liability is revalued at subsequent reporting dates in accordance with IFRS 9, the corresponding gain or loss being recognized in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When a business combination is performed in stages, the investment into the equities held previously by the Company in the obtained entity is remeasured at fair value at purchase date (i.e. the Group obtains control) and the resulted gains or losses, if any, is recognized in profit and loss. The values resulting from interests in the entity obtained prior to the date of purchase which were previously recognized in other comprehensive income are reclassified in profit and loss on the same basis that would be required if the obtainer had directly disposed of the previously held investment in equities.

If the initial accounting of a business combination is incomplete at the end of the reporting period when the combination takes place, the Company reports temporary values for the items for which the accounting is incomplete. These temporary values are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect the new information obtained concerning the facts and circumstances existing at the date of purchase which, if recognized, would have influenced the values recognized at the respective date.

Goodwill

The goodwill generated by a business combination is accounted for at cost as determined at the purchase date minus the cumulated impairment losses, if any. For the purpose of the impairment test, the goodwill is allocated to each cash generating unit of the group (or to the groups of cash generating units) which are expected to benefit from the combination's synergies. A cash generating unit that was distributed goodwill is tested annually for impairment or more often when there is an indication that the unit may be impaired. If the recoverable value of the cash generating unit is lower than its book value, the impairment is allocated, first of all, to decrease the book value of any goodwill allocated to the unit and then to the other unit assets, proportionally to the book value of each asset in the unit. Any goodwill impairment is recognized directly in profit and loss in the consolidated income statement and in comprehensive income. The impairment recognized for goodwill cannot be reversed in the following periods.

At the sale date of the relevant cash generating unit, the attributable value of goodwill is included in determining the gains or losses from the sale.

Intangible assets purchased in a business combination

Intangible assets purchased as part of a business combination and recognized separately from the goodwill are recognized initially at their fair value at the purchase date (which is considered as their cost). Subsequent to initial recognition, intangible assets purchased as part of a business combination are presented at cost minus the cumulated depreciation and the cumulated impairment loss on the same basis as intangible assets that are purchased separately.

Derecognition of intangible assets

An intangible asset is derecognized upon disposal or when no other future economic benefits are expected to be obtained from its use or disposal. Gains or losses resulted from the derecognition of an intangible asset, measured as difference between the net receipts from the sale and the book value of the asset, are recognized in profit and loss.

2.4. Standards, amendments and new interpretations of the standards

A) First time adoption of new or revised standards

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Company as of 1 January 2018.

The Group has adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers (including the clarifications) for the first time starting with 1 January 2018. The impact of these standards is described in the following paragraphs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In addition, the Group has adopted the following standards with initial application starting 1 January 2015:

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**
The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Management has assessed that this standard has no impact on the Group's financial statements, as the share-based payment exclusively depends on the performance prior to granting the shares: the granting is not revocable.
- **IAS 40: Transfers to Investment Property (amendments)**
The amendments clarify when an entity should transfer property including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Management has assessed this standard will not have an impact on the Group's financial statements.
- **IFRIC 22 INTERPRETATION: Foreign Currency Transactions and Advance Consideration**
The interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation addresses transactions in foreign currency for which the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income. The Interpretation provides that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established by the entity for each payment or receipt. The Group's practice was compliant with the interpretation and, consequently, it has no effects on the financial statements.
- **The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs.
 - **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments):** The Amendments clarify that the option to measure at fair value through profit and loss an investment in an associate or in a joint venture which is held by an entity representing a joint venture or by another entity that qualifies, is available for each investment in an associate or joint venture for each separate investment, upon initial recognition.
- **IFRS 9 Financial Instruments**
The final version of IFRS 9 *Financial Instruments* reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9.

IFRS 9 brings significant changes concerning the recognition and assessment of the financial assets, which are based on the business model and on the characteristics of the contractual cash flows and they also implement a new model concerning the recognition of adjustments for impairment based on the expected losses from receivables.

IFRS 9 was applied using the initial simplified application option. As it was allowed by IFRS 9, Teraplast did not amend the figures in the prior period, which continue to be reported according to IAS 39. Since the transition to IFRS 9 did not have a material impact, the Group did not record an adjustment of the initial balance for the related position in equities as of 1 January 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 9 presents three main categories of financial assets: measured at amortized cost, measured at fair value through other comprehensive items and measured at fair value through profit and loss.

The categories are determined according to the following two criteria: the Company's business model used in the process of managing the assets and the analysis of the contractual cash flows of the instruments to determine if they represent only payments of the principal and of the interest related to the principal.

As explained in the notes below, there are no material differences between the initial measurement categories as per IAS 39 and the new measurement categories according to IFRS 9 for the Group's categories of financial assets as of 1 January 2018.

According to IAS 39, all trade receivables were accounted for at amortized cost minus adjustments for impairment. There was no impact on the Group's retained earnings generated by the classification according to IFRS 9.

The loans granted to subsidiaries are assessed at amortized cost (according to the effective interest rate method) minus adjustments for impairment. After the application of IFRS 9, loans are measured according to the business model the objective of which is to grant loans in order to collect contractual cash flows which represent only reimbursements of principal and interest on the principal on balance. Consequently, there was no impact from the classification and measurement of loans granted to subsidiaries.

Interests held in subsidiaries, associates and joint ventures are accounted for at cost minus any impairment loss according to IAS 27 Separate financial statements. Interests held in other investments are designated to be measured at fair value through other comprehensive income. There was no impact on the Company's equities from the classification or measurement of equity investments.

There is no impact on the recognition and measurement of the Company's financial assets due to the fact that the new requirements refer only to the accounting of financial liabilities designated as being registered at fair value through profit and loss. The Group does not have such liabilities.

The new impairment model provides that the adjustments for impairment are recognized according to the expected losses from receivables and not according to the model of effective losses from receivables as provided by IAS 39. According to IFRS 9, the Group recognizes adjustments for impairment according to the expected losses for the instruments which are not accounted for at fair value through profit and loss and for the contractual assets resulting from client contracts. In general, applying the model concerning the expected losses from receivables implies the early registration of losses from receivables for the relevant items. Losses from receivables are calculated based on a three-stage model, using credit risk swap, internal or external counterparty ratings and the related probability of default. For certain financial instruments, such as trade receivables, impairment losses are estimated based on a simplified approach, recognizing expected losses from receivables during their useful life. The related impact, net of income tax, on Group equities following the initial application of IFRS 9 is of RON 0.51 million (see Note 18).

According to IFRS 9, several risk hedging instruments and several hedged risks will generally meet the application conditions of the hedge accounting. As of 31 December 2017 and, respectively, 31 December 2018, the Group did not hold any risk hedging instruments for which to apply hedge accounting; consequently, there is no impact on the financial statements from the application of IFRS 9 on hedge accounting.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

• IFRS 15 Revenue from Contracts with Customers

IFRS 15 is applicable starting 1 January 2018, the application prior to this date also being permitted.

The Standard replaces:

- IAS 11 Construction contracts;
- IAS 18 Revenue;
- IFRIC 13 Customer loyalty programs;
- IFRIC 16 Agreements for the construction of real estate;
- IFRIC 18 Transfers of assets from customers; and
- SIC-31 Revenue – Barter transactions involving advertising services.

The objective of the standard is to establish the principles an entity or a group must apply to report useful information to the users of the financial statements concerning the nature, value, timing and uncertainty of revenue and of the cash flows generated by a contract with a customer.

To meet this objective, the essential principle of this standard is that an entity or a group must recognize revenue to illustrate the transfer of goods or services promised to customers for a value that reflects the consideration the entity expects to be entitled to in exchange for such goods or services.

Therefore, the group must take into consideration the terms of the contract, as well as all the relevant facts and circumstances when applying this standard, which then it must apply consistently, including the use of any practical solutions, for contracts with similar characteristics and under similar circumstances.

This standard specifies the manner of accounting for an individual contract with a client. However, as a practical solution, the group may also apply this standard for a portfolio of contracts (or execution obligations) with similar characteristics if the entity reasonably expects that the effects on the financial statements generated by the application of this standard for the respective portfolio will not be significantly different by those determined by the application of this standard for the separate contracts (or execution obligations) within the respective portfolio.

The Group has applied the standard using the retrospective method, with the cumulated effect of its application recognized at the initial application date, namely 1 January 2018.

To this effect, the Group performed both a preliminary analysis for the financial year 2017 and a detailed analysis for the financial year 2018, concluding that the application of IFRS 15 does not generate significant effects on the financial statements.

The Group has analyzed the main types of revenues/contracts by applying the five-step model under IFRS 15:

1. Identification of the client agreement(s);
2. Identification of the execution obligations resulted from these agreements;
3. Determination of the transaction price;
4. Allocation of the transaction price to the agreement execution obligations;
5. Recognition of the revenue when (or as) the Company fulfils a contractual execution obligation

Also, the contract provisions that refer to: sales with the right of return, the granting of volume discounts / rebates, the granting of warranties, consignment commitments, potential provisions that distinguish between actions in own name and intermediaries, the customer's options for additional goods or services, unexercised customer rights, as well as advances received from customers were specifically analyzed.

Based on the analysis performed, the management has concluded that IFRS 15 does not have a significant impact on the consolidated financial statements as compared to the current revenues recognition method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B) New or revised standards, but not yet mandatory

The Group did not adopt early the following new or revised standards and interpretations which were issued, but are not yet in force. In some cases, they are still not endorsed by the EU

• IFRS 16: Leases

This standard will replace IAS 17, IFRIC 4, SIC-15, SIC-27 and sets out new requirements for the accounting of lease contracts. The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of information concerning leases for both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor").

In the lessor's accounting, according to IFRS 16, there will be only one model for registering lease contracts, thus eliminating the classifications into operating or finance lease from IAS 17. By applying this model, the lessee will record assets and liabilities for most lease contracts and, in case of revenues and expenses, it will recognize the amortization of the leased assets, separately from the interest related to lease liabilities. The lessor's accounting, according to IFRS 16, is substantially not modified as compared to the current requirements of IAS 17. The lessor will continue to use the classification principles in IAS 17 and it will distinguish between two types of lease: operating or finance lease. According to IFRS 16, both the lessees and the lessors will have to present more information than that disclosed according to IAS 17 in the notes to the financial statements.

The most important impact is that the Group will recognize new assets and liabilities for its operating leases except if an exemption from IFRS 16 is applied. Certain commitments concerning short-term leases and those concerning small value assets will be included as exceptions. No significant impact on the existing finance lease contracts is expected.

The recognition of a right of use as an asset and of a lease liability for the operating lease contracts is expected to lead to an increase in the value of tangible assets and of liabilities of approximately RON 2.8 million as of 1 January 2019. In the statement of assets and liabilities, expenses with amortization and expenses with interests will be reported, instead of lease expenses. This will lead to an increase in the operating result, which will be counterbalanced by large interest expenses. The net estimated impact on the result of 2019 is of approximately RON 50 thousand. The estimated impact of adopting this standard is determined based on the measurements made until that date. The actual impacts can also be amended until the date when the Group will present the financial statements which include the date of initial application.

The Group will apply IFRS 16 starting 1 January 2019, using for transition the modified retrospective method, without retreating the comparative values for the prior period presented. In exchange, the Group will recognize the cumulated effect from the application of the new standard as an adjustment to the opening balance of retained earnings at the date of initial application, at the lease liability value, adjusted through advance or estimated payments. The Group policy is to take into account the possibilities that facilitate the transition to IFRS 16 in practice. For example, no right of using the assets and liabilities from the lease related to the contracts that expire in 2019 will be recognized.

In addition, the following standards, interpretations and amendments were issued and it is not expected for them to have a significant impact on the Group's financial statements:

TERAPLAST SA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the financial year ended 31 December 2018

(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. These amendments have not yet been endorsed by the EU. The Group is currently assessing the impact of adopting these amendments on the financial statements and it does not expect it to be significant.

- **IFRS 9: Prepayment features with negative compensation (Amendment)**

The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. The Group is in progress of assessing the impact of adopting this amendment on the financial statements and it does not expect it to be significant.

- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**

The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 *Financial Instruments*, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. These Amendments have not yet been endorsed by the EU. The Group does not expect the impact of adopting these amendments on these financial statements to be significant.

- **IFRIC INTERPRETATION 23: Uncertainty over Income Tax Treatments**

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The Group is in progress of assessing the impact of adopting this amendment on the financial statements and it does not expect it to be significant.

- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU. The Group is in progress of assessing the impact of adopting these amendments on the financial statements and it does not expect it to be material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

• **Conceptual Framework in IFRS standards**

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. These Amendments have not yet been endorsed by the EU.

• **IFRS 3: Business Combinations (Amendments)**

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU. The Group is in progress of assessing the impact of adopting these amendments on the financial statements and it does not expect it to be significant.

• **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. These Amendments have not yet been endorsed by the EU. The Group is in progress of assessing the impact of adopting these amendments on the financial statements and it does not expect it to be significant.

• **The IASB has issued the Annual Improvements to IFRSs 2016 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU.

- **IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- **IAS 12 Income Taxes:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
- **IAS 23 Borrowing Costs:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

The Group is currently assessing the impact of adopting these annual improvements on the financial statements and does not expect it to be significant.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5. Summary of accounting and valuation principles

The accounting policies adopted are consistent with those of the previous financial year.

2.5.1. Cash and cash equivalents

Cash and cash equivalents include liquid assets and other equivalent values, comprising cash at bank, petty cash and short term deposits with maturities of up to 3 months.

2.5.2. Revenue recognition

Revenues from contracts with customers

Teraplast Group operates in the field of production and trading of products intended for the construction market, namely: PVC pipes and profiles, plasticized and rigid granules, polypropylene and polyethylene pipes, fittings, steel cables and parts, metal roofing systems, wood joinery, heat insulating panels and metal structures.

Revenues from contracts with customers are recognized when the Group companies transfer the control over a good or service and, consequently, it fulfills an execution obligation. In general, the Group has the main role, as it holds control over all the assets prior to their transfer to the customer.

Revenues from the sale of goods and merchandise are recognized at a certain point in time, when the products are delivered to the customers. The receipt guidelines are – in general – between 30 and 90 days from the date of issuing the invoice and delivering the goods. In the recognition of revenues, the Group companies analyze whether the contracts with the customers imply one or several obligations to execute, which would require an allocation of the transaction price.

If the consideration promised in a contract includes a variable component, the Group estimates the value of the consideration it would be entitled to, in exchange for the transfer of the goods or services promised to a customer.

The value of a consideration may vary as a result of discounts, rebates, reimbursements, credits, price concessions, incentives, performance premiums, penalties or other similar items. The promised consideration may also vary, if an entity's right to the consideration depends on the extent in which a future event will or will not take place. For example, the value of a consideration would be variable either if a product were sold with a right to return it or if a fixed amount were promised as performance bonus for reaching a specific objective.

The Group grants rebates to certain customers, depending on the objectives set through the contract, which decrease the amount owed by the customer. The Group applies consistently a single method during the contract, when it estimates the effect of an uncertainty over a value of the variable consideration, using the method of the most likely value – the single most likely value in a range of possible values of the consideration (namely, the single most likely result of the contract). This is an adequate estimate of the value of the variable consideration if the contract has two possible results (such as, a customer either obtains a volume / turnover rebate or not).

As a practical solution, if the Group receives short-term advances from customers, it does not adjust the received amounts for the effects of a significant financing components, because – at the beginning of the contract – it foresees that the period between the transfer of the assets and their receipt will be below 1 year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For certain products, the Group offers the guarantees required by the law. Therefore, the promised guarantee does not represent an enforcement obligation, since such provisions usually exist to protect the customers from the risk of acquiring malfunctioning products. Furthermore, a law that requires an entity to pay a compensation if its products cause damage or injuries does not generate an execution obligation.

Assets and liabilities related to the contract

When the Group carries out its obligations by transferring goods or services to a client, prior to it paying a consideration or prior to the maturity of the payment, the Group discloses the contract as an asset related to the contract, excluding any amounts presented as receivables.

Upon receiving an advance payment from a customer, the Group recognizes a liability related to the contract at the value of the advance payment for its obligation to execute, transfer or be ready to transfer goods or services in the future. Subsequently, that liability related to the contract (corroborated with the recognition of revenues) is derecognized when the respective goods or services are transferred and consequently, the Group fulfills its execution obligation.

2.5.3. Revenues from rents and royalties

Revenues related to the rendering services are recognized as the services are provided.

Royalties are recognized according to the accrual basis of accounting, depending on the economic substance of the related contracts.

2.5.4. Dividend and interest revenues

Revenues from dividends related to investments are recognized when the shareholders' right to receive them is determined.

For all financial instruments measured at amortized cost, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of profit or loss.

