

# 2019 ANNUAL REPORT



**TERA  
PLAST  
GROUP**

 **TeraPlast**  
1992 1996

 **TeraSteel**

 **TeraGlass**  
ferestre și uși

 **TeraPlast**  
Recycling

 **TeraPlast**  
Hungary

 **TeraSteel**  
Serbia

 **wetterbest**

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# I. INTRODUCTION

## 1. LETTER FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

### *Esteemed shareholders, partners and employees,*

We walked into 2020 with very satisfactory results for 2019. These are the result of the capitalization of the Group's investments and of our determined teams. At the same time, the extensive investments of 2019, worth 98 million lei, set the base for the future development of the Group.

Last year, the Group launched new products, at the highest quality standards, meeting its clients' needs and consolidating its position on the markets. Lead by TeraSteel, the PE 100-RC pipe with PP protective layer and Wetterbest Cardinal are the proof of the Group's commitment to innovation and constant development.

We started 2020 confidently, with ambitious plans of exceeding the 1 billion lei threshold in turnover. The solid position of the Group and the management quality also reflected in the inclusion of the TeraPlast shares in the main index of the stock exchange, BET, starting March 2020, as well as in the first quarter's results.

However, while we prepare this 2019 annual report, the whole world is facing one of the biggest challenges of the last generation - the Covid-19 pandemic. Despite the current challenges and the future Covid-19 impact, we, the TeraPlast Group, remain confident.

Our Group has passed through two wars and several crises. We have the necessary experience and our executive team is fully dedicated to long-term success and fully aligned to TeraPlast's shareholders.

We have a solid business continuity plan with 10 scenarios for gradual activity reduction, that we constantly adapt to the current context. We have to make difficult but necessary decisions to make sure that the Group will be here no matter how severe the effects of the pandemic will be.

We consider it our responsibility to take firm actions in order to resume our activity at full capacity. This implies rational cost reduction through temporary personnel reduction, monitoring the raw materials inventory, controlling the gearing and minimizing the credit risk. This is the only way for us to help our clients, protect our employees and call back to work the ones in technical unemployment.

During this unprecedented time, it is all the more important to show the reliability and determination that define us.

Last year, when there was no sign of the present crisis, we launched the CSR platform - Together We Build Romania. This is very timely considering the current context. The strong position of the Group and the almost 125 years of tradition bring upon responsibility and right now, supporting the economy is the main priority. It is now when the winning-vision businesses are to be supported. Moreover, it is the time for us to be united and employ measures aimed to help Romania's economy during these hard times.

*In 2020, **We Build Romania Together***

### **Dorel Goia**

Chairman of the Board of Directors



## 2. THE MEMBERS OF THE BOARD OF DIRECTORS AND OF THE EXECUTIVE MANAGEMENT

### The members of the Board of Directors

**Dorel Goia** - Chairman of the Board of Directors

Year of birth: 1954

Date since the position is held: June 2008 - present

A graduate of the Faculty of History and Philosophy at UBB Cluj, former history professor and entrepreneur since 1990, Mr. Dorel Goia is the majority shareholder and Chairman of the Board of Directors of TeraPlast since 2008. At the same time, Mr. Goia is part of the Boards of Directors of the companies: TeraSteel SA (part of the TeraPlast Group), ACI Cluj SA, Parc SA, Hermes SA.

**Răzvan Lefter, CFA** - Non-executive Director

Year of birth: 1980

Date since the position is held: October 2014 - present

Răzvan Lefter has been a member of the Board of Directors of TeraPlast since 2014, supported by the KJK Capital investment fund. Mr. Lefter is a managing partner at RSL Capital Advisors and is a member of the Boards of Directors of Sphera Franchise Group (Romania), Mundus Services (Bulgaria) and Eurohold (Bulgaria). In the past, Mr. Lefter has also been a director of other listed companies in Romania and has worked in the banking and investment fields both in the country as well as abroad. Also, Mr. Lefter is a CFA Charterholder, a distinction awarded by the CFA Institute (USA).

**Magda Palfi** - Non-executive Director

Year of birth: 1967

Date since the position is held: June 2008 - present

Magda Palfi has 29 years of experience in the banking field, working over time in five banks in Romania. She is currently the Director of the Corporate Regional Center of Raiffeisen Bank Cluj Napoca (NW Region).

**Liviu Ciupe** - Independent Non-executive Director

Year of birth: 1962

Date since the position is held: September 2019

In his first term as part of the Board of Directors of TeraPlast, Liviu Ciupe has over 30 years of experience in the industrial field. Over time, he has held coordination and management positions, and is currently the Chairman and Director of Rematinvest SRL, as well as a member of the Board of Directors of the companies in the Rematinvest Group.

**Alexandru Stănean** - Executive Director

Year of birth: 1982

Date since the position is held: July 2018 - present

Alexandru Stănean joined the TeraPlast team in 2007 and has held, over time, various positions within the Group, including Deputy General Manager, Chief Operating Officer, and Head of External Development. In 2008, he was part of the team responsible of the IPO of TeraPlast SA. Currently, Mr. Stănean is the General Manager of TeraPlast, in his second term as CEO within the company.

### The members of the executive management

**Ioana Birta** - Financial Director

Year of birth: 1983

Date since the position is held: June 2017 - present

Ioana has over 10 years of experience as part of The Big 4. She is an ACCA (Association of Chartered Certified Accountants) member.

**Alexandru Stănean** - General Manager

Year of birth: 1982

Date since the position is held: July 2018 - present

Alexandru Stănean joined the TeraPlast team in 2007 and has held, over time, various positions within the Group, including Deputy General Manager, Chief Operating Officer and Head of External Development. In 2008, he was part of the team responsible for the IPO of TeraPlast SA. Currently, Mr. Stănean is the General Manager of TeraPlast, in his second term as CEO within the company.

## **II. THE TERAPLAST GROUP TODAY**

## 1. THE STRUCTURE OF THE TERAPLAST GROUP



### TeraPlast Group is the largest Romanian manufacturer of construction materials.

The tradition of the TeraPlast Group begins 124 years ago, with the first ceramic tiles processing workshop in Bistrița. After many transformations, in 1990 the company TeraPlast was born. Over time, the company, and later the companies of the TeraPlast Group, have been focused on continuous development and innovation in order to provide efficient solutions for people and the environment.

Today, the Group operates on the construction materials market in Romania and Europe through the seven companies: TeraPlast, TeraSteel Romania, TeraSteel Serbia, TeraGlass, Wetterbest, TeraPlast Recycling and TeraPlast Hungary.

**Our mission** is to develop sustainable solutions that create value for us, our shareholders and partners.

**Our vision** is to become a model of excellence in management, business and social responsibility actions.

**Our values** are quality, reliability and performance in the market context. These values are part of our organizational culture and have been included in the company's continuous improvement initiatives.

**TeraPlast** is the largest company of the TeraPlast Group and includes three business lines: Installations, PVC Joinery Profiles and PVC Compounds. The company is a leader on the external sewerage market and on the PVC compounds market in Romania. Since July 2, 2008, TeraPlast SA is listed on the Bucharest Stock Exchange under the symbol TRP, and its shares are traded on the main market.

**TeraSteel** is one of the leaders in the market for sandwich panels and galvanized steel purlins in Central and Eastern Europe, the company's products reaching 25 European countries. Since 2015, the company offers complete solutions to its customers through turnkey halls. Following an investment of over 6 million euros, in 2017 TeraSteel Serbia was inaugurated, which, in just one year since its inauguration, has become a strategic partner in the region. The factory in Serbia is the first production unit with fully private Romanian capital opened abroad after 1990.

**TeraGlass** has over 10 years of experience in the thermal insulation joinery market, producing windows and doors to the highest European standards. The company operates both in the domestic market and in developed markets in Europe.

**Wetterbest** has been on the metal roofing market for over 20 years. The company is one of the leaders of the metal tile market in Romania, both in terms of quantity and value.

**TeraPlast Recycling** is the largest rigid PVC recycler in Romania and among the top 10 in Europe. The company started its activity in April 2019, following the transfer of the business line from TeraPlast SA.

*The activity of the TeraPlast Group companies takes place in 11 factories and 5 locations in Romania and Serbia., and 9 distribution centers.*



**Sărățel**

Surface area of the location: 218.000 square meters

Covered surface area: 38.688 square meters

Number of factories: 6 factories

PVC product factory: 32 production lines and a capacity of 52,800 tons/year

Polyolefin factory: 15 production lines and a capacity of 3,800 tons/year

Polyethylene products factory: 7 production lines and a capacity of 11,500 tons/year

Rigid PVC recycling plant: 10 production lines and a capacity of 12,000 tons/year

Sandwich panel factory: 1 production line and a capacity of 2.2 million square meters/year

Metal tile factory: 2 production lines and a capacity of 800,000 square meters/year

**Bistrița**

Surface area of the location: 33.061 square meters

Covered surface area: 10.968 square meters

Factories: 2 factories

Windows and doors factory: 5 production lines and a capacity of over 160,000 units/year

Galvanized steel purlins factory: 4 production lines and a capacity of 8,000 tons/year

**Băicoi**

Surface area of the location: 37.805 square meters

Covered surface area: 14.355 square meters

Factories: 1

Complete roof systems factory: 33 production lines and a capacity of 10 million square meters/year

**Podari**

Surface area of the location: 5.000 square meters

Covered surface area: 1.121 square meters

Factories: 1

Metal tile factory: 3 production lines and a capacity of 1.5 million square meters / year

**Leskovac**

Surface area of the location: 46.406 square meters

Covered surface area: 10.122 square meters

Factories: 1

Sandwich and corrugated sheet metal factory: 2 production lines and a capacity of 2.2 million square meters / year

The TeraPlast Group also has 8 distribution centers and showrooms in Romania and Hungary:

Distribution centers: Piatra Neamț, Deva, Bucharest, Brașov, Iași, Szolnok, Timișoara

Wetterbest showrooms: Cluj Napoca, Brașov.