2.6.5. Lease

Lease is classified as finance lease when the lease terms substantially transfer all risks and benefits related to the property right to the lessee. All other leases are classified as operating lease.

Assets held through financial lease are initially recognized as Company assets at the fair value from the initial lease phase or, if lower, at the value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as finance lease liability.

Lease payments are divided between finance costs and the reduction of the lease liability, so as to obtain a constant rate of the interest related to the remaining liability balance. Finance costs are registered directly into profit and loss.

Operating lease payments are recognized as expense under the straight line method, during the lease term. Potential operating leases are recognized as expense as incurred.

The leases where the Group retains substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. The revenue from operating leases is recognized on a straight line.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6.6. Foreign currency transactions

For the preparation of the Group's financial statements, transactions in other currencies (foreign currencies) than the functional one are registered at the exchange rate in force at the date of transaction. Each month, and at each balance sheet date, monetary items denominated in foreign currency are translated at the exchange rate in force at these dates.

Monetary assets and liabilities expressed in foreign currency at the end of the year are translated into RON at the exchange rate valid at the end of the year. Unrealized foreign exchange gains and losses are presented in OCI.

The RON exchange rate for 1 unit of the foreign currency:

| | 31 December 2018 | 31 December 2017 |
|-------|-----------------------------|-----------------------------|
| EUR 1 | 4.6639 | 4.6597 |
| USD 1 | 4.5756 | 3.8215 |
| CHF 1 | 4.1404 | 3.9900 |

Non-monetary items which are measured at historic cost in a foreign currency are not translated back.

2.6.7. Costs related to long-term borrowings

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset until they are ready for its intended use or for sale. Revenues from temporary investments of loans, until such loans are expensed for assets, are deducted from the costs related to long-term loans eligible for capitalization.

All other borrowing costs are expensed in the period in which they occur.

The amortized cost for the financial assets and liabilities is calculated using the effective interest rate. The amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

2.6.8. Government grants

Government grants are not recognized until there is reasonable assurance that the grant will be received and all attached conditions will be complied with by the Group.

The Government grants the main condition of which is that the Group acquire, build or obtain otherwise long-term assets are recognized as deferred income in the balance sheet and transferred to the profit and loss statement systematically and reasonably over the useful life of those assets.

Other Government grants are systematically recognized as revenues in the same period as the costs it intends to offset. The Government grants received as compensation for expenses or losses already recorded or in order to provide immediate financial support to the Group with no related future costs, are charged to the income statement when they fall due.

Grants receivable in order to acquire assets such as tangible assets are recorded as investment subsidies and recognized in the profit and loss statement as the depreciation expenses are incurred or at the time the assets acquired from the subsidy are retired or disposed of.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6.9. Costs related to retirement rights

Based on the collective labor contract, the Group is under the obligation to pay retirement benefits to its employees depending on their seniority within the Group, amounting to 2 - 3.5 salaries. The Group uses an external actuary to compute the fair value of the retirement benefits related liability and reviews the value of this liability each year depending on the employees' seniority within the Group.

2.5.10. Employees' contribution

The Group pays contributions to the social security state budget, to the pension fund and to the unemployment fund, at the levels established by current legislation. The value of these contributions is registered in the profit and loss statement in the same period as the corresponding salary expense.

2.5.11. Taxation

Income tax expense is the sum of the current tax and deferred tax.

Current tax

Current tax is based on the taxable profit for the year. Taxable profit is different than the profit reported in statement of comprehensive income, because it excludes the revenue and expense items which are taxable or deductible in other years and it also excludes the items which are never taxable or deductible. The Group's current tax liability is computed using the taxation rates in force or substantially in force at the balance sheet date.

Deferred tax

Deferred tax is recognized over the difference between the carrying amount of assets and liabilities in the financial statements and the corresponding fiscal bases used in the computation of taxable income and it is determined by using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, while deferred tax assets are recognized in the extent in which it is likely to have taxable income over which to use those temporary deductible differences. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from initial recognition (other than from a business combination) of other assets and liabilities in a transaction that affects neither the taxable income, nor the accounting income.

Deferred tax liabilities are recognized for temporary taxable differences associated with investments in subsidiaries and in joint ventures, except for the cases in which the Group is able to control the reversal of the temporary difference and it is likely for the temporary difference not to be reversed in the foreseeable future. The deferred tax assets resulted from deductible temporary differences associated with such investments and interests are recognized only in the extent in which it is likely for sufficient taxable income to exist on which to use the benefits related to temporary differences and it is estimated that they will be reversed in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and it is decreased to the extent in which it is not likely for sufficient taxable income to exist to allow the full or partial recovery of the asset.

Deferred tax assets and liabilities are measured at the taxation rates estimated to be applied during the period when the liability is settled or the asset realized, based on the taxation rates (and tax laws) in force or entering into force substantially until the balance sheet date. The measurement of deferred tax assets and liabilities reflects the tax consequences of the manner in which the Group estimates, as of the balance sheet date, that it will recover or settle the carrying amount of its assets and liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority and the Group intends to offset its deferred tax assets with its deferred tax liabilities on a net basis.

Current tax and deferred tax is recognized as revenue or expense in profit and loss, except for the cases which refer to items credited or debited directly in other comprehensive income, case in which the tax is also recognized directly in other comprehensive income or except for the cases in which they arise from the initial accounting of a business combination.

2.5.12 Tangible assets

Tangible assets, less land and buildings, are stated at cost, net of accumulated depreciation and / or accumulated impairment losses, if any.

Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major repair is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognized at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value. Accumulated depreciation as of the revaluation date is eliminated from the gross carrying amount of the asset and the net amount is restated at the revalued value of the asset.

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in profit and loss. A revaluation deficit is recognized in the profit or loss of the period, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve.

Upon disposal, any revaluation reserve relating to the concerned asset being sold is transferred to retained earnings.

A tangible asset item and any significant part recognized initially are derecognized upon disposal or when no economic benefits are expected from their use or disposal. Any gain or earning resulting from the derecognition of an asset (calculated as the difference between net disposal proceeds and the carrying amount of the asset) is included in profit and loss when the asset is derecognized.

The residual value, the useful life and the methods of depreciation are reviewed at the end of each financial year and adjusted retrospectively, if appropriate.

Constructions in progress for production, rent, lease, administrative or for purposes not yet determined is registered at historical cost, less impairment. The impairment of these assets starts when the assets are ready to be used.

Plant and machinery is registered in the financial position statement at their historic value adjusted to the effect of hyperinflation until 31 December 2003, according to IAS 29 *Financial Reporting in Hyperinflationary Economies* decreased by the subsequently accumulated depreciation and other impairment losses, if any.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation is registered so as to decrease the cost of the asset to its residual value other than the and investments in progress, along their estimated useful life, using the straight line basis. The estimated useful lives, the residual values and the depreciation method are reviewed at the end of each year, having as effect changes in future accounting estimates.

Assets held in finance lease are depreciated over the useful life, similarly to assets held or, if the lease period is shorter, during the respective lease contract.

Maintenance and repairs of tangible assets are included as expenses when they occur and significant improvements to tangible assets which increase their value or useful life or which significantly increase their capacity to generate economic benefits, are capitalized.

The following useful lives are used for the computation of depreciation:

| | <u>Years</u> |
|------------------------------|--------------|
| Buildings | 20 – 50 |
| Plant and equipment | 3 – 15 |
| Vehicles under finance lease | 5 – 8 |
| Installations and furniture | 3 – 10 |

2.5.13. Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual evaluation performed by an accredited external independent valuator applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognized either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal.

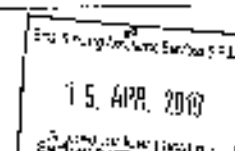
Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

2.5.14. Intangible assets

Intangible assets purchased separately are reported at cost minus accumulated amortization/impairment losses. Amortization is computed through the straight line basis over the useful life. The estimated useful lives, the residual values and the amortization method are reviewed at the end of each year, having as effect changes in future accounting estimates.

The following useful lives are used for the computation of amortization:

| | <u>Years</u> |
|--------------|--------------|
| Licenses | 1 – 5 |
| Brand | 20 |
| Client lists | 20 |



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5.15. Impairment of tangible and intangible assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If there is such an indication, the recoverable amount of the asset is estimated to determine the size of the impairment loss. When it is impossible to assess the recoverable amount of an individual asset, the Group assesses the recoverable amount of the cash generating unit which the asset belongs to. Where a consistent distribution basis can be identified, the Group assets are also allocated to other separate cash generating units or to the smallest group of cash generating units for which a consistent allocation basis can be identified.

Intangible assets having indefinite useful lives and intangible assets which are not yet available to be used are tested for impairment annually and whenever there is an indication that it is possible for the asset to be impaired.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. When measuring the value in use, the future estimated cash flows are settled at the current value using a discount rate prior to taxation which reflects current market assessments of the temporary value of money and the specific risks of the asset, for which future cash flows have not been adjusted.

If the recoverable value of an asset (or of a cash generating unit) is estimated as being lower than its carrying amount, the carrying amount of the asset (of the cash generating unit) is reduced to the recoverable amount. An impairment loss is recognized immediately in profit and loss, except for revalued assets for which there is a revaluation that can be decreased with the impairment loss.

If an impairment loss is subsequently reversed, the carrying amount of the asset (of the cash generating unit) is increased to the reviewed estimation of its recoverable value, but so as the reviewed carrying amount does not exceed the carrying amount which would have been determined had any impairment loss not been recognized for the respective asset (cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit and loss.

A revaluation surplus is recognized as an item of comprehensive income and credited to the asset's revaluation reserves, except for the cases in which a decrease in value was previously recognized in profit and loss for a revalued asset, case in which the surplus can be recognized in profit and loss within the limit of this prior decrease.

2.5.16. Inventories

The inventories are registered at the lowest value between cost and the net realizable value. The net realizable value is the selling price estimated for the inventories minus all estimated costs for completion and the costs related to the sale. Costs, including a portion related to fixed and variable indirect costs are allocated to inventories held through the method most appropriate for the respective class of inventories. Finished products, semi-finished goods and production in progress are measured at actual cost. For the following classes of inventories, the average weighted cost method is used: the raw material for pipes / piping, merchandise, inventory items of small tools, packaging materials, consumables.

2.5.17. Share capital

Common shares are classified in equities.

At the repurchase of the Group shares the paid amount will decrease equity belonging to the holders of the company's equity, through retained earnings, until they are canceled or reissued. When these shares are subsequently reissued, the received amount (net of transaction costs and of income tax effects) is recognized in equity belonging to the holders of the Group's equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5.18. Dividends

Dividends related to ordinary shares are recognized as liability to the shareholders in the consolidated financial statements in the period in which they are approved by the Group shareholders.

2.5.19. Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required from the Group to settle the obligation and a reliable estimate can be made of the amount of the respective obligation.

The amount recognized as a provision is the best estimate of the amount necessary to settle the current obligation as of the balance sheet date, considering the risks and uncertainties related to the obligation. If a provision is measured using the estimated cash flows necessary for settling the present obligation, the carrying amount is the present value of the respective cash flows.

2.5.20. Segment reporting

Segment reporting is done consistently with the internal reporting to the chief operating decision maker. The chief operating decision maker, which answers for allocating resources and assessing the performance of activity segments, was identified as being the Board of Directors, which is making the strategic decisions.

2.5.21. Financial assets and liabilities

The Group's financial assets include cash and cash equivalents, trade receivables and long-term investments. Financial liabilities include finance lease liabilities, interest bearing bank loans, overdrafts and trade and other payables. For each item, the accounting policies on recognition and measurement are presented in this note.

Loans and receivables

This category is the most relevant for the Group. Loans and receivables are non-derivative financial assets with fixed or identifiable payments and which are not quoted on an active market. After initial recognition, these financial assets are subsequently recognized at depreciated cost, using the effective interest rate method, minus the impairment. The depreciated cost is computed by taking into account any reduction or purchase premium and any commissions and costs that are an integral part of the effective interest rate. The impact of the depreciated cost method due to the effective interest rate is included in profit and loss under financial revenues while changes due to FV are recognized in profit and loss under costs to fund loans and the cost of goods sold or under other operating expenses.

Borrowings and liabilities

Loans are initially recognized at fair value minus the costs for the respective operation. Subsequently they are registered at amortized cost. Any difference between the initial value and the reimbursement value is recognized in profit and loss for the period of the loans, using the effective interest rate method.

Financial instruments are classified as liabilities or equity according to the nature of the contractual arrangement. Interest, dividends, gains and losses related to a financial instrument classified as liability are reported as expense or revenue. Distributions to the holders of financial instruments classified as equity are registered directly in equity. Financial Instruments are offset when the Group has a legal applicable right to offset them, and it intends to offset them either on a net basis or to realize the asset and settle the liability at the same time.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The classification of the investments depends on their nature and purpose and it is determined as of the initial recognition.

Impairment of financial assets

Financial assets are measured for impairment at each reporting date. For trade receivables, a simplified approach is adopted in which impairment losses are recognized at a value equal to that of the expected losses from receivables during their useful life. If there are loan insurances or guarantees for the payable balances, the computation of expected losses from receivables is based on the probability of default related to the insurer / guarantor for the insured / guaranteed portion of the payable balance, while the amount remaining not covered will have the counterparty's probability of default.

Equity instruments can be classified irrevocably as being measured at fair value through other comprehensive income if there are not held for sale.

IFRS 9 allows an exemption in case of those interests held in subsidiaries, associates and joint ventures which are accounted for according to IFRS 10 Consolidated financial statements, IAS 27 Separate financial statements or IAS 28 Investments in associates and joint ventures. Terapiast applies this exemption and continues to measure the interests held in subsidiaries and associates at cost minus any impairment losses.

The provisions of IFRS 9 concerning the recognition and measurement of financial assets were applied retrospectively without restating the values of the comparative period, which continue to be reported according to the accounting standard applicable previously to financial instruments, IAS 39. The financial assets recognition and measurement differences between IFRS 9 and IAS 39 are disclosed in Note 18.

Derecognition of assets and liabilities

The Group derecognizes financial assets only when the contractual rights over the cash flows related to the assets expire or it transfers to another entity the financial asset and, substantially, all risks and benefits related to the asset.

The Group derecognizes financial liabilities only if the Group's liabilities have been paid, canceled or they have expired.

2.5.22 Fair value measurement

An entity measures financial instruments and non-financial assets, such as investment property, at fair value at each balance sheet date. Also, the fair values of financial instruments measured at amortized cost are presented in Note 29 d).

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

An entity uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of significant assets, such as investment property and available for sale financial assets. Involvement of external valuers is decided upon annually by the management. Selection criteria include market knowledge, reputation, independence and professional standards, if they are specified.

At each reporting date, Group's management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies.

Group's management, in conjunction with the entity's external valuers, also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of the notes and fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2.5.23 Use of estimates

The preparation of the consolidated financial statements requires the performance of estimates and judgments by the management, which affects the reported amounts of assets and liabilities and the presentation of potential assets and liabilities at the balance sheet date, as well as the reported amounts of revenues and expenses during the reporting period.

Actual results may be different from these estimates. The estimates and judgments on which these are based are reviewed permanently. The reviews of the accounting estimates are recognized during the period in which the estimate is reviewed. If this review affects only the respective period or during the review period and during future periods, if the review affects both the current period and the future periods.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

3.1. Judgments

In the process of applying the Group accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Investment properties

The Group has certain assets which management has decided to reclassify as investment properties, as follows:

- The Group holds a piece of land and a building (previously used for the head office), located in Romana Street, Bistrita. In January 2012, the management decided that the final purpose of the land was to be held in order to obtain an increase in its value and to be subsequently materialized through sale. As a result, the land was classified in January 2012 as an investment property;
- In December 2012, the assets previously transferred to Teracota Bistrita SRL were reversed. The management decided that the final purpose of the land located in Bistrita, str. Drumul Cetatii was to be held in order to obtain an increase in its value and to be subsequently materialized through sale. As a result, the land was classified in December 2012 as an investment property, being valued at fair value as of that date;
- The Group holds land and buildings (previously used as regional warehouses) in Constanta. In 2013, the management decided that the final purpose of the land was to be held in order to obtain an increase in its value and to be subsequently materialized through sale. As a result, the land and buildings were classified in 2013 as investment properties, when they were measured at fair value.

Acquisition of Depaco shareholding

As at 30 June 2017, Teraplast concluded the transaction for the acquisition of 50% of Depaco SRL. Subsequently, in 2017, the Company signed agreements for the acquirement of an additional 17% shareholding in Depaco.

As at 31 December 2017, following the analysis performed by the Group management, Depaco was accounted for as an affiliate under the equity method, because the Group did not hold control over the company as of that date. In 2017, the Group did not have a voting majority in the company strategic decisions.