## 2. MILESTONES IN 2019



### **Basis for development**

Following the signing of co-financing agreements through the state aid scheme in the second half of 2018, the TeraPlast Group began implementing projects for TeraPlast, TeraGlass and Wetterbest. The projects have a total value of 15 million euros and are aimed at expanding the production capacity of the three companies, as well as relocating Wetterbest. Thus, the TeraPlast Group has increased the competitiveness of its product portfolio in the markets in which it operates and laid the foundations for future development.

### **Steps towards the green economy**

TeraPlast Recycling started its activity as an independent company, part of the TeraPlast Group, following the transfer of the business line from TeraPlast SA in April 2019. The company is the largest rigid PVC recycler in Romania and in the top 10 in Europe, according to production capacity. The transfer of the line of business comes as a result of the need to treat this business independently for continuous development.

### **Financing agreement**

The TeraPlast Group has signed a 16 million euro financing agreement with the European Bank for Reconstruction and Development (EBRD). The purpose of the financing is to support the development of the TeraSteel and Wetterbest production units, as well as to bolster the regional presence of the TeraPlast Group.

### **Strengthening the roof systems business**

In 2019, the TeraPlast Group reached a 99% stake in Wetterbest. The acquisition of Wetterbest started in 2017, and at the beginning of 2020, TeraPlast's stake in Wetterbest reached 100%. At the same time, in the second half of 2019, Wetterbest reached a 100% stake in Cortina WTB - the subsidiary with production unit in Podari, Dolj County, in which it had until then a 51% ownership.

### **Together We Build Romania**

At the end of 2019, the TeraPlast Group launched the social responsibility platform Together We Build Romania. This represents the Group's commitment to contributing to a better world, beyond the products it offers. The TeraPlast Group supports performance, excellence and projects designed to bring positive change to the community. Thus, the platform brings together the projects supported by the Group companies through the three pillars: Education, Social, and Health & Environment.



### 3. TERAPLAST ON THE CAPITAL MARKET

TeraPlast SA was listed on the Bucharest Stock Exchange on July 2, 2008. TeraPlast shares are included in the BET-BK, BET-XT, BET-XT-TR and BET-Plus indices. As of March 23, 2020, TeraPlast shares are also included in the BET reference index and the BET-TR total return index. In October 2019, the share capital increase was registered by incorporating the reserves from the net profit from 2018, with the amount of 26,756,123.40 lei, from the value of 107,024,527.40 lei to 133,780,650.80 lei, by issuing a number of 267,561,234 new shares, with a nominal value of 0.10 lei/share.

As of December 31, 2019, TeraPlast had a number of 1,337,806,508 shares at a value of 0.10 lei/share, with a total nominal value of 133,780,650.80 lei.

<b>TeraPlast shares</b>	<b>2019</b>	<b>2018</b>
Number of shares*	1.337.806.508	1.070.245.274
Stock market capitalization* RON	378.599.241 LEI	262.210.092 LEI
Stock market capitalization* EUR	79.229.725 EUR	56.221.208 EUR
Maximum adjusted price **	0,2860 LEI	0,3010 LEI
Minimum adjusted price**	0,1640 LEI	0,1760 LEI
Price adjusted at the end of the year **	0,2830 LEI	0,1960 LEI
Result attributable to holders of TRP shares, lei/share	0,02	0,02 lei

\* Number of shares and market capitalization at the end of the period (last trading session of the reported year)

\*\* Adjusted price for all corporate events with an influence on the market share price (e.g. granting free shares)



## INVESTORS RELATION

TeraPlast promotes the implementation of good practices in relation to the Romanian capital market stakeholders. Communication with shareholders and investors is based on transparency and consistency. The company publishes consolidated financial results and holds a teleconference with stakeholders in which the management of the TeraPlast Group presents and discusses the recorded results on a quarterly basis.

At the same time, the information about the financial results and the evolution of the TeraPlast Group companies are constantly available on the [teraplast.ro](http://teraplast.ro) website in the Investors section.

As a founding member of the Romanian Investor Relations Association (ARIR), the group is actively involved in promoting, developing and implementing good practices in investor relations, increasing transparency and complying with the principles of corporate governance to provide investors all the essential elements for an informed investment decision.

During 2019, the activity of TeraPlast was recognized through the distinctions awarded. During the Inauguration Gala of the Stock Exchange Year 2019, the Bucharest Stock Exchange awarded TeraPlast for the use of stock exchange instruments for employee loyalty - the stock option plan program.

As part of the ARIR Gala, TeraPlast was named the best company with respect to investor relations - the vote of the retail category. The distinctions offered by ARIR during the gala are based on a voting period organized together with Institutional Investor.

At the same time, starting with 2019, ARIR launched Vektor - a set of 15 criteria of good practices in relation to investors based on which the IR activity of the companies listed on the Romanian stock exchange was evaluated. Following the evaluation, TeraPlast obtained the maximum grade, 10.

In 2019, the company distributed to employees the shares redeemed in 2017 and 2018.



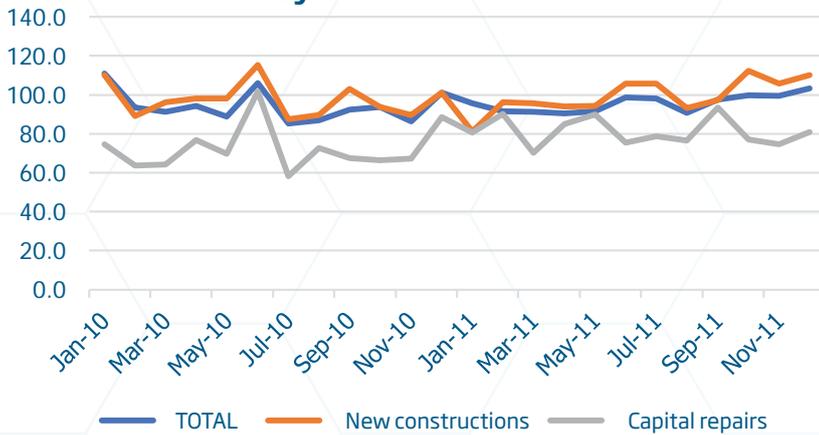
## 4. MARKETS WHERE THE TERAPLAST GROUP IS ACTIVE

The TeraPlast Group operates in the construction materials market, and its product portfolio addresses all segments of the construction market.

According to estimates by ARACO (Romanian Association of Construction Contractors), the construction sector amounted to about 10 billion euros in 2019, and the construction materials market represents about a third of it, i.e. about 3.3 billion euros. According to INS data, last year the construction sector had a contribution of 6.4% to the formation of Romania's Gross Domestic Product.

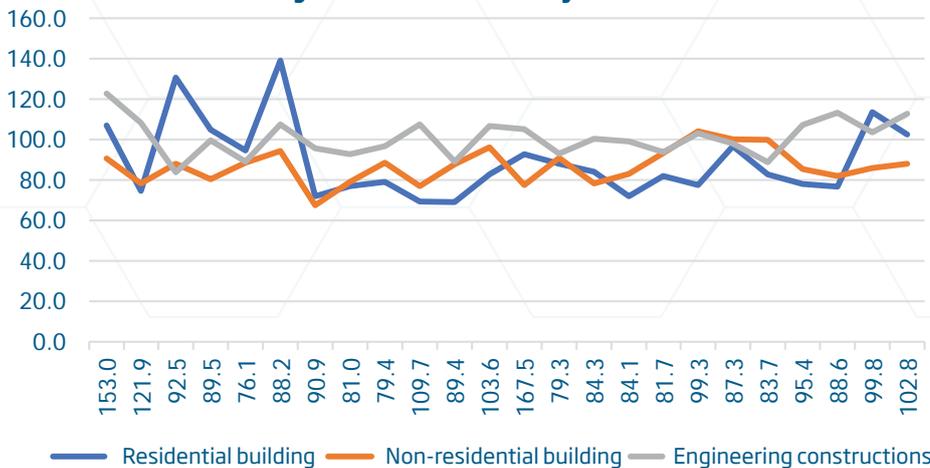
The volume of construction works increased in 2019 by 27.6% compared to 2018.

### Breakdown by structural elements



Breaking it down by structural elements, the highest increase was registered by new constructions, with + 32.5%, followed by current maintenance and repair works with + 26.3% and capital repair works with + 0.9%.

### Breakdown by construction objects



Breaking it down by construction objects, the volume of construction works registered +49.1% for non-residential buildings, +26.2% for residential buildings and +16.6% for engineering constructions.

Through its product portfolio, the TeraPlast Group addresses each of the three segments of the construction market, as follows:

### **Residential**

- Roof and drainage systems
- Interior sewerage
- Products for electrical installations
- Wastewater storage and treatment systems

### **Non-residential**

- Lightweight galvanized steel purlins
- Thermal insulation panels
- Corrugated sheet
- Wastewater storage and treatment systems

### **Infrastructure**

- Water and gas pipes and fittings
- Pipes and fittings for external sewerage
- Maholes, inspection chambers and accessories

## **MARKETS WHERE THE TERAPLAST GROUP IS ACTIVE**

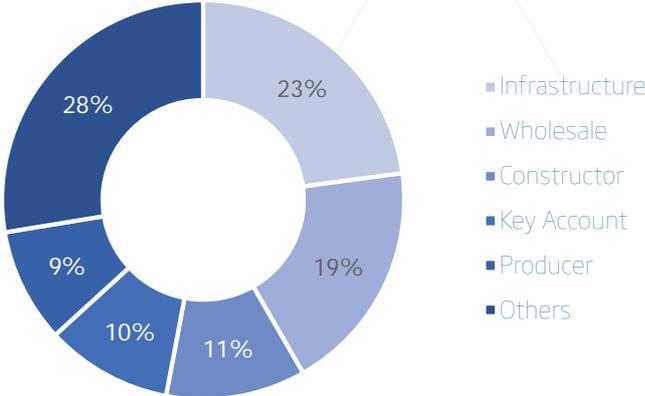
TeraPlast Group products are present in 25 European countries. In 2019, the Group's exports exceeded 48 million euros, which represents 23% of the Group's consolidated turnover in 2019.





TeraPlast Group companies deliver products to high European standards to over 3,000 customers per month.

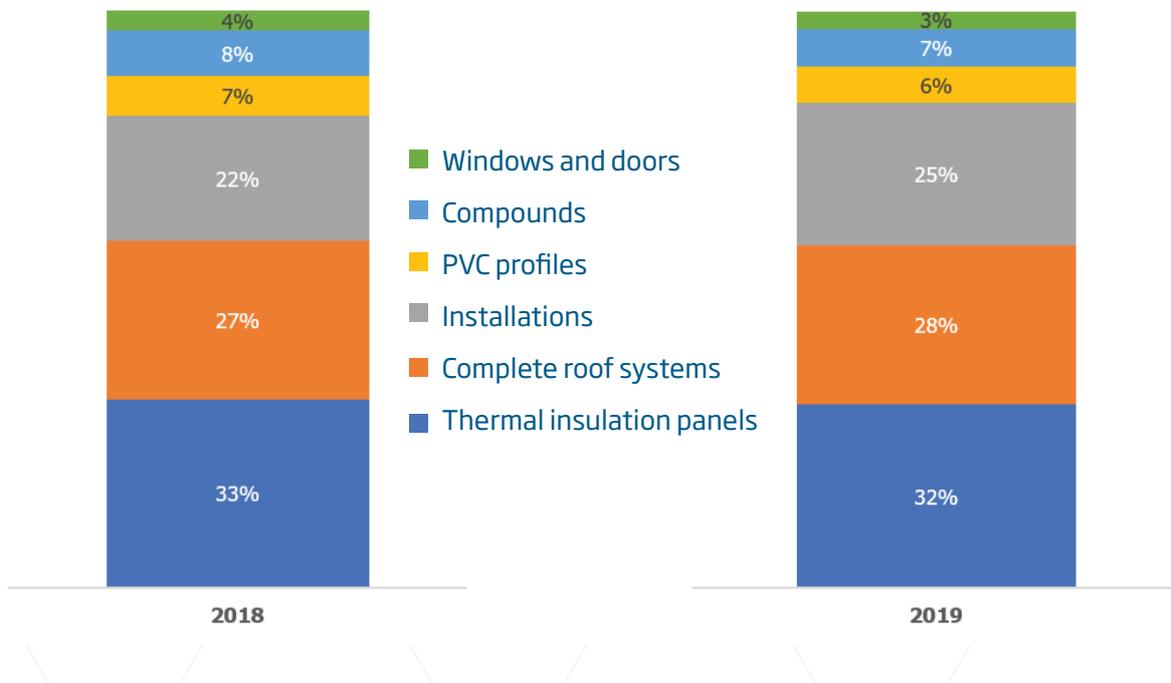
The Group's distribution network consists of a balanced mix of partners, depending on the specifics of each business:



## 5. BUSINESS SEGMENTS

The product portfolio of the TeraPlast Group is structured on seven business lines: Installations, PVC joinery profiles, PVC compounds, Thermal insulation panels, Windows & Doors, Complete roofing systems, Rigid PVC recycling.

The products of the TeraPlast Group are certified and tested by institutions such as: IFT Rosenheim, FIRES Slovakia, ZAG Slovenia, TECHNALIA Spain, INCERC Romania, and ICECON Romania. In addition, the Group has its own Research and Development department, Quality Management: ISO 9001, 14001, 18001. The internal testing laboratory is accredited by RENAR (Romanian Accreditation Association).



## Installations

The Installations business line includes five categories of PVC, polyethylene and polypropylene systems:

- Systems for external sewerage
- Drainage, storage and treatment systems
- Systems for interior sewerage
- Water and gas transport and distribution systems
- Underfloor heating systems

TeraPlast constantly invests in improving the solutions offered. This involves obtaining systems that fit the needs of the company's customers and reflects responsible development.

In 2019, the company launched a new solution in the portfolio of the Installations business line: 100-RC polyethylene pipe with polypropylene protective layer. This pipe stands out thanks to a high flexibility in installation, the possibility to use alternative techniques with or without sand bed, and due to the fact that it is compatible with existing fittings and welding equipment on the market and can shorten the execution times of the works.

The new product is an optimal choice for drinking water transport and distribution networks, natural gas, drainage, pressurized sewerage, general purpose water, vacuum sewers or water for other applications.

In addition, the PE 100-RC pipe with PP protective layer has a lifespan of up to 100 years and a minimal impact on the environment both in the installation process and during use.

The new type of pipe complements the current portfolio of TeraPlast and aims to provide Romanian water companies with a full range of options for the projects they carry out locally.

The development of the Installations business line also aims at diversifying the portfolio outside the infrastructure market. In 2019, the company implemented an investment project co-financed by the state aid scheme for products intended for the residential market. Thus, the company increased its presence on the market of polypropylene pipes by producing multilayered polypropylene pipes for interior sewerage.

TeraPlast is the leader of the Romanian external sewerage market and the second player on the Romanian installation market.



## PVC joinery profiles

The TeraPlast Group has been producing joinery profiles for over 25 years. Currently, the Profile business line produces three types of systems, with 4, 6 and 7 chambers, with constructive widths between 60 and 88mm. This line of business serves over 200 customers producing thermal insulation joinery.

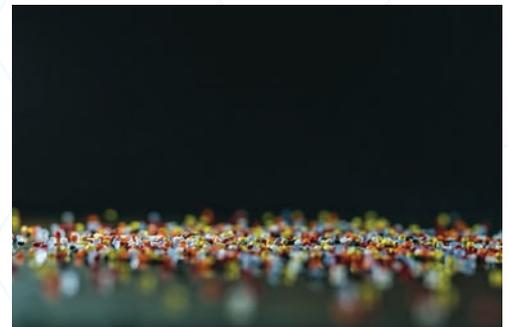


## Compounds

The Compounds business line offers plasticized and rigid compounds on the market, used in the moulding industry. The products are customized according to customer needs.

Through the project co-financed by the state aid scheme, this line of business brings an innovation on the Romanian compounds market through a new product: halogen-free, fire-resistant compounds (HFFR).

Currently, TeraPlast is the leader of the compounds market in Romania.



## Thermal insulation panels

The production of sandwich panels began in the TeraPlast Group in 2007, within TeraSteel. Starting with 2017, the TeraSteel business has consolidated its position on the Central and Eastern European market and is also present on the Serbian market through the TeraSteel Serbia production unit.

Today, the product portfolio includes:

- Thermal insulation panels with polyurethane foam (PUR)
- Thermal insulation panels with fire-retardant polyurethane foam (PIR)
- Thermal insulation panels with mineral wool (MW)
- Self-supporting corrugated sheet
- Lightweight galvanized steel purlins
- Turnkey halls

After investing more than 1 million euros in 2018 in the Serbian factory for the production of corrugated sheet and mineral wool sandwich panels, the company continued to develop its product portfolio. Thus, in 2019 TeraSteel launched Lead by TeraSteel: a new concept of metal hall for the buildings of the future, sustainable and reusable. The solution proposed by TeraSteel is made of the highest quality materials and is environmentally friendly. Beneficiaries of Lead by TeraSteel halls can obtain LEED and BREAM certificates - the highest certificates in the field of sustainability.

TeraSteel Romania and Serbia products are present in 25 European countries, and exports in 2019 accounted for 58% of turnover. TeraSteel is recognized as a reliable partner in the Central and Eastern European (CEE) region, being one of the leaders in the regional market for sandwich panels and galvanized steel purlins.



## Windows and doors

The production of windows and doors of the TeraPlast Group is carried out within the TeraGlass Company. With over 10 years of experience in the thermal insulation joinery market, TeraGlass produces:

- PVC and Aluminum windows
- PVC and Aluminum doors
- Facades, terraces and curtain walls
- Garage doors and accessories

In 2019, TeraGlass implemented an investment project to expand production capacity amounting to a total of over 17 million lei. As a result, the company doubled its production capacity for windows and doors through a new, fully automated flow. Thus, TeraGlass responds to the growing demand and enters new market segments.

TeraGlass, through this line of business, is the largest exporter of the TeraPlast Group, exports exceeding 80% of turnover in 2019.



## Complete roof systems

Through Wetterbest's complete roof systems business line, the TeraPlast Group is also present on the regional metallic roof tiles market. The product portfolio includes 5 metal roof tiles profiles, 5 corrugated sheet profiles, folded sheet, metal fence slats and a full range of roof accessories.

Wetterbest is one of the 3 companies of the Group that, in 2019, implemented investment projects through the state aid scheme to expand production capacity. Following the project, Wetterbest operates in a new factory in Băicoi. It has a production capacity of 10 million square meters of metallic roof tiles annually.

The development of Wetterbest products materialized in 2019 with the launch of three new products:

Suprem50 roof protection offers the highest resistance to corrosion and UV rays. In addition to the special appearance, protection can be applied to roof systems in any environment, from rural to coastal areas, in the mountains or in industrial areas. The colour warranty is up to 25 years, and the corrosion warranty reaches 50 years.