The transaction was finalized after its approval by the Teraplast SA General Shareholders Meeting and receiving the approval from the Romanian Competition Council. Therefore, Teraplast took control of Depaco in January 2018, after obtaining the favorable approval of the Competition Council and registering the additional 17% investment with the Trade Register.

Also in 2017, Teraplast has concluded a sale-purchase promise with the minority shareholders of Depaco for the rest of their investment up to 99% of the company. According to the contract terms, the transaction will be carried out within 4 years at most, for a price correlated with Depaco's results in the following years but not less than a determined amount. As of 31 December 2017, this option was not reflected in the Company's balance sheet, because its exercising was also conditioned by the approval by the Competition Council for sole control. After obtaining the sole control over Depaco SRL, the Company recognized, under the "Long-term liabilities" position the fair value of the purchase price agreed with the promissory-sellers. Considering that the control over the decisions of Depaco company is exercised by the Group, the sale-purchase transaction will be carried out for a minimum agreed price and the parties undertook to purchase and, respectively, sell the additional 32% package, the Group consolidates Depaco SRL if it holds the major 99% package.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

The fair value of Doxaco SRL at the date of purchase was of RON 70,556,559, determined following the preparation of a revaluation report by an external appraiser. The consideration for holding 99% was computed in relation to this fair value, resulting a goodwill of RON 35,230,839.

More details on this transaction are included in Note 15 and 18.

Acquisition of Politub

Teraplast SA acquired the remaining 50% shareholding in Politub SA from the French partner New Scootub, in October 2017, for the amount of RON 11,432,250. The Group acquired this shareholding and integrated the activity of the Polyethylene Division, in order to be able to provide to its clients an integrated system for water and sewerage.

The fair value of Politub SA at the acquisition date was RON 24,955,026, as determined following a revaluation report issued by an external valuator. The equivalent value of the initial 50% shareholding was computed by reference to this fair value, resulting in an amount RON 12,477,513, which was at the basis of the recognition of the gain related to the initial 50% shareholding.

3.2. Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Revaluation of property, plant and equipment and investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognized in the statement of profit or loss. In addition, it measures land and buildings at revalued amounts with changes in fair value being recognized in other comprehensive income. The Group engaged independent valuation specialists to assess fair value as at 31 December 2018 for land and buildings and for investment properties, this action was performed on an annual basis, including as at 31 December 2018. Investment properties (land and buildings) were valued by reference to market-based information, using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

Investment properties (land and buildings) were revalued as at 31 December 2018 by an external valuator, an ANEVAR member. The valuation methods used were the market comparison for land and the net replacement cost impacted by the application of the income-based method and the market comparisons.

Impairment of intangible and tangible assets

To determine whether the impairment related to an intangible or tangible asset must be recognized, significant judgment is needed. To take this decision, for each cash generating unit (CGU), the Group compares the carrying amount of these intangible or tangible assets, to the higher of the CGU fair value less costs to sell and its value in use, which will be generated by the intangible and tangible assets of the cash generating units over the remaining useful life. The recoverable amount used by the Group for each cash generating unit for impairment measuring purposes was represented by its value in use.

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3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

In the current economic environment, the Group analyzed the internal and external sources of information and reached the conclusion that there are no indications concerning the impairment of assets, except for the cash generating units below. The Group considers the relationship between its market capitalization and its book value, among other factors, when reviewing for indicators of impairment. As a result, the Group decided not to carry an impairment analysis for the recoverable amount of tangible assets, under IAS 36. Therefore, an allowance for asset impairment proved not to be necessary.

The impairment testing performed by the Group is based on the determination of the value in use considering the present value of the cash flow. The cash flows have been determined based on the budget for 2019 and on the forecasts for the following four years. The terminal value was determined based on the cash flows forecasted for 2023, using a 2.5% growth rate.

The cash generating units identified are:

- The cash generating unit Installations and Arrangements;
- The cash generating unit Granules;
- The cash generating unit PVC Joinery Profiles.

The discount rate applied for cash flow projections was determined at the level of each cash generating unit, ranging from 9.54% to 12.34% (2017: between 9.02% and 11.02%), representing the Group best estimate concerning the standard applicable to the concerned activity. The discount rates represent the current market assessment of the risks specific to each cash generating unit, taking into consideration the time value of money and individual risks of the assets. The discount rate computation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital.

The Group has considered both the information available in prior years, the production capacity for each cash generating unit, the consolidation of client relationships and the external market potential.

The considered average growth rates of the Group have been used as follows:

- For the cash generating unit Installations and Arrangements, management estimates a turnover increase, due to the extension of the distribution network, and, in the following four years, the annual growth rate will be on average 5.42%;
- For the cash generating unit Granules, management has estimated an annual average growth for the following five years of 9.87% by increasing competitiveness as a result of developing new networks and increasing the presence on the neighboring markets.
- For the cash generating unit PVC Joinery Profiles, the average growth rate for the turnover over the projection period is estimated to be 4.63%, following the implementation of new co-extrusion technologies for profiles, which increases our competitiveness, and also, the inventory policy revision.

Business combinations

As a result of the business combination, the Group recognized goodwill and intangibles resulted following the exercise to determine the fair value for all assets, liabilities and contingent liabilities purchased at the acquisition date. One of the most important assessment exercises is the determination of the fair value for the purchased items – see details in Note 15.

Impairment of goodwill

In order to determine the necessity of recognizing an impairment loss related to the goodwill recognized in the consolidated financial statements as a result of the acquisition of Depaco SRL, the Group performs annually an impairment test which requires significant judgment.

Therefore, the Company decided to estimate the recoverable value of the cash generating unit Depaco SRL, according to IAS 36. As a result of the exercise carried out, it resulted that it is not necessary to record a provision for impairment.

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3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimating the recoverable value as of 31 December 2018 was based on determining the fair value by estimating the present value of the future cash flows generated by Depaco SRL. The main assumptions used to determine the value in use were the average growth rates and the discount rate.

Cash flows were determined based on the budget for 2019 and the forecast for the following 5 years, which had an average EBITDA increase of 2.5%, an average increase of future investments in non-current assets of 0.5% and, respectively, a net working capital increase of 12.5% in 2019 followed by an increase directly proportional to the EBITDA increase of 2.5% during the remaining period.

The terminal value was set based on the cash flows forecast for 2024, using a perpetuity increase rate of 2.5%.

The discount rate used was of 10.52%, rate corresponding to the degree of risk and capital structure of the subsidiary. This represents the current market evaluation of the risks specific to the subsidiary, taking into account the time value of money and the individual asset risks. The computation of the discount rate is based on the specific circumstances of the subsidiaries and it results from its weighted average cost of capital.

Any changes occurred in the economic conditions may influence can influence the estimates used for determining the value in use, so that the actual results may differ in the end. Concerning the estimation of the impairment loss of goodwill, management considers that the model is most likely sensitive to:

- the weighted average cost of capital;
- the assumptions concerning the terminal increase;
- the EBITDA margin.

The EBITDA margin reflects the management estimates concerning the operating profitability of the cash generating unit, in line with the historical levels and the market evolution (its level is not disclosed due to the strategic nature of this information). If the increase level of the EBITDA margin would drop by 0.57%, the recoverable value of the cash generating unit would reach the profitability threshold.

Also, the profitability threshold would be reached if the weighted average cost of capital would increase by 0.5% or if the terminal increase would decrease by 0.52%.

4. REVENUE AND OPERATING SEGMENTS

An analysis of the Group revenues is detailed below:

| | Year ended 31 December 2018 RON | Year ended 31 December 2017 RON |
|-----------------------------------|--|--|
| Sales from own production | 684,720,115 | 384,186,206 |
| Revenues from sale of commodities | 126,426,583 | 42,165,328 |
| Revenues from other activities | 3,459,729 | 1,245,812 |
| Commercial discounts awarded | (10,094,230) | (5,327,278) |
| Total | 804,512,197 | 422,270,070 |

4. REVENUE AND OPERATING SEGMENTS (continued)

Geographical analysis

| | Year ended 31 December 2018 RON | Year ended 31 December 2017 RON |
|--|--|--|
| Sales on the internal market (Romania) | 644,352,774 | 319,208,210 |
| Sales on the external market | 160,159,423 | 103,063,669 |
| Total | 804,512,197 | 422,270,070 |

The information on the operational policy as reported to the management from the perspective of resource allocation and segment performance analysis is classified according to the type of products delivered. The reporting segments of the Group have been determined according to:

- The nature of the products and services;
- The nature of the production processes;
- The type or category of clients for products and services;
- Methods used for distributing the products or providing the services.

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(all amounts are expressed in Romanian Lei (RON), unless otherwise stated)

4. REVENUES AND OPERATING SEGMENTS (continued)

| 2018 | Heat insulated panels and metallic structures | Metal tiles – not consolidated in 2017 | Plant and improvements | Joinery profiles | Granules | Heat insulated joinery | Non-allocated amounts | Total |
|--|---|--|------------------------|------------------|--------------|------------------------|-----------------------|---------------|
| Total revenue (*) | 264,802,982 | 220,999,594 | 173,537,733 | 55,970,409 | 63,091,541 | 28,919,946 | - | 804,512,197 |
| Other operating income | 827,620 | 330,306 | 287,026 | 283,442 | 73,602 | 9,809 | - | 1,821,674 |
| Revenue from subsidias | 445,858 | 304,734 | - | - | - | - | - | 750,592 |
| Operating income, total | 262,620,602 | 221,329,890 | 173,824,829 | 56,253,851 | 63,165,143 | 28,929,755 | - | 806,334,071 |
| Raw materials, consumables used and merchandis | (203,045,305) | (189,487,851) | (123,260,712) | (34,141,646) | (48,130,720) | (14,554,292) | - | (595,750,498) |
| Employee benefits expenses | (11,716,302) | (17,256,948) | (23,067,877) | (0,475,778) | (3,542,754) | (5,907,950) | - | (85,406,348) |
| Amortization and adjustments for the impairment of assets and provisions | (5,124,653) | (8,543,390) | (12,171,889) | (4,754,750) | (1,512,589) | (746,257) | - | (30,859,518) |
| Adjustments for the impairment of current assets | (151,324) | (778,667) | (289,473) | (211,007) | - | (109,702) | - | (1,546,863) |
| Other expenses | (18,042,052) | (18,869,311) | (17,216,379) | (11,948,743) | (3,824,170) | (5,110,020) | - | (75,010,673) |
| Total expenses related to sales, indirect and administrative expenses | (241,079,961) | (212,975,166) | (176,136,350) | (57,531,822) | (57,410,213) | (26,428,230) | - | (771,691,838) |
| Operating result | 21,740,541 | 8,354,704 | (2,311,500) | (1,268,071) | 5,754,930 | 2,501,826 | - | 34,772,232 |
| EBITDA | 26,419,446 | 14,583,359 | 9,800,399 | 3,495,679 | 7,267,499 | 3,247,782 | - | 64,875,155 |

| | | | | | | | | |
|------------------------------------|-------------|-------------|-------------|------------|------------|------------|------------|-------------|
| Assets | | | | | | | | |
| Total assets, out of which: | 144,765,996 | 189,137,728 | 189,045,526 | 67,744,895 | 30,715,501 | 22,646,883 | 10,189,949 | 642,246,468 |
| Non-current assets | 53,523,251 | 90,815,959 | 72,875,186 | 34,199,641 | 15,153,042 | 10,734,880 | 8,324,356 | 294,296,137 |
| Current assets | 91,142,745 | 98,321,769 | 96,657,342 | 33,545,244 | 23,550,459 | 11,911,923 | 1,865,500 | 345,084,771 |
| Assets classified as held for sale | - | - | - | - | - | - | - | - |
| Liabilities | | | | | | | | |
| Total liabilities, out of which: | 96,937,732 | 162,835,756 | 109,949,339 | 31,174,500 | 19,389,230 | 5,561,413 | - | 404,130,603 |
| Non-current liabilities | 18,111,998 | 92,766,044 | 11,375,401 | 8,360,560 | 2,581,214 | 602,874 | - | 133,798,312 |
| Current liabilities | 77,825,734 | 70,069,712 | 77,736,572 | 22,813,820 | 16,908,015 | 4,978,439 | - | 270,332,291 |

EBITDA = operating result + amortization and the adjustments for the impairment of non-current assets and provisions – Revenue from subsidias

(*) The amounts disclosed are net of the inter-segment inter-segments elimination

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6. SUNDRY INCOME

Financial income / costs

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|-----------------------------------|-----------------------------------|
| | RON | RON |
| Loss from foreign exchange differences, net | (626,834) | (1,094,680) |
| Other financial income | 73,571 | 25,646 |
| Interest revenues | 935 | 1,581 |
| Dividend revenues | 75,200 | 81,045 |
| Other financial expenses | (495,605) | - |
| Financial discounts granted | (61,868) | - |
| Interest expense | (7,570,252) | (2,561,767) |
| Net financial loss | (8,812,853) | (3,538,275) |

Other operating income

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|------------------------------------|-----------------------------------|-----------------------------------|
| | RON | RON |
| Compensations, fines and penalties | 364,854 | 140,349 |
| Other revenues | 708,427 | 3,164,626 |
| Subsidies income | 750,592 | 459,391 |
| Total | 1,821,873 | 3,764,366 |

In 2017, the line "Other revenues" includes the gain related to the Politub acquisition: gain from the valuation of the initial investment amounting to RON 1,460,841 and the negative goodwill amounting to RON 1,045,263.

6. RAW MATERIALS, CONSUMABLES USED AND COMMODITIES

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|-----------------------|-----------------------------------|-----------------------------------|
| | RON | RON |
| Raw material expenses | 462,124,546 | 257,553,289 |
| Consumable expenses | 24,990,443 | 15,570,250 |
| Commodity expenses | 114,549,848 | 39,505,799 |
| Consumed packaging | 3,711,235 | 714,728 |
| Total | 605,376,072 | 313,344,066 |

The increase of expenses by RON 292 million has as main causes: the 100% consolidation of Depaco SRL (RON 186 million), the integration of the Politub business line within Teraplast SA starting 1 October 2017, the development of the business in Serbia (RON 61 million).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the financial year ended 31 December 2018

(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

7. OTHER GAINS AND LOSSES

| | Year ended 31 December 2018 RON | Year ended 31 December 2017 RON |
|---|--|--|
| Revenues from the disposal of the tangible and intangible assets | 2,048,116 | 485,130 |
| Expenses with the disposal of tangible and intangible assets | (2,032,885) | (402,763) |
| Gain from revaluation of tangible assets | | - |
| Net loss from the disposal / revaluation of tangible and intangible assets | 15,131 | 82,367 |
| Gain from the fair value measurement of investment properties | - | 336 |
| Loss on fair value measurement of investment properties | (245,552) | - |
| Net gain / (loss) from valuation of investment properties at fair value | (245,552) | 336 |

8. EXPENSES WITH PROVISIONS, IMPAIRMENT ADJUSTMENTS AND AMORTIZATION

| | Year ended 31 December 2018 RON | Year ended 31 December 2017 RON |
|--|--|--|
| Expenses with non-current assets impairment | (1,294,955) | (1,319,067) |
| Revenues from reversal of non-current assets impairment | 434,199 | 439,906 |
| Amortization and depreciation expenses | (29,739,450) | (18,221,184) |
| Net adjustments for non-current assets impairment | (30,600,206) | (19,100,345) |
| Inventory impairment expenses | (4,815,438) | (4,283,633) |
| Revenues from inventory impairment reversal | 4,325,063 | 2,321,429 |
| Net adjustments for inventory impairment | (490,375) | (1,962,204) |
| Expenses with current assets impairment | (3,493,008) | (1,433,685) |
| Revenues from current assets impairment reversal | 3,082,933 | 3,015,801 |
| Current receivables charged to expenses | (640,359) | (1,101,303) |
| Net adjustments for current assets impairment | (1,050,428) | 480,813 |
| Provisions expenses | (512,009) | (125,165) |
| Revenues from provisions reversal / cancellation | 303,229 | 2,739,616 |
| Net adjustments for provisions | (208,780) | 2,614,451 |

TERAPLAST SA**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****for the financial year ended 31 December 2018***(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)***9. EMPLOYEE BENEFIT EXPENSES**

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|--|-----------------------------------|-----------------------------------|
| | RON | RON |
| Wages | 62,828,213 | 31,261,109 |
| Contributions to the public social security fund | 2,370,201 | 7,337,821 |
| Meal tickets | 3,209,931 | 1,749,071 |
| Total | 68,408,345 | 40,348,001 |

10. OTHER EXPENSES

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|-----------------------------------|-----------------------------------|
| | RON | RON |
| Transport costs | 28,453,184 | 13,686,868 |
| Expenses with utilities and green certificates | 9,436,746 | 6,706,392 |
| Expenses with third party services | 13,657,324 | 8,401,077 |
| Expenses with compensations, fines and penalties | 80,683 | 62,387 |
| Entertainment, promotion and advertising expenses | 5,155,895 | 2,415,770 |
| Other general expenses | 2,893,494 | 1,978,283 |
| Expenses with other taxes and duties | 2,107,177 | 1,171,398 |
| Repair expenses | 3,083,141 | 1,823,646 |
| Travelling expenses | 1,430,365 | 1,032,822 |
| Rent expenses | 3,824,486 | 891,475 |
| Mail and telecommunication expenses | 752,756 | 666,723 |
| Insurance premium expenses | 1,885,322 | 912,582 |
| Sponsorship expenses | 1,257,090 | 1,016,328 |
| Total | 73,010,673 | 41,266,634 |

The increase of expenses by RON 34 million has as main causes: the 100% consolidation of Depaco SRL (RON 19 million), the integration of the Pollub business line into Teraplast SA starting 1 October 2017, the development of the business in Serbia (RON 3 million). In addition to these, the increase of these expenses is also owed to the Group management's decision to intensify, for development purposes, the promotion and marketing activities, the increase of the expenses related to insurances, especially concerning trade receivables, as well as the significant increase of power and green certificate tariffs.