The new matte in the metal roofing market, Neomat30, offers a 30-year warranty for both corrosion and colour. This protection is differentiated by a pronounced matte appearance that offers elegance and a distinct note.

The new Cardinal metallic roof tiles profile is the perfect solution for simple and complex roofs. The profile optimally meets the special requirements of Wetterbest customers at the highest quality standards.

Wetterbest is the second manufacturer, in value and quantity, on the metal roof market in Romania.



## **Rigid PVC recycling**

Since 2018, the Group has been carrying out the activity of rigid PVC recycling. In line with the objectives of developing the business line and the need to treat this business as an independent one, TeraPlast SA decided in 2019 to transfer it to TeraPlast Recycling.

The TeraPlast Recycling factory has an annual processing capacity of 12,000 tons through state-of-the-art equipment from Sărățel. Thus, TeraPlast Recycling is the largest rigid PVC recycler in Romania and in the top 10 rigid PVC recyclers in Europe.



# III. THE TERAPLAST GROUP IN NUMBERS

## 1. THE RESULTS OF THE TERAPLAST GROUP

In 2019, our development strategy of the TeraPlast Group had as priorities the consolidation and development of the distribution network, the development of the regional presence, the product portfolio and the production capacities. The purpose of the strategy was to consolidate the Group's businesses and set the premises for the development we set out to do in 2020 and beyond.

In this regard:

- We implemented 3 projects co-financed by the state aid scheme, with a total value of 15 million euros. The projects aimed to expand production capacity for TeraPlast, TeraGlass and Wetterbest.
- We developed the TeraPlast and Wetterbest portfolios by launching new products.
- We expanded the national presence of Wetterbest through a new showroom in Braşov. It joins those from Cluj Napoca and Podari and consolidates the presence of the company's products in the Transylvania area.
- We transferred the rigid PVC recycling business from TeraPlast SA to TeraPlast Recycling.
- We strengthened the management team of Wetterbest and TeraGlass.
- We implemented operational efficiencies at group level.
- We consolidated the business portfolio by reaching 99% stakes in Wetterbest SA (100% from 2020) and 100% in Cortina WTB through Wetterbest SA.

**The results of the strategy are reflected in the performances registered at the end of 2019:**

**972,6 mill. LEI**  
turnover + 21%  
compared to 2018

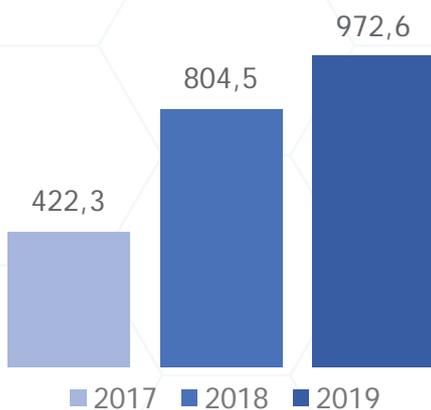
**91,2 mill. LEI**  
EBITDA + 41%  
compared to 2018

**41,8 mill. LEI**  
Net profit + 85%  
compared to 2018

Operational performance		2019	VS 2018
Pipes	LM	>16 mill.	+20%
Fittings & rotoforming	PCS	>8 mill.	+10%
Profiles	LM	7 mill.	+0,3%
Compounds	TO	>14.000	+2%
Sandwich panels	SQM	>3 mill.	+34%
Galvanized steel purlins	TO	>7.000	+32%
Metallic roof tiles	SQM	5 mill.	+12%
Corrugated sheet	SQM	>2 mill.	+49%
Drainage & accessories	PCS	>4 mill.	+8,2%
Windows & doors	UNITS	>118.000	-1,2%
Recycled rigid PVC	TO	>7.000	+29%

## Financial performance and evolution

In million lei		2019	2018	Evolution
TeraPlast	Turnover	365	292,6	25%
	EBITDA	37	20,6	80%
TeraSteel	Turnover	308,8	262	18%
	EBITDA	37,6	26,4	42%
Wetterbest	Turnover	269,9	221	22%
	EBITDA	15,1	14,6	4%
TeraGlass	Turnover	28,9	28,9	0%
	EBITDA	1,4	3,2	-56%
TeraPlast Group	Turnover	972,6	804,5	21%
	EBITDA	91,2	64,9	41%



## 2. THE OBJECTIVES OF THE TERAPLAST GROUP

For 2020, the TeraPlast Group has set the following targets:

**1.256,3 mill. LEI**  
LEI turnover

**145,1 mill. LEI**  
EBITDA

**11,6% EBITDA**  
**margin** - above the  
industry average

Therefore, in 2020, the TeraPlast Group aims at a significant increase in profitability against the background of the growth premises of Wetterbest and the Installations business line of TeraPlast. At the same time, TeraSteel Serbia has additional growth resources.

### Factors influencing the budget in 2020

In the context of the events related to the Coronavirus pandemic at the beginning of 2020, following the date of the consolidated financial statements, the TeraPlast Group and, implicitly, all its companies adopted a proactive attitude in managing potential risks. The first cases of Covid-19 were reported to the World Health Organization in December 2019 in China. At the date of this report, there were and are not any factors that would lead in any way to the need to adjust the consolidated and individual financial statements for the period January-December 2019 and closed on December 31, 2019.

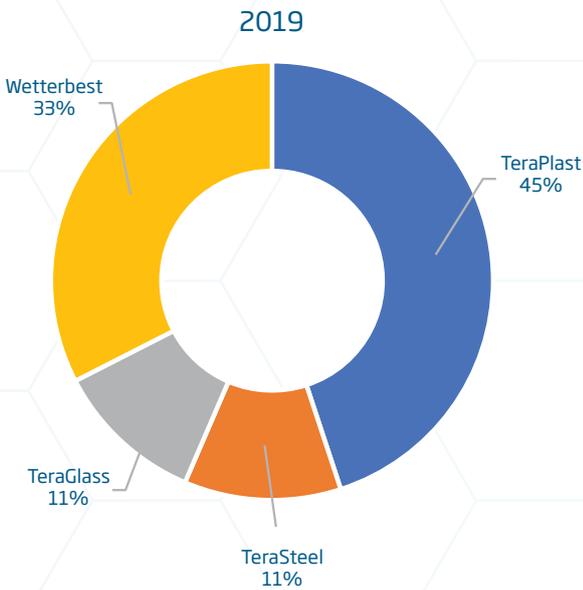
Following the subsequent evolution of the number of cases, the spread of the virus worldwide and, subsequently, the declaration of a state of emergency in Europe and Romania, the management of the TeraPlast Group proactively and progressively applied the necessary measures both on the recommendation of the authorities and as a result of internal analyses. The measures implemented cover all areas of activity of the Group, are monitored and adjusted, if the situation requires it, by the Analysis Commission which meets regularly at Group level. In order to ensure the correct information of interested parties, the TeraPlast Group reports, in accordance with the regulations to which it is subject, any events that exceed the materiality threshold and which, consequently, may to some extent have an impact on the evolution of the business of the Group's companies.

Considering that the first effects in Europe and Romania have been visible since March, and the current situation is constantly evolving and has a high degree of uncertainty, at this time, the management of the TeraPlast Group considers it impossible to provide a firm estimate of the impact of the pandemic on the Group. As a result, as of the date of this report, taking into account the evolution of the TeraPlast Group's business in the first quarter of 2020, the Group's estimates of the level of results for 2020 are in line with those recorded for 2019. At the same time, the potential impact of the current crisis will be included in the adjustments for expected depreciation and losses, related to the credit risk at the level of the Group, respectively of the companies in 2020.

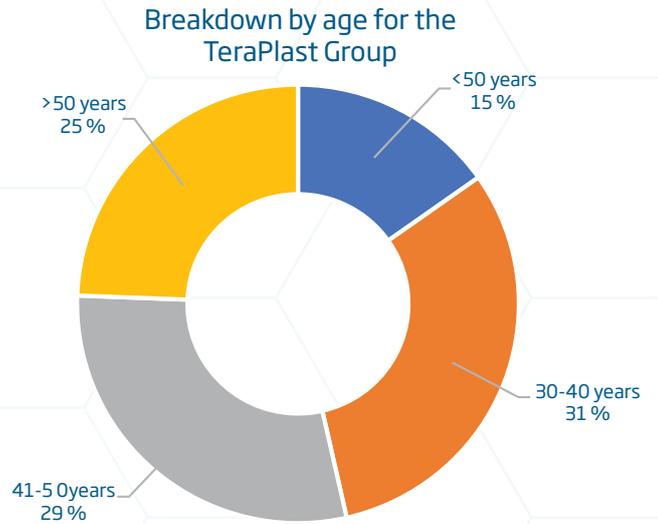
# **IV. EFFICIENCY AND RESPONSIBILITY**

## 1. THE EMPLOYEES OF THE TERAPLAST GROUP

At the end of the year 2019, the TeraPlast Group had a total of 1.207 employees, distributed as follows:

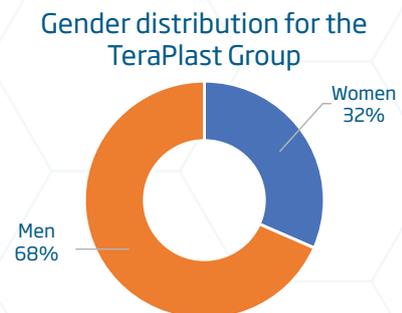
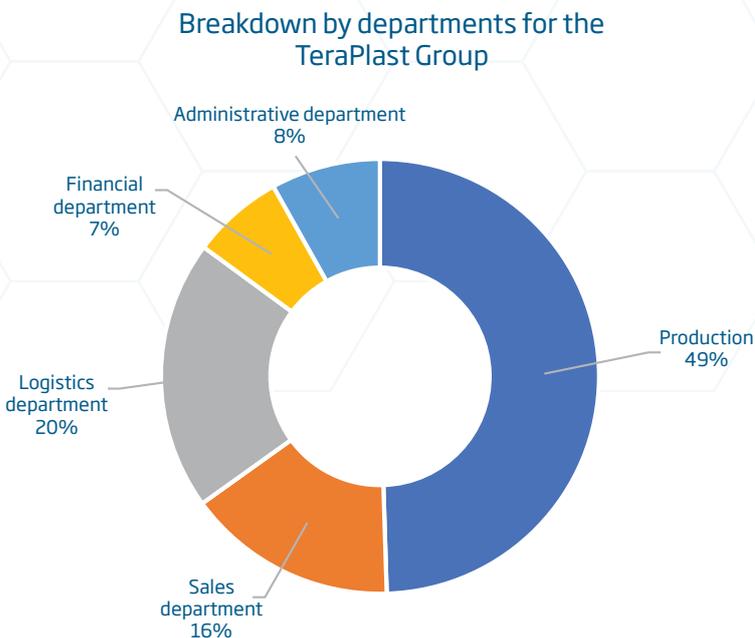


Other key figures related to the employees of the Group:



49% of the Group's employees are active in the field of production.

Balanced gender distribution at group level.



Gender distribution at management level for the TeraPlast Group



## The human resources policy

The priority of the HR department with respect to recruitment is to ensure the human capital necessary to carry out all planned activities at a quantitative and qualitative level, in order to provide concrete support in achieving the Group's objectives.

For this, **a precise, calibrated analysis of the human resources needs** is important, taking into account the relevant internal and external factors, such as the objectives of the departments for the current year, the activity planning schedule, the seasons of the industry, the indicators fluctuation and, at the same time, the characteristics of the labour market. Based on this analysis, we create the recruitment strategy which is a living and flexible element, constantly updated according to the changes that occur in the business.

Secondly, taking into account the occupational profile of the positions that need to be filled, we resort to **the identification and attraction of candidates with potential** to fill the vacant positions. In 2019, at country level, an average unemployment rate of 3% was registered, most of the people being unemployed without receiving unemployment benefits (87%), of which less than half - only 40% - graduated from at least one vocational school or high school (according to the website of the Ministry of Labour, mmuncii.ro). In response to these challenges, the diversity of recruitment methods and channels used is constantly growing, so the growing trend is to move from passive recruitment to active recruitment, including through a direct approach.

Thirdly, the road from candidate to employee involves **the application of an objective selection process**, which aims to match both the person with the job, but also to match the person with the team or organization. Lately, due to the changing balance between supply and demand, the selection has become more and more bidirectional: not only the organization chooses the right candidate, but also the candidate chooses the company that "convinces". Therefore, it is necessary both at the level of companies and at the level of the Group, to adapt our offer so as to remain a competitive employer.



Last but not least, finding the right candidate and launching an offer for him to accept is not a guarantee of recruitment success. The quality of the **pre-employment, hiring and integration** processes of the new employee in the team and in the organization can be defining in his decision to stay, perform and identify with the company's objectives, so as to make a constant effort to achieve them.

**In the recruitment process, the Human Resources department is based on the group of P-O-N-T principles: Professionalism, Objectivity, Non-discrimination and Transparency.**

One of our goals is to build, in the long run, a professional relationship with our candidates, based on mutual respect. This is applied through conduct, through the methods and tools we use in the recruitment process.

The use of objective criteria in the selection process and the constant application of the criteria in the analysis of the person's compatibility with the position is a predictor that directly correlates with choosing the most suitable candidate and determines an increase in integration and job performance, especially in the first months after employment.

In all our actions in general, including those related to the recruitment and selection process, we promote equal opportunities and treatment, eliminating any form of discrimination, whether direct or indirect in relation to the protected criteria (gender, ethnicity, race, political orientation, religion, etc.) as defined in national and European legislation. Thus, the method of comparison used in differentiating between candidates remains an objective one, in relation to the requirements of the vacancy for which they apply.

In the relationship with our applicants we want to keep a transparent communication, by informing them about the stages of the recruitment and selection process in which they participate. This involves providing constructive feedback, in line with the current phase, providing a realistic description of the job-specific working conditions and answers to the candidate's questions about the job and the organizational context, while maintaining the confidentiality of sensitive data, as regulated within the organization.

## **The HR activity in 2019**

In 2019, the Human Resources department focused on the development of several specific areas, starting from recruitment and reaching areas like reward, motivation and retention.

Regarding the recruitment and selection process, this process has been transformed from a passive one, into a predominantly active one, based on sourcing and direct approach of potential candidates. We have included the use of new methods and tools: targeted recruitment on Facebook, increasing visibility and promotion of positions on individual LinkedIn profiles, acquiring CVs and direct approach to potential candidates on dedicated platforms, and the use of networking at Group level. We managed to respond positively to the challenge of covering the need for human resources both locally and nationally (Transylvania, Maramureş, Moldova, Crişana, Banat, Muntenia, Dobrogea) and internationally (Serbia, Macedonia, Slovakia, Ukraine, Poland).

In the blue-collar area, during the peak periods, additional actions were launched, such as door-to-door campaigns in local areas or calls for specialized companies to facilitate the coverage of staff needs through national (Moldova) and international mobility / relocation (Vietnam). As a result, our production teams have been complemented also with foreign staff.

In the administrative area, the focus was on standardizing and streamlining processes and ensuring compliance with applicable law. Implementations of administrative and payroll software took place; personnel management processes were integrated and standardized.

In terms of pay, the main objective was to align with the market. The companies participated in salary surveys and used the data collected in order to establish a system of compensation and benefits aligned with the market that is at the same time attractive for the workforce. Variable payment systems have been aligned with companies' performance targets.

In the area of motivation and retention, the focus was both on providing non-salary benefits and on organizing activities for and with TeraPlast Group employees, in order to support and reward each other's contribution to the achievement of departmental, Company and Group objectives.

Out of the desire to support employees when they need it most, but also to demonstrate that everyone's safety matters to the Group, starting in October 2019, all TeraPlast Group employees benefit from a new accident insurance, with 24/7 worldwide coverage.

Beyond the material benefits, we know that the motivation to work in a team stems not only from the difficulty of the tasks and from the working conditions, but also from the quality of relationships with colleagues and the general atmosphere in which we operate. Therefore, in 2019, together with the Marketing department, 3 teambuildings were organized in Braşov, with the participation of approximately 100 employees in each of them:

- **TeraSteel teambuilding: January 25-27 (Cheile Grădiştei)**
- **Wetterbest teambuilding: October 11-13 (Perla Ciucaşului)**
- **TeraPlast teambuilding: November 16-17 (Bran)**

At the end of the year, the TeraPlast Group Day was organized in Bistriţa, an event open to all TeraPlast Group employees. The event was attended by over 500 people. On this occasion, our colleagues with more than 25 years in the company were celebrated. At the same time, those present participated in a raffle in which 30 prizes were awarded.

## **Objectives**

In 2020 we will continue to develop a set of modern, standardized and interconnected **procedures, instructions and work tools** for HR processes, and these shall be implemented at all levels of the Group's organizations in the next 3 years.

Effective **internal communication** is a key element in a growing organization that is constantly looking for new solutions to grow and remain competitive. In 2020 we will lay the foundations of a simple system for fast and accurate transmission of information internally, migrating as much as possible to digitization.

Another important point in the HR strategy for the period 2020-2023 is the **development of leaders within the organization**.

**The integration, training and development of employees** remains a constant direction of the department. Starting with 2020 and with the implementation of the new processes, we will build individualized internal and external programs.

At the same time, the digitization process will be continued by integrating the self-service platform for employees in the Serbian company, and by extending the UCMS platform to other HR processes: Time Management, Talent Management and Recruitment.

Within the Group, each company has its own organizational culture and its own value system. Even so, at the level of the TeraPlast Group we are guided by the values of pragmatism, transparency, responsibility, competence, business orientation and the needs of those around us.

We aim for the Group's training programs to be aligned with the Group's development objectives.

Collective labour agreements are negotiated according to the legislation in force, once every 2 years. Trade unions and employee representatives in each company are a constant discussion partner and are constantly consulted on any action of the Group with an impact on employees.

Our orientation is towards the standardization of the Group's processes in order to make them more efficient, without losing sight of the individual needs of each company.

In order to prevent corruption, discrimination and conflicts of interest, we have clear regulations, contained both in the company's Code of Ethics and in the internal regulations and individual employment contracts of employees. Employees receive training with respect to these when they are hired and the regulations are permanently available to them.



## 2. 360 SUSTAINABLE DEVELOPMENT

### Efficient solutions for people and the environment

The impact that our activity can have on the environment is an important element in the elaboration of the annual strategy. We constantly set management goals and reduce the negative impact, as well as prevent situations that may affect everything around us. We constantly allocate resources to identify and minimize factors with a negative influence and we are actively involved in sustainable development.

### The integrated management system

All TeraPlast Group companies have implemented the Environmental Management System according to the ISO 14001 standard - a component of the integrated quality-environment-health and operational safety management system.

The first certification of the Environmental Management System in TeraPlast was in 2009, by the SGS certification body, being recertified in 2018 by the same body. The activities regulated under this system are maintained, continuously improved and systematically verified both by means of an internal audit and by the certification body. Following inspections, internal and external audits and management reviews, action programs are established.

Within the environmental management system, special emphasis is placed on:

- training and awareness of all staff regarding the knowledge of legal requirements and regulations concerning the protection of the environment
- knowledge of the requirements of the environmental management system according to the ISO 14001 standard
- the company's environmental policy
- the specific applicable instructions and procedures

The mandatory reports are made periodically and are sent to ANPM (the National Environmental Protection Agency) Bucharest or APM (the Environmental Protection Agency) Bistrița-Năsăud, in accordance with the requests of the authorities.



## **Rigorous implementation of the Environmental Policy**

In order to fulfil the Policy, the commitment assumed and the achievement of environmental objectives and targets, management programs are established (annual or long-term), which include general and specific objectives, deadlines and means to achieve the objectives, responsibilities and authorities designated for the relevant functions.

In order to achieve the objectives and targets, Environmental Management Plans are drawn up, and the Environmental Manager monitors the stage of their achievement during the year, depending on their evolution.

The development of Management Programs takes into account the introduction of new technologies and the views of stakeholders. These programs are periodically analysed by the responsible factors in order to establish the stage of progress or are monitored directly by the Environmental Manager and brought to the attention of the top management.

In the case of projects and / or developments (changes in the product development process, introduction of new working conditions), the management programs are adapted on a case-by-case basis according to the situation, and actions are established to ensure the involvement of management.

Changes following the implementation of these projects / developments, as well as the new requirements of the applicable legal and regulatory norms are documented, in order to ensure the continuous operation of the management system.

## **Direct and indirect atmospheric emissions**

The TeraPlast Group is not currently covered by the industrial emissions legislation. The installations do not fall under the scope of GD 804/2007 (SEVESO).

For TeraSteel S.A., APM Bistrița-Năsăud carries out the procedure for issuing the integrated environmental permit in accordance with the provisions of the Order no. 818/2003, with subsequent amendments and completions, issued by M.A.P.A.M. (the Minister for Agriculture, Forestry and Water Supply).

## **Use and protection of natural resources**

In each company of our Group there are instructions and procedures related to the management of emergency situations. In all operational areas there are plans for various identified emergencies, along with prevention and intervention instructions.

Company personnel are properly trained in this direction and there are measures to prevent, intervene, limit and eliminate the effects of accidental pollution. When changes occur, emergency plans are updated and/or revised and, where possible, emergencies are simulated.

## Risk management

At the level of each company, the processes that take place on each site, the relevant aspects and the associated impact were identified. The processes in each company were analysed as follows:

- those that can be controlled directly (own processes), indirectly (subcontractors, service providers, visitors) or those that can be influenced (product suppliers)
- past (pollution history), present (resulting from own activity) and future (projects to be developed)
- generated by normal, abnormal activity and emergencies



From the analysis, we gather that in normal work situations there are no significant environmental risks that have not been already properly addressed through the policies implemented at Group level.

## Sustainable development

The TeraPlast Group is actively involved in the development of sustainable systems, and within the Research and Development Center, research activities are carried out annually in order to improve existing products and to obtain new products.

In 2019, the activity of the Research department was focused on the development of existing products by obtaining physical and mechanical properties superior to existing ones, on ensuring cost efficiency with respect to raw materials as well as on the development of new products. TeraPlast's research team has developed projects for all of the company's business lines.



The most important projects of the department that were aimed at sustainable development are:

- the development of improved recipes for existing products
- the use of zinc-free stabilizers
- the development of new, sustainable products, adapted to customer needs and manufactured according to the highest standards

Suppliers of raw materials are also assessed in terms of compliance with environmental requirements. We avoid the use of hazardous chemicals in our activities and in the supply chain. All hazardous chemicals used in the activities are carefully monitored, are accompanied by the Safety Data Sheet, and requirements from these Safety Data Sheet are transposed into internal measures (allocation of special spaces, storage/handling measures, use, training, etc.).

## **TeraPlast Recycling**

Every year, Romania buries the largest amount of plastic waste compared to any other state in the area - about 559,000 tons. Of these, up to 100,000 tons per year represent PVC waste.

In line with the Group's sustainable development strategy and the desire to create a context in which the culture of plastics recycling to develop, our Group has invested in a new line of business: recycling.

From April 2019, the business line was transferred to TeraPlast Recycling. The factory features state-of-the-art equipment, which allows us to obtain a superior quality finished product, and has an annual processing capacity of 12,000 tons. The company is the largest rigid PVC recycler in Romania and in the top 10 rigid PVC recyclers in Europe, according to processing capacity.

The rigid PVC waste processed in this line of business comes both from the country and from abroad, from countries such as the Netherlands, Denmark or Italy.

Rigid PVC can be recycled up to 8 times, and in the long run, responsible and regulated management of this waste, as well as the use of recycled raw materials can have a significant impact in reducing the current negative effects.

## **Pollution prevention and control**

In order to prevent soil contamination, all basins within the perimeter of our Group companies are properly sealed. At the same time, both the interior surfaces, where the production activities take place, and a part of the exterior surfaces, such as the surface required for the transport routes, are completely concreted. The non-concrete surface consists partially of green space.

Material loading and unloading takes place in designated areas, protected against leakage by liquid leakage or dust dispersion. There are adequate amounts of absorbents in the storage, suitable for controlling any accidental spillage.

Technological water is recirculated in a percentage of over 80%. Domestic waste water passes through treatment plants. Rainwater reaches oil separators and 2 sand traps. Wastewater quality indicators are determined quarterly and half-yearly.

Hazardous chemicals and preparations are purchased in compliance with the legislation in force and only together with the data sheet with safety data that allow all measures to be taken for environmental protection, as well as for occupational health and safety. The storage of various hazardous chemicals and preparations is done taking into account the compatibility between the substances. The management of these substances is carried out by trained persons who know the measures to be taken in case of emergency situations.

## Energy consumption

The Group constantly implements responsible management measures for energy consumption. The key performance indicators aim at maintaining a responsible and balanced energy consumption level, taking into account both climate conditions and the growth in production volumes.



The TeraPlast Group's concern for responsible environmental impact management translates into actions and investments of millions of euros. In 2018, the Group signed an agreement with E.ON Energie worth 1.9 million euros for energy efficiency solutions. Thus, E.ON builds in the TeraPlast Industrial Park from Sărățel, Bistrița-Năsăud County, a Photovoltaic Power Plant - one of the largest photovoltaic energy generation systems in Romania. The project is being finalized.

With the help of this plant, TeraPlast will be able to generate its own electricity from renewable sources, up to 2,196 Gigawatt hours (GWh) per year, which means a saving of up to 11.45% of the total energy currently required.

In addition to energy savings, the company will also reduce CO<sub>2</sub> emissions by up to 600,000 tons per year in the long run.

## Waste management

The companies of the TeraPlast Group generate recoverable and non-recoverable waste. These are:

- recyclable waste: plastic, metal, paper, cardboard and plastic packaging, wooden packaging, etc.
- non-recoverable waste: industrial waste, contaminated metal packaging and household waste

The implemented environmental management system obliges to minimize the quantities of waste resulting from the production processes where possible. The waste resulting in the company is collected selectively and recovered/disposed of by authorized economic operators with whom contracts have been concluded.

Hazardous waste shipped off-site for disposal is transported only by authorized economic operators, after ISU (the Inspectorate for Emergency Situations) is notified 24 hours in advance regarding the transport of hazardous substances, in compliance with the legal provisions in force. Waste is transported only from the site where the activity is performed to the disposal site, without adversely affecting the environment.

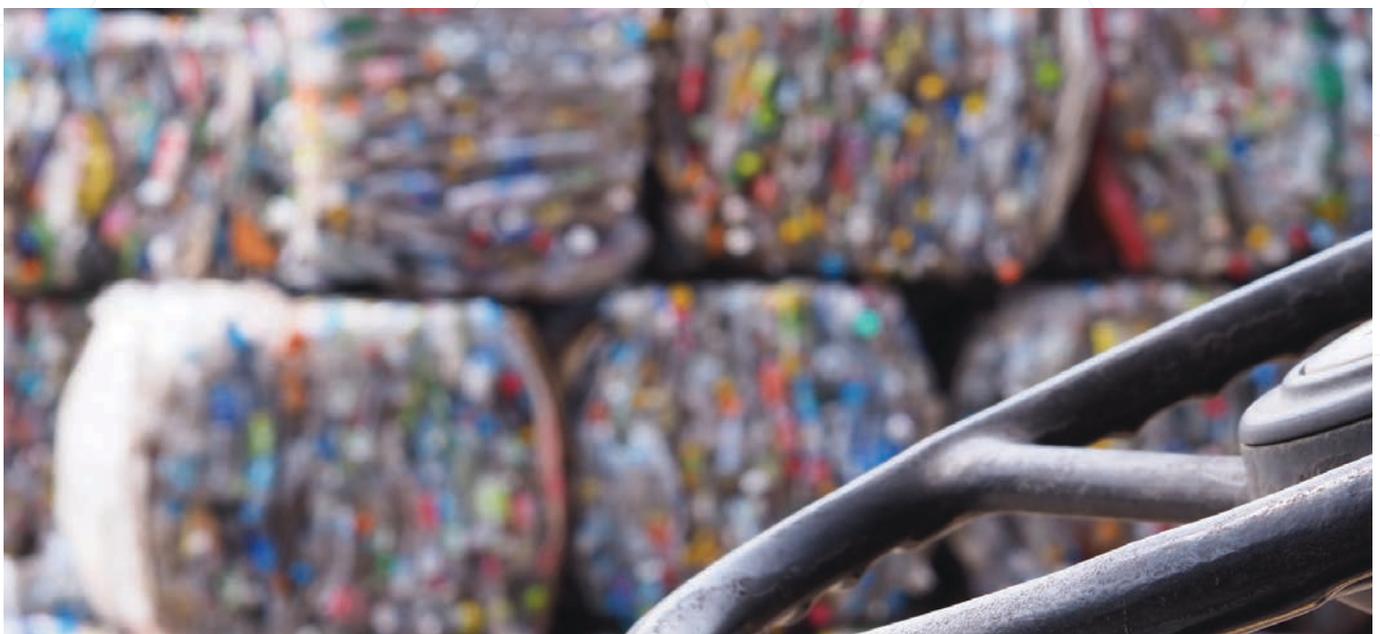
The waste is packaged and labeled in accordance with the legislation and rules in force on mandatory registration. During collection, recovery or disposal, all waste is temporarily stored in specially designed areas and places, adequately protected against spillage into the environment.