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11. INCOME TAX

The total expense for the year may be reconciled with the accounting profit as follows:

| | Period ended 31 December 2018 RON | Period ended 31 December 2017 RON |
|--|--|--|
| Profit before tax | 26,159,379 | 20,011,711 |
| Income tax calculated at 16% (2017: 16%) | 4,185,501 | 3,201,874 |
| Items assimilated to income | 259,696 | 338,307 |
| Deductions | (3,042,195) | (2,567,027) |
| Not taxable income | (3,168,218) | (3,301,901) |
| Non-deductible expenses | 6,536,393 | 5,915,866 |
| Sponsorship (tax credit) | (1,249,490) | (748,737) |
| Total income tax at the effective rate 13.5% (2017: 14%) | 3,520,673 | 2,838,382 |
| Current income tax recognized in the profit and loss account - expense | 4,198,150 | 3,155,958 |
| Deferred income tax - revenue | (677,477) | (317,276) |
| Total income tax - expense | 3,520,673 | 2,838,382 |

The tax rate applied for the reconciliation mentioned above related to 2018 and 2017 is 16% and is payable by Romanian legal entities. According to the Romanian tax legislation, the tax loss may be carried forward for seven years for the tax losses recorded after 1 January 2009, starting with the year when they occurred.

ForeSteel Serbia recorded fiscal loss during the first year of activity. The taxation rate in Serbia is 10% and the fiscal loss may be carried forward for five years.

The components of the net deferred tax liabilities

| 2017 | Opening balance RON | Recorded in the income statement RON | Closing balance RON |
|--|---------------------------|---|---------------------------|
| Tangible and intangible assets and investment properties | (4,298,836) | 99,144 | (4,199,692) |
| Inventories | - | - | - |
| Investments in subsidiaries | 378,821 | 23,103 | 399,924 |
| Employee benefit liabilities | 117,357 | 2,086 | 119,446 |
| Trade and similar payables | 276,760 | 196,071 | 472,831 |
| Net liabilities with deferred tax recognized | (3,627,868) | 320,408 | (3,207,462) |

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for the financial year ended 31 December 2018

(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

11. INCOME TAX (continued)

| 2018 | Opening balance | Recorded in the Income statement | Registered in other comprehensive income | The acquisition of Depaco | Closing balance |
|--|--------------------|----------------------------------|--|---------------------------|--------------------|
| Tangible and intangible assets and investment properties | (4,199,682) | 109,824 | 136,968 | (6,452,576) | (10,423,689) |
| Fiscal loss | - | 795,906 | - | - | 795,906 |
| Investments in subsidiaries | 399,924 | (362,000) | - | - | 15,036 |
| Employee benefit liabilities | 119,446 | 57,831 | - | - | 177,288 |
| Trade and similar payables | 472,831 | 108,115 | - | - | 578,946 |
| Net liabilities with deferred tax recognized | (3,207,462) | 677,477 | 136,968 | (6,452,576) | (8,865,594) |

The decrease of deferred tax under the 'Investments in subsidiaries' item is due to the changes in the Company's investments held as a result of the purchase of 49.99% more of Politub, the investment as of the end of 2017 and 2018 being of 99.99% (2016: 50%).

The decrease of deferred tax under the 'Fiscal loss' item represents the deferred tax for the fiscal loss registered in the Teraplast SA subsidiary amounting to RON 4,940,007.

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12. PROPERTY, PLANT AND EQUIPMENT

| | Land RON | Buildings RON | Plant and equipment and vehicles RON | Installations and furniture RON | Tangible assets in progress RON | Total RON |
|--|-------------|------------------|---|---------------------------------------|--|--------------|
| COST | | | | | | |
| Balance as at 1 January 2017 | 11,478,397 | 61,838,472 | 184,640,358 | 1,492,854 | 4,089,305 | 263,548,186 |
| Increases: | 1,095,000 | 23,254,245 | 17,807,621 | 156,765 | 29,445,440 | 71,759,102 |
| Out of which: | | | | | | |
| Increases from the acquisition of Pollub Industria from the internal production of non-current assets | 1,095,000 | 5,205,210 | 10,270,811 | 35,471 | - | 16,606,492 |
| Transfers in / from non-current assets in progress | - | 5,505,670 | 18,307,861 | 72,946 | 2,855,664 | 2,855,664 |
| Transfers to non-current assets held for sale | (155,935) | (635,514) | - | - | (27,892,784) | (692,478) |
| Increases / (decreases) from value adjustments with impact on reserves | 144,534 | - | - | - | - | 144,534 |
| Disposals and other decreases | - | (2,352,901) | (1,856,703) | (44,135) | (308,000) | (4,411,742) |
| Balance as at 31 December 2017 | 12,560,955 | 94,670,179 | 219,086,297 | 1,684,258 | 6,342,961 | 330,344,600 |
| | | | | | | |
| Balance as at 1 January 2018 | 12,560,955 | 91,670,179 | 218,686,237 | 1,684,258 | 5,342,961 | 330,344,600 |
| Increases: | 2,337,508 | 7,558,282 | 28,344,831 | 1,075,638 | 20,360,756 | 59,670,018 |
| Out of which: | | | | | | |
| Increases from the acquisition of Depaco Group Industria from the internal production of non-current assets | 2,096,125 | 6,060,785 | 16,175,206 | 424,407 | 24,908 | 26,790,411 |
| Increases from the internal production of non-current assets | - | - | - | - | 1,437,450 | 1,437,450 |
| Transfers in / from non-current assets in progress | - | 1,751,837 | 9,410,807 | 127,407 | (11,309,736) | (10,684) |
| Transfers from investment / items | - | - | 49,884 | - | - | 49,884 |
| Transfers to non-current assets held for sale | (1,137,491) | (826,853) | - | - | - | (1,964,344) |
| Transfers from investment property | 598,425 | 672,201 | - | - | - | 1,270,626 |
| Decrease from valuation prior to the classification as assets held for sale with impact on reserves | (522,189) | (333,852) | - | - | - | (856,051) |
| Increases / (decreases) from value adjustments with impact on reserves | - | 155,326 | - | - | - | 155,326 |
| Disposals and other decreases | - | (2,555,094) | (14,684,417) | (210,937) | - | (17,449,899) |
| Balance as at 31 December 2018 | 13,832,216 | 98,640,028 | 242,216,342 | 2,677,936 | 14,393,963 | 371,160,508 |

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12. PROPERTY, PLANT AND EQUIPMENT (continued)

ACCUMULATED DEPRECIATION

Balance as at 1 January 2017

Depreciation recorded during the year
Disposals and decreases
Impairment
Transfers to non-current assets held for sale active
Balance as at 31 December 2017

Balance as at 1 January 2018

Depreciation recorded during the year
Disposals and decreases
Impairment
Transfers from inventory items
Balance as at 31 December 2018

NET CARRYING AMOUNT

Net carrying amount as at 1 January 2018
Net carrying amount as at 31 December 2018

| | Land RON | Buildings RON | Plant and equipment RON | Installations and furniture RON | Tangible assets in progress RON | Total RON |
|--|-------------|------------------|-------------------------------|--|--|--------------------|
| Balance as at 1 January 2017 | | | | | | |
| Balance as at 1 January 2017 | 346 | 4,054,395 | 124,800,786 | 995,443 | - | 129,850,624 |
| Depreciation recorded during the year | | 3,241,780 | 14,340,091 | 158,931 | - | 17,741,149 |
| Disposals and decreases | | (2,342,257) | (1,618,847) | (41,875) | - | (4,002,979) |
| Impairment | | (363,877) | 278,145 | - | 964,693 | 879,161 |
| Transfers to non-current assets held for sale active | | (39,263) | - | - | - | (39,263) |
| Balance as at 31 December 2017 | 346 | 4,660,778 | 137,800,175 | 1,112,499 | 964,693 | 144,428,691 |
| Balance as at 1 January 2018 | | | | | | |
| Balance as at 1 January 2018 | 346 | 4,550,778 | 137,800,175 | 1,112,499 | 964,693 | 144,428,691 |
| Depreciation recorded during the year | | 4,495,501 | 22,255,684 | 310,261 | - | 27,062,731 |
| Disposals and decreases | | (1,515,779) | (13,750,564) | (160,156) | - | (15,436,495) |
| Impairment | | (153,253) | 474,412 | - | 639,597 | 860,756 |
| Transfers from inventory items | | | 49,884 | - | - | 49,884 |
| Balance as at 31 December 2018 | 692 | 7,377,247 | 146,820,594 | 1,262,604 | 1,504,490 | 156,968,627 |
| NET CARRYING AMOUNT | | | | | | |
| Net carrying amount as at 1 January 2018 | 12,560,619 | 87,119,401 | 81,286,062 | 574,759 | 4,378,068 | 185,915,909 |
| Net carrying amount as at 31 December 2018 | 13,831,527 | 90,662,782 | 95,395,748 | 1,415,333 | 12,869,494 | 214,194,884 |

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12. PROPERTY, PLANT AND EQUIPMENT (continued)

The tangible assets purchased through leases include vehicles and equipment, as follows:

| | 31 December 2018 | 31 December 2017 |
|-----------------------|---------------------|---------------------|
| | RON | RON |
| Net value – vehicles | 1,891,654 | 1,566,813 |
| Net value – equipment | 436,966 | 1,935,867 |
| Total | 2,328,649 | 3,532,670 |

As at 31 December 2018, the Group has pledged in favor of financial institutions non-current assets and investment properties with a net carrying amount RON 93,640,578 (31 December 2017: RON 85,989,237).

The land and buildings were revalued as at 31 December 2016. The Group management decided they represented a single class of assets for fair value revaluation purposes under IFRS 13. This analysis took into consideration the characteristics and risks associated to the revalued properties.

As at 31 December 2017 and 2018, the management analyzed, with the assistance of an authorized valuator, whether a new revaluation of land and buildings was necessary. Because the differences between the fair value and the carrying amount would be insignificant, the management decided not to perform a new revaluation of the Group land and buildings.

In 2017, the Group signed a promise to sell certain assets held in Galati (land and buildings) with a net carrying amount RON 653,215. According to IFRS 5, these assets were reclassified as at 31 December 2017 from tangible assets into assets held for sale and were valued at the classification date at the lower of the net carrying amount and the fair value minus the cost to sell.

In 2018, the Group concluded a sale promise for assets held in Otopeni (land and buildings) having a net book value of RON 1,866,569. According to IFRS 5, these assets were reclassified as of 31 December 2018 from tangible assets into assets held for sale and they were measured at reclassification date at the lowest between the net book value and the fair value less the costs generated by the sale.

The impairment adjustments set in 2018 related to assets not used. As at 31 December 2018, the Group had specific recorded impairment adjustments for tangible assets in an amount RON 2,312,454 (2017: RON 3,093,889).

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13. INTANGIBLE ASSETS

| | Goodwill | Licenses and other intangible assets | Intangible assets in progress | Total |
|---|-------------------|--------------------------------------|-------------------------------|-------------------|
| Cost | | | | |
| Balance as at 1 January 2017 | - | 6,030,198 | 6,618 | 6,036,816 |
| Increases, out of which: | - | 482,832 | 287,110 | 769,992 |
| - Potitudo acquisition | - | 2,680 | - | 2,680 |
| - Transfers into / from tangible assets in progress | - | 290,831 | (290,831) | - |
| Disposals and other decreases | - | (17,542) | - | (17,542) |
| Balance as at 31 December 2017 | - | 6,786,169 | 3,097 | 6,789,266 |
| Balance as at 1 January 2018 | - | 6,786,169 | 3,097 | 6,789,266 |
| Increases, out of which: | 35,230,839 | 35,585,892 | 724,058 | 72,541,010 |
| Depaco acquisition, out of which: | 35,230,839 | 35,063,307 | - | 71,314,146 |
| - Goodwill | 35,230,839 | - | - | 35,230,839 |
| - Wetterbest brand | - | 27,351,076 | - | 27,351,076 |
| - Commercial relations | - | 7,427,844 | - | 7,427,844 |
| - Transfers into / from tangible assets in progress | - | 333,163 | (322,479) | 10,684 |
| Disposals and other decreases | - | (218,139) | - | (218,139) |
| Balance as at 31 December 2018 | 35,230,839 | 43,489,085 | 404,897 | 79,124,821 |
| Cumulated amortization | | | | |
| Balance as at 1 January 2017 | - | 4,665,213 | - | 4,665,213 |
| Amortization expense | - | 479,245 | - | 479,245 |
| Decreases | - | (17,542) | - | (17,542) |
| Balance as at 31 December 2017 | - | 5,126,916 | - | 5,126,916 |
| Balance as at 1 January 2018 | - | 5,126,916 | - | 5,126,916 |
| Amortization expense | - | 2,635,736 | - | 2,695,736 |
| Depaco acquisition | - | 503,772 | - | 503,772 |
| impairment | - | 56 | - | 56 |
| Decreases | - | (215,608) | - | (215,606) |
| Balance as at 31 December 2018 | - | 8,110,874 | - | 8,110,874 |
| Net carrying amount | | | | |
| As at 31 December 2017 | - | 1,659,253 | 3,097 | 1,662,350 |
| As at 31 December 2018 | 35,230,839 | 35,378,211 | 404,897 | 71,013,947 |

At the date of purchasing the majority package of Depaco SRL company, according to the valuation report issued by an external appraiser, in the fair value of the Depaco unit, the Wetterbest brand and the client relationships have also been recognized (for further details, see Note 15).

In the consolidated financial statements as of 31 December 2018, the intangible assets recognized as a result of purchasing Depaco SRL are included in other intangible assets.

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14. INVESTMENT PROPERTIES

Investment properties include the following items:

- The Group holds a piece of land and a building, located in Romana Street, Bistrita (previously used for the head office). Starting 2012, the final purpose of the land was to be held in order to obtain an increase in its value and to be subsequently materialized through sale. As a result, the land was classified in January 2012 as an investment property;
- The piece of land took over from SC Teracota Bistrita SRL (after it became bankrupt) located in Bistrita, Drumul Cetatii. Is held in order to obtain an increase in its value and to be subsequently materialized through sale. As a result, the land was classified in December 2012 as an investment property, being valued at fair value as of that date;
- The Group holds land and buildings (previously used as regional warehouses) in Constanta. In January 2013, the management decided that the final purpose of these land and buildings was to be held in order to obtain an increase and value and to be subsequently materialized through sale. As a result, the land and buildings were classified in 2013 as investment properties.

As at 31 December 2018 and 2017, the fair value of investment properties is based on the valuation report prepared by an independent valuator and the impact of this valuation was charged to the profit and loss account. The valuation methods used are compliant with the International Valuation Standards.

For land, the valuation performed considered the market comparison approach, as follows:

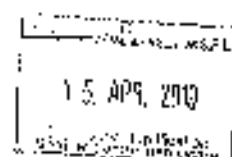
Price per square meter for land range EUR 15 - 135 / sq. m.

Fair value of buildings resulting from the income approach as follows:

Rent for industrial and commercial premises EUR 2.5 - 5.5 /sq. m.
 Non occupancy rate for logistic and industrial premises 10 - 15 %
 Average rate of return for Category II Cities 9 - 10 %
 Average rate of return for Category III Cities 9.5 - 10.5%

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|--|-----------------------------------|-----------------------------------|
| | RON | RON |
| Opening balance at 1 January | 9,791,568 | 9,765,015 |
| Additions / (disposals) | (1,221,827) | 36,888 |
| Net variation from valuation of investment properties at fair value (Note 7) | (245,662) | 335 |
| Closing balance at 31 December | 8,324,079 | 9,791,568 |

In June 2018, the space in Oradea which, as of December 2017, was included in the 'investment property' balance sheet item was reclassified under "Tangible assets" as a result of the fact that the Company decided to recommence the operating activity in this location. As a result, the 'investment property' balance sheet item registered a decrease of approximately RON 1,200 thousand.



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*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)***15. SUBSIDIARIES AND OTHER FINANCIAL INVESTMENTS**

As at 31 December 2018 and 31 December 2017, the parent holds the following investments:

| Subsidiary | Place of set-up and of operations | Main activity | Holding percentage 31 December 2018 (%) | Holding percentage 31 December 2017 (%) |
|------------------------|-----------------------------------|------------------------------------|---|---|
| Terasteel SA Bistrita | Romania | Heat insulating panel production | 97.95 | 97.95 |
| Teraglass Bistrita SA | Romania | Heat insulating joinery production | 100 | 100 |
| Poitub SA | Romania | Polyethylene pipes production | 99.99 | 99.99 |
| Teraplast Logistic SRL | Romania | Logistical services | 99 | 99 |
| Teraplast Hungaria | Hungary | Distributor | 100 | 100 |
| Terasteel DOO Serbia | Serbia | Heat insulating panel production | 100 | 100 |
| Depaco SRL | Romania | Metal tile production | 99 | 50 |
| Cortina WTB SRL | Romania | Metal tile production | 51 | - |

During 2017 and, respectively, 2018, the following changes took place in the Company's investments:

1. Depaco SRL

On 1 March 2017 Teraplast has concluded a contract with the shareholders of Depaco SRL to purchase 50% of its capital shares. Subsequently, Teraplast acquired another 17% of the Depaco SRL shares, the investment being disclosed in the Statement of Financial Position under Other financial assets. As at 31 December 2017, this shareholding was not recorded with the Trade Register, therefore control over Depaco is joint with the other shareholders.

The transaction was completed after its approval by the Shareholders' General Meeting of Teraplast SA and after receiving the approval of the Romanian Competition Council.

Following the approval from the Competition Council for the sole control over Depaco, in January 2018, the Depaco group is being consolidated into the financial statements through the global method.

In November 2017, Teraplast has concluded a sale-purchase promise with the minority shareholders of Depaco, for the rest of their investment up to 99% of the company as mentioned in Note 3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS, even though, based on the contractual clauses, the transaction will be carried out in 4 years at most, at the date of taking control, Teraplast has recognized as a liability the obligation resulting from this contract and the value of the option as part of the purchase price. Consequently, for consolidation purposes, the minority interests are 1% of Depaco group's net consolidated asset purchased.

Depaco is the second largest player on the Romanian metallic tile market through the Waterbest brand. Depaco group comprises the Depaco SRL company and the Cortina WTB SRL company, with a holding percentage by Depaco SRL of 51%.

The Group assesses the value of minority interests proportionally from the fair value of the net asset of the consolidated companies.

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15. SUBSIDIARIES AND OTHER FINANCIAL INVESTMENTS (continued)

As a result of the purchase of 67% of the shares and of the sale-purchase promise mentioned above, the group consolidates the Depaco sub-group considering an investment of 99% from the acquisition date. Following the consolidation of the Depaco sub-group, the Group has registered goodwill amounting to RON 35,230,838, as positive difference between the consideration paid and, respectively, deferred and the fair value of the net assets taken from the summarized financial information of the subsidiary Depaco SRL at the date of obtaining control, namely 1 January 2018, are presented below:

The fair value of the assets purchased and liabilities undertaken at acquisition date

| | 31 December 2017 |
|---|-----------------------------|
| Intangible assets | 35,578,300 |
| Tangible assets | 25,764,107 |
| Financial investments | 947,518 |
| Inventories | 41,107,981 |
| Trade and other receivables | 16,003,341 |
| Prepayments | 245,558 |
| Cash and bank accounts | 884,216 |
| Long-term liabilities | 9,726,945 |
| Current liabilities | 10,267,578 |
| Total net identifiable assets, at fair value | 70,556,559 |

The estimation of the market value of Depaco SRL at the date of obtaining control was based on applying the DCF method, for which the main working assumptions include the budgeted EBITDA, the increase rates, the operating margins, the needs of working capital and the discount rates, for a forecast period of 7 years.

The fair value of the assets and liabilities obtained at purchase date, as well as the fair value of the subsidiary Depaco SRL, were determined by an independent appraiser. Fair value adjustments were deemed necessary, as follows:

Intangible assets

The estimation of the fair value of the intangible assets held by Depaco and registered in the Company's balance sheet as of the valuation date was set at the level of their net book value.

In addition to the existing intangible assets, intangible assets not registered in the Company's balance sheet at the valuation date were identified, as follows:

- **Waterbest Brand:** the valuation of the brand amounting to RON 27,351,076 was done through the royalty economy method, with an estimated useful life of 20 years, being a brand with a consolidated market position, operating in a stable business field;
- **Client lists:** the valuation of the client lists amounting to RON 7,427,844, was performed through the surplus economic benefits method as being the discounted cash flow value attributable to the intangible asset after the decrease of the cash flows attributable to other assets, with an estimated useful life of 20 years, on the grounds of a rigorous analysis of the rates of return, rates of retention and, respectively, fluctuation.

15. SUBSIDIARIES AND OTHER FINANCIAL INVESTMENTS (continued)

Tangible assets

The valuation of land and buildings was based on the market comparison method, while for the evaluation of improvements, of equipment for which there is insufficient information on the market to be able to estimate market value, the estimation of the net replacement cost was aimed at within the cost approach.

The fair value of the tangible assets as of the purchase date was considered as being RON 25,794,107, RON 191,946 lower as compared to their net book value as of the purchase date amounting to RON 25,986,052.

Financial investments

Depaco holds 51% of the capital shares of Cortina WTB SRL, established in 2013, with a book value of RON 5,100. The main activity of Cortina is represented by the production and commercialization of the roofing systems, serving the South-Eastern part of Romania.

As of the purchase date, equities registered in the financial statements of Cortina WTB amounted to RON 1,857,879. Therefore, as of the purchase date, the fair value of the 51% investment held in Depaco amounts to RON 947,518.

The fair value of the assets purchased and liabilities undertaken at the date of purchase – Cortina

| | 31 December 2017 |
|--|-----------------------------|
| Total assets | 3,881,646 |
| Tangible assets | 936,305 |
| Intangible assets | 1,175 |
| Inventories | 1,433,103 |
| Trade and other receivables | 1,501,333 |
| Prepayments | 14,319 |
| Cash and short-term deposits | 135,412 |
| Total liabilities | (2,023,767) |
| Long-term liabilities | (127,239) |
| Current liabilities | (1,896,528) |
| Net book assets | 1,857,879 |
| Equity, out of which: | 1,857,879 |
| Total equity attributable to Depaco SRL (51%) | 947,518 |
| Equity attributable to non-controlling interests (49%) | 910,361 |

Current assets

As a result of the valuation report, the net book value of inventories, trade receivables, other receivables, prepayments and cash and cash equivalents represent a reliable estimation of the fair value of these assets at the valuation date.

15. SUBSIDIARIES AND OTHER FINANCIAL INVESTMENTS (continued)

Current liabilities and long-term liabilities

The net book values of current liabilities and of long-term liabilities are considered to reflect their fair value at the date of valuation.

As a result of the business valuation, in the valuation report, a deferred tax amounting to RON 5,715,414 was assessed, based on the difference between the current taxable value of the assets and the taxable value after identifying the brand, the client relations and the adjustments of the value of financial non-current assets by applying the legal taxation rate.

The value of the consideration at the date of obtaining the control

The fair value of the consideration at the date of purchase is represented by:

- a) The purchase price paid for the investment of 67% amounting to EUR 12,350,000, respectively RON 56,554,457, and
- b) The fair value of the deferred consideration for the additional investment of 32% of at least EUR 10,000,000, respectively RON 48,527,375.

At the date of obtaining the control, 5 January 2018, the fair value of the consideration paid for the initial investment purchased in 2017 did not suffer any changes in relation to the book value of the investment.

The value of the deferred consideration was not reflected as of 31 December 2017 in the Group balance sheet since its exercise was also conditioned by the favorable agreement of the Competition Council for sole control.

As of 31 December 2018, the Group has recognized under the „Long-term liabilities” balance sheet position the discounted value of the liability the Company committed to pay according to this long-term understanding and the consideration for the capital shares it is entitled to according to the Promise on November 2017 was treated as being considered deferred, for purchasing the 32% investment.

The fair value of the consideration agreed for a minimum price of EUR 10,000,000, correlated with Depaco's results in the following years was determined as being the present value of the cash flows forecast for Depaco, during the agreed 4-year horizon, in relation to the additional investment of 32%.

As of 31 December 2018, the value of the deferred consideration for the additional investment of 32% was restated at fair value, on the basis of the same reasoning, obtaining an expense in profit and loss of RON 494,682.

1 January 2018

The fair value of the promise for the 32% investment
 Financial expenses resulted from discounting the fair value

(48,527,375)

(494,682)

31 December 2018

(49,022,037)

Allocation of the purchase price

In accordance with IFRS 3, in case of a business combination, the obtainer will recognize the goodwill and, respectively, the gains from an advantageous purchase at the acquisition date, computed as difference between the sum of the items (a-c) and (d):

- (a) The fair value of the consideration transferred at the acquisition date;
- (b) The fair value of any minority interests in the entity obtained as of the acquisition date;
- (c) The fair value of the investment in the equity held previously by the obtainer in the obtained entity as of the acquisition date – not applicable;
- (d) The fair value of the assets obtained and liabilities undertaken at the acquisition date.

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15. SUBSIDIARIES AND OTHER FINANCIAL INVESTMENTS (continued)

| | <u>31 December 2017</u> |
|---|-----------------------------|
| The consideration transferred in exchange for the 50% investment | 39,163,540 |
| The consideration transferred in exchange for the 17% investment | 17,456,626 |
| The consideration transferred in exchange for the 32% investment | 48,527,375 |
| The fair value of the total consideration of 99% | <u>105,081,832</u> |
| | |
| The fair value of the minority interests (1% of the net asset fair value) | 795,566 |
| The fair value of the subsidiary at acquisition date | <u>105,787,398</u> |
| | |
| The net book value of the purchased assets | 70,556,559 |
| | |
| Goodwill obtained at acquisition | <u>35,230,839</u> |

As of 31 December 2018, goodwill was tested for impairment, more information being disclosed in Note 3.

The costs related to the acquisition transaction of the investment in Depaco SRL were recognized directly in profit and loss when incurred. They represented financial, legal and notary advisory services carried out for finalizing the transaction and they were recognized in other expenses with services provided by third parties (Note 10). The entire amount related to the acquisition (contingency and expenses) of RON 53,554 thousand was paid as of the balance sheet date (from this amount, the amount of RON 7,215,405 was paid in 2018, the rest being transferred in 2017).

Starting with the date of taking control and until 31 December 2018, Depaco Group contributed a turnover of RON 221,000 thousand and a gross profit of RON 7,335 thousand to the Group's results.

2. Politub SA

The Group held until September 2017 50% of the shares of a jointly controlled entity, i.e. Politub SA, having head office in Bistrita, Romania. Starting October 2017, Teraplast SA became the majority shareholder of Politub SA, with an investment of 99.99%.

Following the takeover of Politub SA, company handling the production of medium and high density polyethylene pipes for water and natural gas transport/transmission and distribution networks, but also for telecommunications, sewerage systems or irrigations, the Group is able to provide the entire range of pipes for constructions and infrastructure.

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16. SUBSIDIARIES AND OTHER FINANCIAL INVESTMENTS (continued)

The fair value of the assets and liabilities of Politub SA at acquisition date was:

| | <u>30 September 2017</u> |
|--|------------------------------|
| Non-current assets | 17,131,500 |
| Inventories | 5,138,803 |
| Trade and other receivables | 10,173,450 |
| Cash and cash equivalents | 2,842,665 |
| Total | <u>35,386,418</u> |
| Trade and other payables | 9,829,495 |
| Provisions | 503,975 |
| Total | <u>10,433,472</u> |
| Total net asset at fair value | 24,956,026 |
| The fair value of 50% of the net assets purchased | 12,477,513 |
| Purchase cost for the rest of 50% | 11,432,250 |
| Negative goodwill | <u>1,046,263</u> |
| The fair value of the investment premium of 50% | 12,477,513 |
| The book value of the investment of 50% | 11,016,673 |
| Gain from the valuation of the initial investment | <u>1,460,841</u> |

From the date of taking over the control and until 31 December 2017, Politub SA has contributed with a turnover of RON 6,982 thousand and a gross profit of RON 114 thousand to the Group's results. Had Politub SA been taken over at the beginning of the financial year, it would have contributed a turnover of RON 29,195 thousand and a gross loss of RON 1,713 thousand to the Group's results.

The transaction has generated costs of approximately RON 332 thousand related to financial, legal consulting and other notary services provided for completing the transaction. They were recognized in other third party services (Note 10). The entire amount related to the acquisition (consideration and expenses) of RON 11,432 thousand was paid at the balance sheet date and there are no other commitments or contingencies related to this transaction. The gain obtained from the transaction was owed to the wish of the former partner to leave the Romanian market, as it is no longer a market of interest.

Other long-term financial investments

Data concerning other financial investments of Teraplast SA are the following:

| Investment name | Country | Investment | 31 December | Investment | 31 December |
|---|---------|------------|----------------------|------------|----------------------|
| | | share | 2018 | share | 2017 |
| | | % | RON | % | RON |
| CER (IND) SA | Romania | 7.50 | 14,400 | 7.5 | 14,400 |
| Partnership for sustainable development | Romania | 7.14 | 1,000 | 7.14 | 1,000 |
| Teze Tools SRL | Romania | 24 | 72 | 24 | 72 |
| The Association of Metal Panels Producers | Romania | 11.11 | 1,000 | 11.11 | 1,000 |
| | | | <u>16,472</u> | | <u>16,472</u> |

The CERTIND Company is an independent certification body accredited by the Greek Accreditation Body – ESYD for the following certification services: certification of quality management systems according to ISO 9001, certification of environment management systems according to ISO 14001, certification of food safety management systems according to ISO 22000.

15. SUBSIDIARIES AND OTHER FINANCIAL INVESTMENTS (continued)

Teraplast SA did not undertake any obligations and did not make any payment on behalf of the entities in which it holds securities in the form of investments.

The other Group companies do not have any financial investments.

16. JOINTLY-CONTROLLED ENTITY

As of 31 December 2017, the Group held 50% of the share capital of the Depaco SRL company.

The investment in Depaco SRL was initially recognized at purchase cost. The value of the investment is adjusted as of 31 December 2017 to recognize the investment of Teraplast Group in the result of the associate at the purchase date.

Following the purchase of the initial investment of 50% in Depaco SRL a goodwill of RON 19,512,484 was included in the investment value. The Group management did not identify impairment indicators concerning the Depaco SRL investment. At the date of taking control over Depaco SRL, following the valuation of the initial 50% investment, no losses or gains were recorded, the fair value of the investment in Depaco as of 31 December 2017 being equal to the book value.

Starting January 2018, Depaco SRL is consolidated as a subsidiary through the global method.

The summary financial information of the jointly controlled entity, Depaco SRL, as of 31 December 2017, based on the IFRS financial statements and the reconciliation with the balance of the investments according to the consolidated financial statements are detailed below:

Balance Sheet

| | 31 December 2017 |
|--|-----------------------------|
| | RON |
| Non-current assets | 29,318,520 |
| Current assets, including cash and short-term deposits | 60,237,819 |
| Current liabilities | 40,552,664 |
| Long-term liabilities | 7,372,412 |
| Total equity | 41,631,261 |
| Group's interest in jointly-controlled entity | 50% |
| Group share in the net assets of the joint venture | 20,815,631 |

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16. JOINTLY-CONTROLLED ENTITY and ASSOCIATED ENTERPRISE (continued)

| Profit and loss account | Depaco | Politub |
|---|---------------------------------|-------------------------------------|
| | 1 July – 31 December 2017 | 1 January – 30 September 2017 |
| | RON | RON |
| Revenue | 113,204,308 | 22,185,655 |
| Cost of goods sold and of services rendered | (100,325,188) | (21,375,366) |
| General administration expenses | (9,279,852) | (2,460,161) |
| Financial loss | (345,887) | (72,871) |
| Profit / (loss) before tax | 3,708,513 | (1,712,333) |
| Income tax expense | (383,543) | - |
| Profit / (loss) for the year | 2,869,627 | (1,712,333) |
| Group's interest in jointly-controlled entity | 50% | 50% |
| Group's share of the joint venture's profit | 1,430,313 | (856,166) |
| Group's share of the joint venture's comprehensive income | - | - |
| Effect on the Investment value | 1,430,313 | (856,166) |

17. INVENTORIES

| | 31 December 2018 | 31 December 2017 |
|---|---------------------|---------------------|
| | RON | RON |
| Finished goods | 40,509,328 | 25,576,825 |
| Raw materials | 55,406,294 | 32,803,781 |
| Commodities | 7,047,070 | 3,881,049 |
| Consumables | 2,655,109 | 2,341,898 |
| Inventory items | 234,237 | 203,891 |
| Semi-finished goods | 711,610 | 824,458 |
| Residual products | 288,142 | 148,219 |
| Goods to be purchased | 1,212,587 | 1,035,580 |
| Packaging | 189,869 | 142,225 |
| Inventories – gross value | 108,254,247 | 73,349,461 |
| | | |
| | 31 December 2018 | 31 December 2017 |
| | RON | RON |
| Value adjustments for raw materials and consumables | (2,168,156) | (2,714,316) |
| Value adjustments for finished products | (4,730,950) | (2,718,773) |
| Value adjustments for merchandise | (890,543) | (857,745) |
| Total value adjustments | (7,789,649) | (6,290,834) |
| Total inventories – net value | 100,464,598 | 67,058,627 |

The value adjustments are made for all categories of inventory (see above), using both general methods and specific methods according to their age and analyses on the chances to use them in the future. The categories of inventories with the age of one year or above which did not have any movements in the past year are 100% adjusted.