The management of all categories of waste is carried out in compliance with legal provisions. They are collected selectively, clearly labeled and stored temporarily, without mixing, until handed over to authorized operators (collectors/recyclers).

The recovery of waste from recyclable packaging is carried out in compliance with the provisions of Law 211/2011, Law 249/2015, GEO 74/2018 and the other legal provisions in force. Achieving the recycling targets of packaging placed on the market is done individually, through contracts for the delivery of packaging waste with authorized recycling/collection companies.

### **New product development**

During 2019, the TeraPlast company continued its direction of constant development of the portfolio of solutions offered by improving existing products and launching new products.



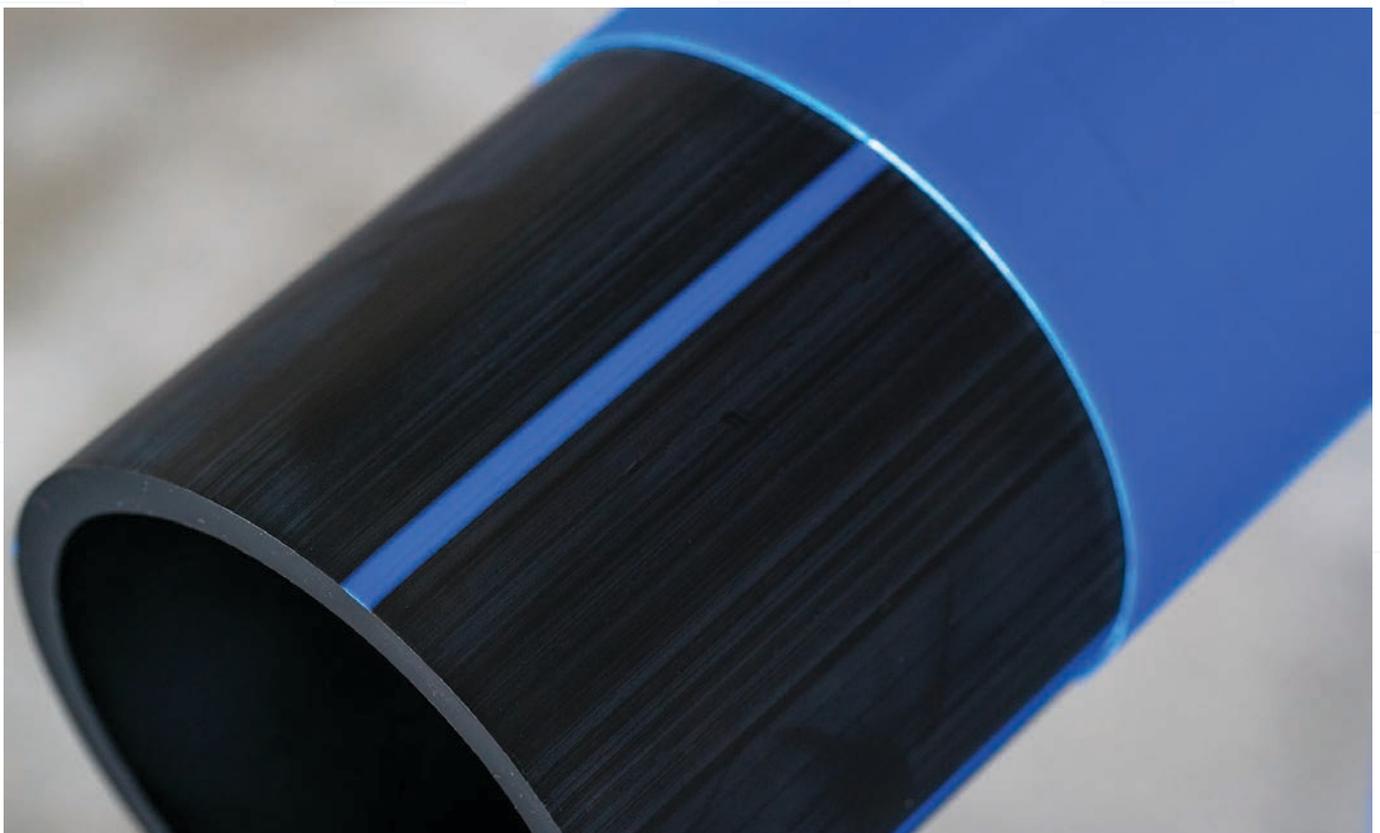
## The PE pipe with PP protective layer

TeraPlast launched a new type of pipes in 2019: the PE-100RC pipe with protective PP layer, manufactured from a main polyethylene layer and an exterior protection of polypropylene, aims to reduce installation costs and the efficiency of the installations it is meant for.

PE-100 RC with PP protective layer differentiates itself through higher installation flexibility using alternative techniques, with or without sand beds, techniques that are generally known as „trenchless technology“.

The new pipes have high flexibility and are compatible with the fittings and equipments available on the market. Using these pipes can shorten the execution time of the works by 35%-40% compared to using classic techniques. Moreover, the execution costs of the works can be reduced by cca 10%-15% through eliminating some of the specific installation operations.

The PP protective layer protects the pipes from the UV radiation and against the contamination during their entire manipulating, transport, employment and lifespan. The material used in the pipes does not interact with the environment nor the transported fluid, therefore there is no possibility for it to transfer to the fluid taste, smell or colour properties. Due to its high resistance to cracks, thermal aging, corrosion and aggressive soil, abrasion and impact, the PE-100RC pipes with PP layer are the optimal choice for transport and distribution of the drinking water, gas, drainage, pressure sewerage, general use water, vacuumatic sewerage and water for other use.



## Lead by TeraSteel

TeraSteel launched Lead - a new turnkey hall concept. The decision of launching Lead is in line with the European directive with regards to energy performance of the buildings that aims that until December 31st 2020, all buildings have a near to zero energy loss.

The Lead thermal insulating panels are manufactured using a special technology that allows superior sealing and an up to 20% energy loss economy compared to the market average. The products that have the Lead technology at base allow the building owners to obtain the BREEAM and/or LEED4 certification, some of the most popular standards for ecologic performance evaluation of the buildings.

Among other advantages of the Lead systems: easy building relocation, extended product warranty, up to 20% economy in the energy loss due to superior sealing compared to the market average.

Last but not least, the Lead package stands out through its superior protection due to the magnesium-aluminum-zinc alloy and corresponds to the REACH European standard.



## **Wetterbest: Suprem50, Neomat30, Cardinal**

Wetterbest launched three new products in 2019:

**Suprem50** is a new protection for the roofs that has an up to 50 years warranty. This completes the roof protections portfolio, offers the best UV protection and the highest corrosion resistance according to the norms.

The protection is the layer that protects the steel core of the metallic roof tile from rust and corrosive factors. The Suprem50 protection has a 50 microns thick paint layer, allows bending and assembly at temperatures up to minus 15 degrees Celsius. The scratching resistance is superior compared to the paint-based protections existent on the market.

Due to its characteristics, this protection can be used in every environment, in both rural and coastal areas, in the mountains or in the industrial areas. Depending on the environment the building is in, the warranty for the colour can reach 25 years, while the corrosion warranty reaches 50 years.

**Suprem50** is manufactured at the highest international standards by one of the world leaders in the steel production market, using the latest technologies and meeting all environmental regulations. This means that Suprem50 does not have chrome or other dangerous substances in its composition.



**wetterbest**  
PE FIECARE CASĂ

# **SUPREM 50**

## **Protecția supremă pentru acoperișul tău**

Cea mai mare rezistență la coroziune și UV

**Neomat30** is the new roof protection that offers 30 years of warranty for both corrosion and colour. Neomat 30 is the second roof protection launched by Wetterbest, after Suprem50. The 30 years warranty is the highest warranty in the market.

**Neomat30** offers the roof an elegant aesthetic through a high matte finish that offers a special distinct mark to the roof for at least 30 years. Moreover, due to the premium materials used in its manufacturing, this protection offer maximum performance in UV and corrosion protection.

**Wetterbest Neomat30** comes in addition to the current portfolio and applies to all 4 metallic roof tiles profiles as well as to the rolls and trapezoidal sheet profiles manufactured by the company.

**wetterbest**  
PE FIECARE CASĂ

**WETTERBEST**  
30/30  
ANI  
GARANȚIE

**NEOMAT 30**  
Culoare la superlativ

**Cardinal** is the new metallic roof tiles profile, recommended for both simple and complex shaped roofs. The shape of the new profile eases its cutout according to the roof segments'.

**Cardinal** is an asymmetrical profile with two capillar canals that stand out though mechanical resistance to the environmental factors, offer high sealing and has an up to 50 years lifespan together with the Suprem50 protection.

Aesthetically, the new profile is close to the concrete roof tiles' shape and is available in the same colour and technical specifications as the rest of the portfolio range.