The Group's inventories are pledged in favor of financing banks.

18. TRADE AND OTHER RECEIVABLES

| Short-term receivables | 31 December 2018 RON | 31 December 2017 RON |
|--|-------------------------------------|-------------------------------------|
| Trade receivables | 133,856,312 | 101,495,325 |
| Advances paid to suppliers of assets | 6,404,825 | 3,233,906 |
| Advances paid to suppliers of inventories and services | 1,528,976 | 1,463,081 |
| Other receivables | 10,766,819 | 5,513,725 |
| Adjustments for trade receivables impairment | (25,086,230) | (21,939,056) |
| Total | 127,460,704 | 89,766,981 |

Other receivables include the amount of RON 8,240,821 (2017: RON 4,529,020) representing VAT recoverable (Teraglass Bistrita SRL, Terasteel Doo Serbia, Teraplast Logistic SRL, Depaco SRL).

The changes in adjustment for impairment on doubtful receivables

| | 31 December 2018 RON | 31 December 2017 RON |
|--|-------------------------------------|-------------------------------------|
| Balance at the beginning of the year | (21,939,056) | (18,206,487) |
| Receivables transferred to expenses during the year | 840,853 | 1,101,303 |
| Impairment adjustment charged to profit and loss for trade receivables | (1,050,481) | (188,852) |
| Purchase of shareholder control | (2,747,037) | (4,645,980) |
| Balance at the end of year | (25,086,230) | (21,939,056) |

When determining the recoverability of a receivable, the Group takes into consideration any change in the crediting quality of the concerned receivable starting with the credit granting date until the reporting date. The concentration of the credit risk is limited taking into consideration that the client base is large, but they are not related to each other. As a result, the Group management is of the view that no adjustment for impairment for credits is needed in addition to the adjustment for doubtful receivables.

The Group's receivables are pledged in full in favor of the financing banks.

The reconciliation between the balance of the adjustment for impairment registered as of 31 December 2017 according to IAS 39 and the balance as of 1 January 2018 according to IFRS 9, as well as the evolution of adjustments for impairment for trade receivables during the year is as follows:

| | Trade receivables | Other receivables |
|---|------------------------------|------------------------------|
| 1 January 2018, in accordance with IAS 39 | 21,691,657 | 247,499 |
| (Revenue) / expense in profit and loss | (177,120) | 77,258 |
| Net revaluation of expected losses from receivables | 510,000 | - |
| Acquisition of Depaco control | 2,100,451 | 646,576 |
| 31 December 2018 | 24,124,898 | 971,333 |

19. ASSETS HELD FOR SALE

| | 31 December 2018 | 31 December 2017 |
|---|-----------------------------|-----------------------------|
| Opening balance as of 1 January | 653,215 | - |
| Inputs through transfers from tangible non-current assets | 1,865,660 | 553,215 |
| Outputs through sale | 653,215 | - |
| Closing balance as of 31 December | 1,865,660 | 653,215 |

In 2017, the Company reclassified the assets held in Galati (land and buildings) with a net book value of RON 653.215 from tangible assets into assets held for sale and were measured at the reclassification date at the lowest between the net book value and the fair value minus the costs generated by the sale. These assets were sold in 2018, generating a profit of RON 185,897.

In 2018, the Company has reclassified its assets held in Otopeni (land and buildings of tangible assets into assets held for sale) and they were measured at reclassification date at the lowest value between the net book value and the fair value less the costs generated by the sale.

20. SHARE CAPITAL

| | 31 December 2018 RON | 31 December 2017 RON |
|----------------------------|-------------------------------------|-------------------------------------|
| Common shares paid in full | 107,024,527 | 85,691,097 |
| Total | 107,024,527 | 85,691,097 |

As at 31 December 2018, the value of the share capital called-up and paid up of the Company included 1,070,245,274 (2017: 856,910,970) authorized shares, issued and paid in full, at a value RON 0.1 and having a total nominal value of RON 107,024,527 (2017: RON 85,691,097). Common shares bear a vote each and give the right to dividends.

On 12 December 2018, the Financial Supervisory Authority has issued the Security Registration Certificate no. AC-3420-7/12.12.2018 related to the share capital increase approved through the decision of the Shareholders' General Extraordinary Meeting of Teraplast SA no. 1 from 27 April 2018, with the amount of RON 21,333,483, through the issuance of 213,334,304 new shares, having a nominal value of RON 0.1 / share

On 3 July 2017, the Financial Supervisory Authority has issued the Securities Registration Certificate no. AC-3420-5/03.07.2017 related to the increase of the share capital approved through the Decision of the Extraordinary Shareholders' General Meeting of Teraplast SA no.1 from 27 April 2017, with the amount of RON 29,047,831, through the issue of 290,478,310 new shares, having a nominal value of RON 0.1 / share

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20. SHARE CAPITAL (continued)

Shareholding structure

| | 31 December 2018 | | 31 December 2017 | |
|---|----------------------|-------------|--------------------|-------------|
| | Number of shares | % ownership | Number of shares | % ownership |
| Goia Dorel | 501,197,059 | 46.83 | 400,857,648 | 46.79 |
| Viciu Emanoil | 39,447,752 | 3.59 | 38,004,202 | 4.44 |
| Marley Magyarorszag (Garnecplast Szekszard) | 64,859,730 | 7.93 | 67,886,984 | 7.92 |
| KJK BALKAN HOLDING S.a.r.l. | 107,530,688 | 10.05 | - | - |
| KJK Fund II Sicav-SIF | - | - | 86,024,551 | 10.04 |
| FONDUL DE PENSII ADMINISTRAT PRIVAT NN / NN PENSII S.A.F.P.A.P. S.A. | 71,305,117 | 6.66 | 57,044,094 | 6.66 |
| LCS IMOBILIAR SA | 38,619,285 | 3.61 | 27,222,044 | 3.18 |
| Other individuals and legal entities | 227,266,643 | 21.24 | 179,771,447 | 20.98 |
| Total | 1,070,245,274 | 100 | 856,910,970 | 100 |

Treasury shares

| | thousands | RON |
|---|-----------|-----------|
| As of 31 December 2017 | 1,663 | 563,396 |
| Repurchase of own shares, net of exercising the options | 1,908 | 609,28 |
| As of 31 December 2018 | 3,571 | 1,472,925 |

The share options exercised each year have been settled using the Company's treasury shares. The reduction of the equity component represented by treasury shares is equal to the cost covered to purchase the shares.

21. LEGAL RESERVES

| | 31 December 2018 | 31 December 2017 |
|---------------------------------------|-------------------|-------------------|
| | RON | RON |
| Opening balance | 13,939,022 | 12,407,036 |
| Increases / (decreases) in the period | 1,577,142 | 1,531,986 |
| Total | 15,516,164 | 13,939,022 |

The legal reserve is used for transferring the profits to retained earnings. According to the Romanian legislation, a transfer from the net profit of the Group is needed. The transfer may account up to 5% of the profit before tax, until the reserve becomes 20% of the share capital.

The reserve cannot be distributed to the shareholders, but it may be used in order to absorb operating losses, and, in this case, it becomes taxable starting the date when it was set. The management does not intend to use the legal reserve in order to cover accounting losses carried forward.

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22. NON-CONTROLLING INTERESTS

| | 31 December 2018 RON | 31 December 2017 RON |
|--|----------------------------|----------------------------|
| Balance at the beginning of the year | 489,480 | 334,698 |
| Result for the year | 760,684 | 332,509 |
| Dividends | (1,101,838) | (191,848) |
| Acquisition of non-controlling interests | 1,615,528 | - |
| Other items | 201,005 | 14,121 |
| Balance at the end of year | <u>1,965,468</u> | <u>480,480</u> |

As of 31 December 2017, non-controlling interests consist of 2.05% holdings in Terasteel SA and, as of 31 December 2018, non-controlling interests consist of 2.08% holdings in Terasteel SA, 1% in Depaco SRL and 49% in Cortina WTB SRL.

23. LOANS

| | Short-term | | Long-term | |
|-------------------|---------------------|---------------------|---------------------|---------------------|
| | 31 December 2018 | 31 December 2017 | 31 December 2018 | 31 December 2017 |
| Perishe Bank | - | 41,308 | - | 7,392 |
| Transilvania Bank | 71,361,905 | 53,945,647 | 67,767,841 | 74,262,300 |
| Reiffeisen Bank | 32,608,025 | 3,741,922 | - | - |
| UniCredit Bank | 12,957,716 | - | 2,703,823 | - |
| Citi Bank | 5,724,129 | - | - | - |
| ING Bank | 343,466 | - | - | - |
| Leases | 874,819 | 1,049,228 | 1,136,359 | 606,366 |
| Total | <u>123,467,890</u> | <u>68,778,393</u> | <u>71,698,023</u> | <u>74,968,047</u> |

The classification of loans according to the currencies is as follows:

| Currency | 2018 | 2017 |
|----------|--------------------|--------------------|
| EUR | 14,986,832 | - |
| RON | 120,053,281 | 133,740,440 |
| Total | <u>135,040,113</u> | <u>133,740,440</u> |

The distribution of bank loans per companies is as follows:

| | Short-term | | Long-term | |
|-------------------------|---------------------|---------------------|---------------------|---------------------|
| | 31 December 2018 | 31 December 2017 | 31 December 2018 | 31 December 2017 |
| Teraplast SA | 58,049,805 | 42,476,727 | 67,213,258 | 73,084,383 |
| Terasteel SA | 27,837,494 | 14,359,779 | - | 534,517 |
| Toreglass Bietritia SRL | 2,678,585 | 850,681 | 538,583 | 650,792 |
| Depaco SRL | 24,171,789 | - | 2,504,454 | - |
| Terasteel Doo Serbia | 9,868,193 | - | - | - |
| Cortina WTB SRL | 90,313 | - | 199,360 | - |
| Total | <u>122,792,271</u> | <u>57,726,187</u> | <u>70,461,654</u> | <u>74,269,692</u> |

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23. LOANS (continued)

Bank loans as of 31 December 2018 are the following:

Teraplast SA

| Financing bank | Financing type | Date granted | On balance as of 31 December 2017 | On balance as of 31 December 2018 | Short-term as of 31 December 2018 | Long-term as of 31 December 2018 | Period |
|-------------------|-----------------|--------------|---|---|---|--|-----------|
| Transilvania Bank | Working capital | 07.06.2017 | 25,969,802 | 28,059,730 | 28,059,730 | - | 12 MONTHS |
| Transilvania Bank | Investments | 20.04.2017 | 12,043,405 | 15,035,639 | 2,768,495 | 12,267,144 | 84 MONTHS |
| Transilvania Bank | Investments | 07.06.2017 | 32,900,000 | 28,200,000 | 4,700,000 | 23,500,000 | 84 MONTHS |
| Transilvania Bank | Investments | 19.07.2017 | 15,863,634 | 14,411,254 | 2,963,303 | 11,747,950 | 84 MONTHS |
| Transilvania Bank | Investments | 24.07.2017 | 4,844,469 | 3,824,857 | 1,101,327 | 2,723,529 | 60 MONTHS |
| Transilvania Bank | Investments | 31.07.2017 | 10,730,255 | 8,345,754 | 2,403,072 | 5,942,682 | 60 MONTHS |
| Transilvania Bank | Investments | 07.11.2017 | 9,832,528 | 7,823,000 | 1,965,000 | 5,865,000 | 60 MONTHS |
| Transilvania Bank | Investments | 04.04.2018 | - | 6,230,303 | 1,057,351 | 5,172,953 | 12 MONTHS |
| Raffaelsen Bank | Working capital | 01.07.2017 | 3,741,922 | 14,239,615 | 14,239,615 | - | 48 MONTHS |
| Porsche Bank | Investments | 31.03.2015 | 33,835 | - | - | - | - |
| TOTAL | | | 115,417,664 | 126,167,153 | 58,948,695 | 67,218,458 | |

Terasteel SA

| Financing bank | Financing type | Date granted | On balance as of 31 December 2017 | On balance as of 31 December 2018 | Short-term as of 31 December 2018 | Long-term as of 31 December 2018 | Period |
|-------------------|-----------------|--------------|---|---|---|--|-----------|
| Transilvania Bank | Working capital | 08.07.2018 | 13,737,396 | 18,002,763 | 18,002,763 | - | 12 MONTHS |
| Transilvania Bank | Investments | 30.11.2017 | 1,141,841 | 534,516 | 534,516 | - | 12 MONTHS |
| Raffaelsen Bank | Working capital | 31.05.2018 | - | 9,000,216 | 9,000,216 | - | 12 MONTHS |
| Porsche Bank | Investments | 23.12.2014 | 14,858 | - | - | - | 12 MONTHS |
| TOTAL | | | 14,894,295 | 27,537,494 | 27,537,494 | - | |

English translation is for information purposes only. Romanian language text is the official text for submission.

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23. LOANS (continued)

Teraglass Bistrita SRL

| Financing bank | Financing type | Date granted | On balance as of 31 December 2017 | On balance as of 31 December 2018 | Short-term as of 31 December 2018 | Long-term as of 31 December 2018 | Period |
|-------------------|-----------------|--------------|-----------------------------------|-----------------------------------|-----------------------------------|----------------------------------|-----------|
| Transilvania Bank | Working capital | 07.12.2017 | 576,245 | 2,493,585 | 2,493,585 | - | 12 MONTHS |
| Transilvania Bank | Investments | 07.12.2017 | 356,208 | 724,583 | 165,000 | 539,583 | 60 MONTHS |
| TOTAL | | | 1,544,453 | 3,218,168 | 2,676,586 | 539,583 | |

Depaco SRL

| Financing bank | Financing type | Date granted | On balance as of 31 December 2017 | On balance as of 31 December 2018 | Short-term as of 31 December 2018 | Long-term as of 31 December 2018 | Period |
|-------------------|-----------------|--------------|-----------------------------------|-----------------------------------|-----------------------------------|----------------------------------|-----------|
| UniCredit Bank | Investments | - | 232,812 | 26,317 | 21,236 | - | 48 MONTHS |
| UniCredit Bank | Investments | 26.05.2017 | 1,876,283 | 1,230,674 | 778,287 | 450,194 | 20 MONTHS |
| UniCredit Bank | Investments | 20.04.2016 | 879,844 | 580,994 | 296,502 | 257,436 | 60 MONTHS |
| UniCredit Bank | Investments | 28.05.2015 | 223,046 | 42,655 | 42,655 | - | 48 MONTHS |
| UniCredit Bank | Investments | 28.02.2018 | - | 1,796,821 | - | 1,796,821 | 48 MONTHS |
| UniCredit Bank | Working capital | 06.02.2012 | 128,490 | - | - | - | 48 MONTHS |
| UniCredit Bank | Working capital | 17.01.2017 | 4,360,362 | 3,497,925 | 3,497,925 | - | 12 MONTHS |
| UniCredit Bank | Working capital | 25.02.2011 | - | 3,969,081 | 3,969,081 | - | 24 MONTHS |
| Transilvania Bank | Working capital | 14.12.2016 | 104,468 | 4,261,625 | 4,261,625 | - | 12 MONTHS |
| Transilvania Bank | Working capital | 20.02.2018 | - | 23,216 | 22,505 | - | 23 MONTHS |
| CIT Bank | Working capital | 29.05.2016 | - | 5,213,545 | 5,213,545 | - | 12 MONTHS |
| ING Bank | Working capital | 07.04.2016 | 806,827 | 5,724,129 | 5,724,129 | - | 12 MONTHS |
| TOTAL | | | 8,792,151 | 25,676,243 | 24,171,789 | 2,504,454 | |

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23. LOANS (continued)

Terasteel d.o.o Serbia

| Financing bank | Financing type | Date granted | On balance as of 31 December 2017 | On balance as of 31 December 2018 | Short-term as of 31 December 2018 | Long-term as of 31 December 2018 | Period |
|------------------------|-----------------|--------------|-----------------------------------|-----------------------------------|-----------------------------------|----------------------------------|-----------|
| Reiffeisen Bank Serbia | Working capital | 10.04.2018 | - | 9,328,726 | 9,328,728 | - | 12 MONTHS |
| TOTAL | | | - | 9,328,726 | 9,328,728 | - | |

Curtina WTB SRL

| Financing bank | Financing type | Date granted | On balance as of 31 December 2017 | On balance as of 31 December 2018 | Short-term as of 31 December 2018 | Long-term as of 31 December 2018 | Period |
|----------------|-----------------|--------------|-----------------------------------|-----------------------------------|-----------------------------------|----------------------------------|-----------|
| UniCredit Bank | Investments | 01.06.2015 | 120,209 | 58,973 | 53,973 | - | 60 MONTHS |
| UniCredit Bank | Investments | 01.06.2016 | 89,380 | 52,751 | 35,347 | 16,411 | 60 MONTHS |
| UniCredit Bank | Investments | 28.02.2018 | - | 182,958 | - | 182,958 | 60 MONTHS |
| UniCredit Bank | Working capital | 09.02.2014 | - | - | - | - | 12 MONTHS |
| TOTAL | | | 209,589 | 289,682 | 90,319 | 16,411 | |

The financial covenants agreed with the main financing bank, Banca Transilvania, were met as of 31 December 2018.

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24. EMPLOYEE BENEFIT LIABILITIES AND PROVISIONS

The Group has established a benefit plan according to which the employees are entitled to receive retirement benefits according to the seniority within the Group when they turn the retirement age of 65 for men and of 61 for women. There are no other post-retirement employee benefits.

The provision represents the present value of the retirement benefit as calculated on an actuarial basis. The discount rate is the curve of the RON interests with no adjustments provided by EICPA until December 2018. The future salary increases are estimated on the long-term at 0.5% and, in the first 6 years, at 1%.

| | Short-term | | Long-term | |
|-----------------------------------|------------------|------------------|------------------|------------------|
| | 31 December 2018 | 31 December 2017 | 31 December 2018 | 31 December 2017 |
| | RON | RON | RON | RON |
| Employee benefits | | | 724,849 | 320,838 |
| Provisions for risks and expenses | 780,213 | 975,446 | | |
| Total | 780,213 | 975,446 | 724,849 | 320,838 |

The latest actuarial valuations were performed on 31 December 2018 by Mr. Silviu Matal, a member of the Romanian Actuarial Institute. The present value of the defined benefit obligations and the current and past costs of related services have been measured using the projected unit credit method.

During the financial year 2018, Teraplast SA set provisions amounting to RON 404,013 (2017: RON 31,100) related to the rights for employee compensation, based on the actuarial computation, for the amounts granted to the employees for retirement, amounts provided to be granted according to the collective labor contract.

| Employee benefits | 31 December 2018 | 31 December 2017 |
|------------------------|------------------|------------------|
| | RON | RON |
| Opening balance | | 351,936 |
| Movements | 404,011 | (31,099) |
| Closing balance | 724,849 | 320,838 |

| Current provisions | 31 December 2018 | Net movements | 31 December 2017 |
|---------------------------|------------------|----------------|------------------|
| | RON | RON | RON |
| Provisions for litigation | - | 10,000 | 10,000 |
| Other provisions | 780,213 | 185,233 | 271,843 |
| Closing balance | 780,213 | 195,233 | 975,446 |

Teraplast SA has set provisions for sundry expenses related to environmental protection and tax liabilities, being probable that certain obligations generated by prior events of the entity would determine an outflow of resources.

The reversed provision for litigations related to a possible litigation related to a tumular necropolis in Galati. In 2018, this provision was reversed as the spaces held in Galati were sold.

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25. TRADE AND OTHER PAYABLES

| | <u>31 December 2018</u> | <u>31 December 2017</u> |
|---|-----------------------------|-----------------------------|
| | RON | RON |
| Trade payables | 125,833,102 | 66,864,762 |
| Trade notes payable | 818,625 | 1,172,128 |
| Liabilities from the purchase of non-current assets | 2,270,474 | 2,495,030 |
| Other current payables (Note 26) | 5,075,734 | 8,250,800 |
| Advance payments from clients | 7,254,887 | 7,402,253 |
| Total | <u>142,252,622</u> | <u>86,184,973</u> |

26. OTHER CURRENT LIABILITIES

| | <u>31 December 2018</u> | <u>31 December 2017</u> |
|---|-----------------------------|-----------------------------|
| | RON | RON |
| Salary-related payables to employees and social security payables | 5,877,775 | 5,349,242 |
| VAT payable | 1,210,565 | 1,506,578 |
| Unclaimed employee rights | 91,531 | 88,536 |
| Stundry creditors | 12,558 | 209,712 |
| Deferred income | 8,928 | 184,143 |
| Commercial guarantees received | 114,856 | 123,130 |
| Other taxes payable | 524,373 | 603,193 |
| Dividends payable | 235,147 | 188,265 |
| Total | <u>8,075,734</u> | <u>8,250,789</u> |

27. FINANCIAL LEASE OBLIGATIONS

Lease contracts

Finance leases relate to motor vehicles and equipment on lease periods of 5 - 6 years. The Group has the option of purchasing equipment for a nominal amount at the end of the contractual periods. The Group's obligations related to financial lease are guaranteed with the lessee's property right over the assets.

Finance lease liabilities

The fair value of finance lease liabilities is approximately equal to their carrying amount.

| | <u>Minimum lease payments</u> | | <u>Discounted value of the minimum lease payments</u> | |
|---|-------------------------------|-----------------------------|---|-----------------------------|
| | <u>31 December 2018</u> | <u>31 December 2017</u> | <u>31 December 2018</u> | <u>31 December 2017</u> |
| | RON | RON | RON | RON |
| Present value of minimum lease payments | | | | |
| Amounts payable in one year | 741,431 | 1,066,294 | 674,610 | 1,040,226 |
| More than one year but less than five years | 1,403,743 | 745,444 | 1,303,578 | 668,355 |
| Above 5 years | - | - | - | - |
| Total lease liabilities | <u>2,145,174</u> | <u>1,811,738</u> | <u>1,978,298</u> | <u>1,747,581</u> |
| Minus future financial expenses | (166,876) | (84,157) | - | - |
| The current value of financial lease liabilities | <u>1,978,298</u> | <u>1,747,581</u> | <u>-</u> | <u>-</u> |

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28. FINANCIAL INSTRUMENTS

The risk management activity within the Group is performed in relation to financial risks (credit risk, market risk, geographic risk, foreign currency risk, interest rate risk and liquidity risk), operating risks and legal risks. The main objectives of the financial risk management activity are to determine the risk limits and then to ensure that the exposure to risks is maintained between these limits. The management of operating and legal risks is aimed at guaranteeing the good functioning of the internal policies and procedures for minimizing operating and legal risks.

(a) Capital risks management

The Group manages its capital to ensure that the entities within the Group will be able to continue their activity and, at the same time, maximize revenues for the shareholders, by optimizing the balance of liabilities and equity.

The structure of the Group capital consists in debts, which include the loans detailed in Note 23, the cash and cash equivalents and the equity attributable to equity holders of the parent Group. Equity includes the share capital, reserves and retained earnings.

Managing the Group's risks also includes a regular analysis of the capital structure. As part of the same analysis, management considers the cost of capital and the risks associated to each class of capital. Based on the management recommendations, the Group may balance its general capital structure through the payment of dividends, by issuing new shares and repurchasing shares, as well as by contracting new liabilities and settling the existing ones.

Just as other industry representatives, the Group monitors the capital based on the gearing ratio. This ratio is calculated as net debt divided by total capital. The net debt is represented by the total loans (including long-term and short-term loans as detailed on the balance sheet) less the cash and cash equivalents. Total capital represents "equity", as detailed on the consolidated balance sheet plus the net debt.

The gearing ratio as at 31 December 2018 and 2017 was as follows:

| | 2018 RON | 2017 RON |
|----------------------------------|--------------------|--------------------|
| Total loans (Note 23) | 135,085,913 | 133,746,440 |
| Less cash and cash equivalents | (22,917,571) | (12,019,025) |
| Net debt | 172,248,340 | 121,730,638 |
| Total equity | 238,116,866 | 274,743,737 |
| Total equity and net debt | 410,364,205 | 346,474,375 |
| Gearing ratio | 42% | 35% |

(b) Summary of significant accounting policies

The details on the main accounting policies and methods adopted, including the recognition criteria, measurement basis and revenue and expenses recognition basis, concerning each class of financial assets, financial liabilities and capital instruments are presented in Note 2 to the financial statements.

28. FINANCIAL INSTRUMENTS (continued)

(c) Objectives of the financial risk management

The cash function of the Group provides services needed for the activity, coordinates the access to the national financial market, monitors and manages the financial risks related to the Group operations by way of reports on the internal risks, which analyze the exposure to and extent of the risks. These risks include the market risk (including the foreign currency risk, fair value interest rate risk and the price risk), credit risk, liquidity risk and cash flow interest rate risk.

(d) Market risk

The Group activities expose it first to the financial risks related to the fluctuation of the exchange rates (see (d) below) and of the interest rate (see (f) below).

The Group management continuously monitors its exposure to risks. However, the use of this approach does not protect the Group from the occurrence of potential losses beyond the foreseeable limits in case of significant fluctuations on the market. There was no change from the prior year in relation to the Group exposure to the market risks or to how the Group manages and measures its risks.

(e) Foreign currency risk management

The Group performs transactions expressed in different currencies. Hence, there is the risk of fluctuations in the exchange rate. The exposures to the exchange rate are managed according to the approved policies.

The Group is mainly exposed to the EUR-RON exchange rate. The table below details the Group sensitivity to a 10% increase and decrease of EUR against RON. 10% is the sensitivity rate used when the internal reporting on the foreign currency risk to the Group is done and it represents the management estimate on the reasonably possible changes in exchange rates. The sensitivity analysis only includes the remaining foreign currency expressed in monetary items and adjusts the conversion at the end of the period for a 10% change in exchange rates. In the table below, a negative value indicates a decrease in profit when the RON depreciates by 10% against the EUR. A 10% strengthening of the RON against the EUR will have an equal opposite impact on profit and other equity, and the balances below will be positive. The changes will be attributable to the exposure related to the loans, trade receivables and payables with foreign partners, and denominated in EUR at the end of the year.

| | <u>31 December 2018</u> | | <u>31 December 2017</u> | |
|------------------|-------------------------|-------------|-------------------------|-------------|
| | RON | RON | RON | RON |
| Profit or (loss) | 3,976,917 | (3,976,917) | 1,496,014 | (1,496,014) |

The Group obtains revenues in EUR based on the contracts signed with foreign clients (as detailed in Note 4).

(f) Interest rate risk management

The interest-bearing assets of the Group, the revenues, and the cash flows from operating activities are exposed to the fluctuations of market interest rates. The Group's interest rate risk relates to its bank loans. The loans with variable interest rate expose the Group to the cash flow interest rate risk. The Group performed no hedging operation with a view to reducing its exposure to the interest rate risk.

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28. FINANCIAL INSTRUMENTS (continued)

The Group continuously monitors its exposure to the interest rate risk. These include simulating various scenarios, including the refinancing, discounting current positions, financing alternatives. Based on these scenarios, the Group estimates the potential impact of determined fluctuations in the interest rate on the profit and loss account. For each simulation, the same interest rate fluctuation is used for all models. These scenarios are only prepared for the debts representing the main interest-bearing positions.

The Group is exposed to the interest rate risk taking into account that the Group entities borrow funds both at fixed and at floating interest rates. The risk is managed by the Group by maintaining a favorable balance between fixed rate and floating rate interest loans.

The Group's exposures to the interest rates on the financial assets are detailed in this section on liquidity risk management of this Note.

As at 31 December 2018 and, respectively 31 December 2017, in the case of a 0.100% increase / decrease of the interest rate on loans, with all the other variables held constant, the net profit for the period would fluctuate as follows, mainly as a result of the higher/lower interest expenses on floating interest loans

| | 31 December 2018 | | 31 December 2017 | |
|------------------|------------------|-------------|------------------|-------------|
| | RON | RON | RON | RON |
| Profit or (loss) | 1,950,659 | (1,950,659) | 1,336,015 | (1,336,015) |

(g) Other price risks

The Group is not exposed to the equity price risks arising from equity investments. The financial investments are held for strategic purposes rather than commercial ones and are not significant. The Group does not actively trade these investments.

(h) Credit risk management

The credit risk relates to the risk that a counterparty will not meet its obligations causing financial losses to the Group. The Group has adopted a policy of performing transactions only with trustworthy parties and of obtaining sufficient guarantees, if applicable, as a means of decreasing the financial losses caused by breaches of contracts. The Group exposure and the credit ratings of third parties to contracts are monitored by the management.

Trade receivables consist in a high number of clients from different industries and geographical areas. The permanent credit assessment is performed in relation to the clients' financial condition and, when appropriate, a credit insurance is concluded.

The cash is held in financial institutions which, at the date when it is deposited, are considered to have the lowest reimbursement risk. The Group has policies limiting the value of the exposure for any financial institution.

The carrying amount of receivables, net of the provision for receivables, plus the cash and cash equivalents, are the maximum amount exposed to the credit risk. Although the receivable collection could be influenced by economic factors, the management considers there is no significant loss risk for the Group, beyond the provisions already recorded.

The Group considers the exposure to the credit risk in relation to a counterparty or a group of similar counterparties by analyzing the receivables individually and making impairment adjustments together with the client credit management department.

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23. FINANCIAL INSTRUMENTS (continued)

(i) Liquidity risk management

The ultimate responsibility for liquidity risk management lies with the Board of Directors, which have developed an appropriate liquidity risk management framework in terms of ensuring funding for the Group on the short, medium and long-term and managing liquidity. The Group manages the liquidity risks by maintaining appropriate reserves, bank facilities and reserve loan facilities, by continuously monitoring actual cash flows and by correlating the maturity profiles of financial assets and liabilities. Note 23 includes a list of additional facilities not drawn by the Company, which the Group has in order to further reduce the liquidity risk.

(j) Fair value of financial instruments

The financial instruments disclosed on the statement of financial position include trade and other receivables, cash and cash equivalents, short and long-term loans and other debts. The carrying amounts represent the maximum exposure of the Group to the credit risk related to the existing receivables.

The analysis of the trade receivables and of trade notes is as follows:

| | 31 December 2018 | 31 December 2017 |
|----------------------------------|-----------------------------|-----------------------------|
| | RON | RON |
| Not overdue | 89,968,714 | 75,746,379 |
| Overdue, but not impaired | 27,491,990 | 8,964,700 |
| Impaired and provisioned in full | 25,066,230 | 21,832,685 |
| Total | 152,556,934 | 110,543,664 |

(*) The adjustments are made following an individual analysis on the recoverability of the trade receivable balances.

Overdue, but not impaired:

| | 31 December 2018 | 31 December 2017 |
|----------------|-----------------------------|-----------------------------|
| | RON | RON |
| Below 3 months | 20,341,447 | 6,077,115 |
| 3 to 6 months | 5,288,939 | 578,588 |
| 6 to 9 months | 141,106 | 517,888 |
| Above 9 months | 1,720,498 | 1,791,109 |
| Total | 27,491,990 | 8,964,700 |

Receivables that are overdue, but not impaired, for more than 9 month are secured.

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28. FINANCIAL INSTRUMENTS (continued)

Impaired and provisioned in full:

| | 31 December 2018 | 31 December 2017 |
|-----------------|---------------------|---------------------|
| | RON | RON |
| Below 6 months | | |
| 6 to 12 months | 1,787,136 | 788,301 |
| Above 12 months | 883,528 | 1,404,797 |
| Total | 22,425,566 | 19,549,787 |
| | 25,086,230 | 21,832,895 |

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26. FINANCIAL INSTRUMENTS (continued)

Tables on liquidity and interest rate risks

The tables below detail the dates remaining until the maturity of the Group's financial liabilities.

The tables were prepared based on the undiscounted cash flows of the financial liabilities at the nearest date when is possible for the Group to be requested to pay. The table includes both the interest and the cash flows related to the capital.

| | 2018 | | | | | Total |
|--------------------------------------|---------------|--------------|--------------------|--------------|--------------|---------------|
| | Below 1 month | 1-3 months | 3 months to 1 year | 1-3 years | 3 - 5 years | |
| Non-interest bearing | | | | | | |
| Trade payables and other liabilities | (96,723,892) | (48,253,832) | (275,096) | (49,022,037) | - | (194,274,661) |
| Interest-bearing instruments | | | | | | |
| Short and long-term loans | (24,280,899) | (13,483,807) | (84,683,731) | (53,004,077) | (19,543,338) | (196,065,914) |
| Future interest | (615,873) | (1,597,442) | (3,706,581) | (1,066,541) | (4,479,623) | (21,386,116) |
| Non-interest bearing | | | | | | |
| Cash and cash equivalents | 22,817,671 | - | - | - | - | 22,817,671 |
| Receivables | 78,720,055 | 46,253,653 | 2,483,967 | - | - | 127,460,704 |
| | | | | | | |
| | | | | | | |
| | 2017 | | | | | Total |
| | Below 1 month | 1-3 months | 3 months to 1 year | 1-3 years | 3 - 5 years | |
| Non-interest bearing | | | | | | |
| Trade payables and other liabilities | (46,044,742) | (34,555,312) | (3,584,920) | - | - | (86,184,973) |
| Interest-bearing instruments | | | | | | |
| Short and long-term loans | (282,867) | (1,940,085) | (56,546,642) | (46,077,055) | (22,020,365) | (133,746,440) |
| Future interest | (304,789) | (716,787) | (3,012,256) | (6,073,491) | (9,147,377) | (13,983,718) |
| Non-interest bearing | | | | | | |
| Cash and cash equivalents | 12,015,802 | - | - | - | - | 12,015,802 |
| Receivables | 47,667,512 | 40,513,843 | 1,585,322 | - | - | 69,766,981 |

English translation is for information purposes only. Romanian language text is the official text for submission.

29. RELATED PARTY TRANSACTIONS

The related and affiliated entities of the Company are as follows:

31 December 2017

Subsidiaries and jointly controlled entities

Teraglass Bisbita SRL
Terasteel SA
Politub SA
Teraplast Logistic SRL
Teraplast Hungaria
Depaco SRL
Terasteel DOO Serbia

Related entities (shareholding / joint decision-maker)

ACI Ciuj SA Romania
FERMA POMICOLA DRAGU SRL Romania
La Casa Ristorante Pizzeria Pane Dolce SA Romania
Omniconstruct SA Romania
Magis Investment SRL
Ischia Invest SRL
Ischia Activholding SRL
Info Sport SRL
Agrolegumicola Dragu SRL
New Croco Pizzeria SRL
Parcserv SRL
Ditovis Impex SRL Romania
RSL Capital Advisors SRL

31 December 2018

Subsidiaries

Teraglass Bisbita SRL
Terasteel SA
Politub SA
Teraplast Logistic SRL
Teraplast Hungaria Kft
Depaco SRL
Terasteel Doo Serbia
Cortina WTB SRL

Related entities (shareholding / joint decision-maker)

ACI Ciuj SA Romania
AGROLEGUMICOLA DRAGU SRL Romania
Cetus Capital SRL Romania
Ditovis Impex SRL Romania
Eurohold AD Bulgaria
FERMA POMICOLA DRAGU SRL Romania
Herines SA Romania
INFO SPORT SRL
ISCHIA ACTIVHOLDING SRL
ISCHIA INVEST SRL
LA CASA RISTORANTE PIZZERIA PANE DOLCE SRL
Magis Investment SRL
Mundus Services AD Bulgaria
NEW CROCO PIZZERIA SRL
Paco SA
PARCSERV SRL
RSL Capital Advisors SRL
Sphere Franchise Group SA

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29. RELATED PARTY TRANSACTIONS (continued)

Transactions between the parent Company and its subsidiaries; the Group affiliates were eliminated from the consolidation and they are not disclosed in this Note.

| Transactions and balances with other related parties | 31 December | 31 December |
|--|-------------|-------------|
| | 2018 | 2017 |
| | RON | RON |
| Sales of goods and services | 157,483 | 2,412,299 |
| Purchases of goods and services | 154,477 | 1,647,037 |
| Debit balances | 97,278 | 33,451 |
| Credit balances | 18,496 | 54,774 |

30. CASH AND CASH EQUIVALENTS

For cash flow statement purposes, the cash and cash equivalents include cash on hand and bank accounts. Cash and cash equivalents at financial year end, as disclosed on the cash flow statement, may be reconciled with the items related to the accounting balance sheet as follows:

| | 31 December | 31 December |
|------------------|-------------------|-------------------|
| | 2018 | 2017 |
| | RON | RON |
| Cash in bank | 22,284,803 | 11,844,993 |
| Bills receivable | 235,668 | 7,184 |
| Cash on hand | 192,728 | 132,618 |
| Cash equivalents | 104,372 | 31,004 |
| Total | 22,817,571 | 12,015,802 |

The Group's available cash is pledged in full in favor of financing banks.

31. COMMITMENTS AND CONTINGENT LIABILITIES

Teraplast SA

The Company has a bank letter of guarantee ceiling of RON 1,750,000. Within the ceiling, as of 31 December 2018, the bank letter of guarantee issued in favor of ROMPETROL DOWNSTREAM, amounting to RON 400,000, valid between 30 June 2017 and 28 June 2018, is in effect.

As of 31 December 2018, the Company also has on balance a bank letter of guarantee amounting to EUR 4,000,000 issued by RAIFFAISEN BANK and guaranteed with a collateral deposit of EUR 500,000. The bank letter of guarantee was issued in favor of RAIFFAISEN BANK SERBIA to guarantee the letters of credit line amounting to EUR 2,000,000 accessed by TERASTEEL DOO from RAIFFAISEN BANK SERBIA. Its validity is between 30 June 2018 and 30 June 2019.

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31. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

As of 31 December 2018, tangible assets and investment property having a net book value of RON 58,163,118 are guarantees for loans and credit lines. The Company has guaranteed for bank loans with all current and future cash available, with all current and future inventories of merchandise and products and it has assigned the current and future rights of receivable, as well as their accessories, arising from current and future contracts with its clients, having the capacity of assigned debtors. In addition, the Company has assigned the rights resulting from the insurance policies issued having as object the immovable and movable property used as guarantees.

The Company has finance lease contracts in progress, for which the capital rate is included in short- or long-term liabilities, as applicable.

In 2017, the Company has granted to Banca Transilvania a guarantee to be liable jointly with Terasteel SA for the reimbursement of the loans having a balance of RON 47,846,249 which Terasteel has contracted from Banca Transilvania.

As of 31 December 2018, the Company has unused loan facilities amounting to RON 18,794,868 and unused investment loans amounting to RON 0 (as of 31 December 2017: RON 30,488,388 and unused investment loans amounting to RON 15,493,535).

The Company signed in November 2018 a financing agreement for an investment project of RON 28.987 thousand, within the State aid scheme for stimulating investments having a major impact on the economy, 50% of the project value is funded through state aid. The Teraplast SA project aims at offering a new product in the granules field and endowing a line which will allow extending the production capacity of the polypropylene systems.

In March 2019, the Company signed the bank loan contract to fund its own contribution to this project. Until the date of these financial statements, the Company did not submit any reimbursement request.

During 2018, Teraplast SA and E.ON Energie Romania have signed an agreement of EUR 1.9 million. On the basis of this partnership, E.ON will install solar power systems on the roofs of 13 production halls and buildings of TeraPlast, which will allow the company to generate its own electricity from renewable sources. The agreement provides the possibility to extend the project, next year, up to the amount of EUR 4 million.

Terasteel SA

As of 31 December 2018, the Company has unused loan facilities amounting to RON 5,497,027 (31 December 2017: RON 4,262,804)

The Group's long-term borrowings and short-term loans are guaranteed with available cash, both current and future, in the current accounts opened with the banks where the loans are contracted from, with assignments of inventories and commercial contracts and real estate mortgages.

As of 31 December 2017, the Company has a letter of credit ceiling amounting to EUR 5,000,000, expiring on 7 December 2018. Within this ceiling, as of 31 December 2017, the following letters of guarantee/bank letters of credit are issued:

As of 31 December 2018, the Company has a ceiling of bank letters of credit of RON 5,000,000 expiring on 8 July 2019. As of 31 December 2018, within this ceiling, no valid letters of guarantee / letters of credit are issued

In 2017, the Company granted to Transilvania Bank a guarantee for being jointly liable with Teraplast SA for reimbursing the loans amounting to RON 150,783,308 which Teraplast SA has contracted from Banca Transilvania.

31. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

As of 31 December 2018, the Company has a ceiling of letters of guarantee of RON 1,500,000 which expire on 8 July 2019. Within this ceiling, as of 31 December 2018, the following letters of guarantee are issued:

| <u>Issuing bank</u> | <u>Validity period</u> | <u>Amount</u> | <u>Currency</u> | <u>Guarantee purpose</u> |
|---------------------|-------------------------|---------------|-----------------|--------------------------|
| Banca Transilvania | 01.08.2018 - 31.07.2019 | | | ROMPETROL |
| | | 100,000 | RON | DOWNSTREAM |
| Banca Transilvania | 06.03.2018 - 06.03.2019 | 190,334 | RON | ANAF |

Teraglass Bistrita SRL

As of 31 December 2018, the Company has unused loan facilities amounting to RON 506,416.

The Company has signed in November 2018 a financing agreement for an investment project of RON 16,057 thousand within the State aid scheme for stimulating the investments having a major impact on the economy, 50% of the project value is funded from state aid. The project of the Teraglass Bistrita SRL company aims at creating a new, completely automated flow for the production of PVC windows and doors, process which will contribute both to increasing the production capacity and the labor productivity, as well as to satisfying the demand which is on an upward trend.

Depaco SRL

As of 31 December 2018, the Company has unused loan facilities amounting to RON 8,107,433 and EUR 808,105.

As of 31 December 2018, the Cortina WTB SRL company has unused loan facilities amounting to RON 1 500,000.

In November 2018, the Company signed a financing agreement for an investment project of RON 18,266 thousand, within the State aid scheme for stimulating investments with a major impact on the economy, 50% of the project value being funded from state aid. The project of Depaco SRL company aims at opening a new production facility in Balcoi (Prahova) which, at a production capacity of over 10 million square meters of tiles, will ensure optimum logistics and storing flows.

Potential tax liabilities

In Romania, there are several agencies authorized to perform controls (audits). These controls are similar in nature to the tax inspections performed by the tax authorities in many countries, but they may cover not only tax matters, but also legal and regulatory matters, the concerned agency may be interested in. The Group companies are likely to be occasionally subject to such controls for breaches or alleged breaches of the new and existing laws and regulations. Although the Group may challenge the alleged breaches and related penalties when the management considers they are entitled to take such action, the adoption or implementation of laws and regulations in Romania could have a significant impact on the Group. The Romanian tax system is under continuous development, being subject to constant interpretations and changes, sometimes retrospectively applied. The statute of limitation for tax periods is 5 years.

The Group administrators are of the view that the tax liabilities of the Group have been calculated and recorded according to the legal provisions.

31. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Environmental matters

The main activity of the group companies have inherent effects on the environment. The environmental effects of the companies' activities are monitored by the local authorities and by the management. The group companies permanently aim at complying with the environmental obligations. As a result, no provisions were set for any kind of potential obligations currently unquantifiable in relation to environmental matters or actions for their remedial.

Transfer pricing

The Romanian fiscal legislation includes the "arm's length" principle, according to which inter-company transactions should be performed at market value. Local taxpayers that perform inter-company transactions should prepare and submit the transfer pricing file with the Romanian tax authorities, upon written request of the latter. Failure to submit the transfer pricing documentation file or submission of an incomplete file may lead to penalties for non-compliance; in addition to the contents of the transfer pricing documentation file, the tax authorities may interpret the transactions and circumstances in a manner different than that of the company and, as a result, they may determine additional fiscal obligations resulting from transfer pricing adjustments. The Group management considers they will not record losses in the case of a fiscal review of transfer pricing. However, the impact of a different interpretation from the tax authorities cannot be reliably measured. It could be significant for the Group's financial position and / or operations.

Auditor fees

During 2018, Ernst & Young Assurance Services SRL had a total contractual fee of EUR 73,200 (for the statutory audit of the separate and consolidated annual financial statements of the Company and the separate audit of its subsidiaries and associates). The services contracted from the statutory auditor, other than the audit services, have amounted to EUR 1,500, representing fees for services other than assurance, which are not forbidden by Law 162/2017.

32. INVESTMENT SUBSIDIES

Investment subsidies refer to non-refundable funds related to investments made by **Terasteel SA** and **Depaco SRL**, mainly for production equipment. There are no unfulfilled conditions or other contingencies related to such subsidies

| | <u>2018</u> | <u>2017</u> |
|--------------------------------|------------------|------------------|
| | RON | RON |
| As at 1 January | 2,928,557 | 3,391,999 |
| Depaco acquisition | 1,873,607 | - |
| Transferred to profit and loss | (750,582) | (483,442) |
| As at 31 December | 4,051,575 | 2,928,557 |
| Current | 453,766 | 457,814 |
| Long-term | 3,697,809 | 2,470,743 |

As of 31 December 2018, the total value of the subsidies recorded was of RON 4,051,575 recognized as deferred income in the balance sheet and transferred to profit and loss on a systematic and reasonable basis, during the life of the related assets.

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33. SHARE-BASED PAYMENT

During 2016, the Company decided to implement a „stock compensation plan” type of remuneration through which, those employees having a significant contribution to the results of 2016, will be distributed shares, as part of the General Share Options Plan (GSP0).

As a result of this decision, on 8 February 2016, the Company has started to repurchase the own stock to be used for this program.

In May 2016, a part of this program was carried out and 840,847 shares amounting to RON 499,525 have been issued, the value of the shares at the purchase price being of RON 478,247 (RON 0.56 price / share).

In February 2017, the repurchase and the awarding of the plan shares related to 2016 totaling 1,159,053 shares was finalized, the value of the shares at purchase price being RON 512,707. In November 2017, through BD decision, the commencement of a new stock compensation plan was approved, with a budget of RON 1,850 000. In 2017, no benefits were granted in the form of shares to the Teraplast employees related to this plan.

In December 2017, Teraplast registered a provision amounting to RON 620,000.

In September 2018, the decision from November 2017 was amended, the number of redeemed shares and, respectively, the allocated budget being decreased to RON 1,480,308. In December 2018, Teraplast registered RON 552,925 representing benefits granted to the employees in the form of own shares in Teraplast SA, which will be settled at a subsequent date.

34. SUBSEQUENT EVENTS

On 7 March 2019, the Company has contracted a loan amounting to RON 14,493,278 from Transilvania Bank for supporting the investments it committed to within the State aid scheme for stimulating the investments with a major impact on the economy, for which Teraplast SA received the funding agreement in November 2018.

On 8 March 2019, the Company has contracted a loan amounting to RON 8,028 744 from Banca de Export Import a României EximBank, to support the investments it committed to make within the State aid scheme for stimulating the investments having a major impact in the economy, for which Teraplast Bistrita SA has received the funding agreement in November 2018.

On 12 March 2019, Depaco has contracted a loan amounting to EUR 5 million from the European Bank for Reconstruction and Development in order to support the investments it committed to within the State aid scheme for stimulating the investments having a major impact in the economy, for which Depaco SRL has received the funding agreement in November 2018.

In November 2017, through the Board of Director's decision, the transfer of the recycling line from Teraplast SA to another Group company was decided.

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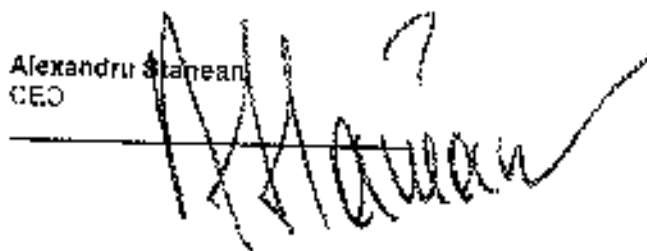
(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

34. SUBSEQUENT EVENTS (continued)

To this effect, the Board of Directors decided to reintegrate into the parent the logistic activities which, until 30 September 2018, were provided by Teroplast Logistic SRL, at the same time changing the name of the above-mentioned subsidiary into Teroplast Recycling SA, the transfer of the recycling activity into this company, changing the legal form of the company from a limited liability company to a joint stock company, the shareholding structure remaining unchanged (99% shareholding Teroplast SA, 1% shareholding Terasteel SA).

On 21 March 2019, the Bistrita-Nasaud Trade Register Office recorded the above-mentioned amendments.

Alexandru Stancu
CEO



Ioana Birta
CFO