## **HFFR Compounds**

Following the investment project of TeraPlast in 2019, the company offer an innovation on the Romanian compounds market: halogen-free, fire-resistant compounds.

These are in homologating processes with the clients and are mainly used in electric cable protection.

## **3. RISK MANAGEMENT**

The risk management activity within the Group is carried out in the areas of financial risks (credit, market, geographical, foreign exchange, interest rate and liquidity risk), operational risks and legal risks. The primary objectives of the financial risk management activity are to set risk limits, and then to ensure that risk exposure remains within those limits. Operational and legal risk management activities are intended to ensure the proper functioning of internal policies and procedures to minimize operational and legal risks.

### **(a) Capital risk management**

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

The capital structure of the Group consists of debts, which include loans, cash and cash equivalents and equity attributable to holders of the Group's equity. Equity comprises the share capital, reserves and retained earnings.

The Group's risk management also includes a regular analysis of the capital structure. As part of this analysis, management considers the cost of capital and the risks associated with each class of capital.

Based on management's recommendations, the Group may balance its general capital structure by paying dividends, issuing new shares and repurchasing shares, as well as entering into new debts or settling existing debts.

**(b) The objectives of financial risk management**

The Group's treasury function provides services necessary for the activity, coordinates access to the national financial market, monitors and manages the financial risks related to the Group's operations through internal risk reports, which analyse the exposure by the degree and magnitude of the risks.

These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

**(c) Market risk**

The Group's activities primarily expose it to financial risks related to exchange rate and interest rate fluctuations.

The Group's management continuously monitors its exposure to risks. However, the use of this approach does not protect the Group from potential losses outside the foreseeable limits in the event of significant market fluctuations. There has been no change from the previous year in the Group's exposure to market risks or in the way the Group manages and measures its risks.

**(d) Management of exchange rate risks**

The group carries out transactions denominated in different currencies. Hence, there is a risk of exchange rate fluctuations. Exchange rate exposures are managed in accordance with approved policies.

**(e) Management of interest rate risks**

The Group's interest-bearing assets, income and cash flows from operational activities are exposed to fluctuations in market interest rates. The Group's interest rate risk arises from its bank loans. Variable interest rate loans expose the Group to the risk of interest cash flows. The Group did not resort to any hedging operation in order to reduce its exposure to interest rate risk.

The Group continuously monitors its exposure to interest rate risk. This includes simulating various scenarios, including refinancing, updating existing positions, financing alternatives. Based on these scenarios, the Group estimates the potential impact on the profit and loss account of defined interest rate fluctuations. In each simulation, the same interest rate fluctuation is used for all currencies. These scenarios are prepared only for debts that represent the main interest-bearing positions.

The Group is exposed to interest rate risk, given that the entities within the Group borrow funds at both fixed and variable interest rates. The risk is managed by the group by maintaining a favourable balance between fixed rate and variable rate loans.

**(f) Other price-related risks**

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

**(g) Credit risk management**

Credit risk refers to the risk that a third party will not comply with its contractual obligations, thus causing financial losses to the Group. The Group has adopted a policy of trading only with trusted parties and obtaining sufficient guarantees, where appropriate, as a means of reducing the risk of financial losses as a consequence of non-compliance. The Group's exposure and the credit ratings of third-party contractors are monitored by management.

Trade receivables consist of a large number of customers, from various industries and geographical areas. The permanent evaluation of the credits is carried out in relation to the financial state of the clients and, when required, a credit insurance is concluded.

Cash is held in financial institutions which, at the time of deposit, are considered to have the lowest risk of default. The Group has policies that limit the amount of exposure for any financial institution.

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

The Group considers the exposure to credit risk to the counterparty or group of counterparties with similar characteristics, analysing receivables individually and making impairment adjustments with the customer credit management department.

**(h) Liquidity risk management**

The ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the Group's short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity risks by maintaining adequate reserves, banking facilities and reserve lending facilities, by continuously monitoring real cash flows and by matching the maturity profiles of financial assets and liabilities.

### **(i) Risks related to unforeseeable events - Covid-19**

In the context of the events related to the Coronavirus pandemic at the beginning of 2020, following the date of the consolidated financial statements, the TeraPlast Group and, implicitly, all its companies adopted a proactive attitude in managing potential risks.

The first cases of Covid-19 were reported to the World Health Organization in December 2019 in China. At the date of this report, there were and are not any factors that would lead in any way to the need to adjust the consolidated and individual financial statements for the period January-December 2019 and closed on December 31, 2019.

Following the subsequent evolution of the number of cases, the spread of the virus worldwide and, subsequently, the declaration of a state of emergency in Europe and Romania, the management of the TeraPlast Group proactively and progressively applied the necessary measures both on the recommendation of the authorities and as a result of internal analyses. The measures implemented cover all areas of activity of the Group, are monitored and adjusted, if the situation requires it, by the Analysis Commission which meets daily at Group level.

In order to ensure the correct information of interested parties, the TeraPlast Group reports, in accordance with the regulations to which it is subject, any events that exceed the materiality threshold and which, consequently, may to some extent have an impact on the evolution of the business of the Group's companies.

Considering that the first effects in Europe and Romania have been visible since March, and the current situation is constantly evolving and has a high degree of uncertainty, at this time, the management of the TeraPlast Group considers it impossible to provide a firm estimate of the impact of the pandemic on the Group. As a result, as of the date of this report, taking into account the evolution of the TeraPlast Group's business in the first quarter of 2020, the Group's estimates of the level of results for 2020 are in line with those recorded for 2019.

At the TeraPlast Group level, ten scenarios were created depending on the possible evolutions of the current context. They follow the following parameters:

- Potential negative developments in turnover, generated by the evolution of the epidemic, but also by a subsequent economic crisis, going as far as simulating the suspension of activity, if a provision of the authorities would require it
- The impact on cash flows of possible defaults from customers
- Ability to bear debt service
- Adjusting fixed costs to minimize the impact on profitability in declining sales scenarios

The scenarios have associated action plans that are gradually implemented in each company, as the existing situation has an impact on each activity.

**So far, among the measures implemented, we mention:**

- Ensuring increased hygiene measures, in accordance with the recommendations in force, for employees
- Limiting interaction with external staff and business travel, as well as the use of electronic means of interaction
- Carrying out telework activity, by rotation, where possible
- Reduction of temporary staff costs in sectors where production has been reduced as a result of declining orders
- At the level of the Group's management, salaries were temporarily reduced in proportions between 25% and 50%
- Measures to reduce the work schedule have also been applied to TESA (technical, financial and social-administrative) staff with the corresponding decrease in pay
- Negotiation with trade unions to make the provisions of the collective agreement flexible for this period, in order to reduce possible non-recurring costs in case of redundancies
- Renegotiation of contracts with suppliers and identification of alternative suppliers to ensure the availability of raw materials
- Reducing stocks of raw materials and finished products to reduce working capital requirements
- Renegotiation of lease contracts for at least 3 months

The potential impact will be included in the adjustments for impairment and expected losses, related to the credit risk at the level of the Group, respectively of the companies in 2020.

## 4. SOCIAL RESPONSIBILITY

As the largest Romanian manufacturer of construction materials, involvement in society and a responsible attitude towards people and the environment are natural elements in daily activities. Being responsible means carrying out activities that generate the long-term well-being of the company's shareholders and employees, but also contributing to the improvement of situations and behaviours in the communities in which we operate.

TeraPlast's CSR programs focus on both the company's internal culture and external activities. For the TeraPlast Group, the main directions of involvement in society are employees, local communities, sporting events and cultural events.

The social responsibility projects are reunited in the Together We Build Romania platform, which is based on three pillars:

### Education

The development of society's individuals is based on education. Whether it's the school years, the good family upbringing or the professional sphere, we believe that development is always based on a learning process.

### Social

Actions in the social sphere are intended to create an environment conducive to development and to promote equal opportunities. For us, this means contributing to the creation of a living environment which ensures the basic needs are covered, to actions and measures through which to improve or solve problems of members of society.

### Health and Environment

Promovarea unor obiceiuri sănătoase prin activități sportive și a unui mediu înconjurător  
Promoting healthy habits through sports activities and a healthy environment. We support initiatives aimed at excellence, a healthy life and at "creating a better world".



## 5. THE RESPONSIBLE PROCUREMENT POLICY

The procurement activity is essential to achieve the Group's objectives and to maintain a high degree of quality, competitiveness and performance in terms of the products we place on the market.

The success of our products is closely linked to the quality of the materials supplied and our ability to innovate and develop the products sold. We have the support of our suppliers with whom we develop new products, improve existing products and guarantee consistency in terms of quality for our products.

The procurement activity aims to ensure the supply of all the raw materials, goods and services required within the Group, in a transparent, efficient, timely manner, obtaining the best conditions and complying with the procurement policy and procedures.

The Group's procurement policy is an integral part of the company's overall objective of satisfying customer requirements, managing production processes efficiently and complying with the requirements of the integrated management system. The procurement policy applies to all suppliers of raw materials, materials and services in the group.

In accordance with the procurement policy, we are interested in collaborating with suppliers who share our philosophy on quality, which is why we constantly evaluate suppliers and apply an internal system of qualification and acceptance.

The Group's suppliers will observe and comply with local, national and international environmental regulations. They are required to have all the necessary environmental approvals and permits required to carry out the activity.

### **Our suppliers:**

- Provide high quality goods, services and processes and adopt reliable quality management methods
- Are competitive on international markets
- Have high-performance technology, and their goods and services meet international standards in the field of environment, safety and health
- Pursue the development of long-term partnerships with the entities of the TeraPlast Group, adapting their offers and strategy to offer competitive solutions

The selection and acceptance of suppliers is based both on the evaluation of their ability to supply products according to our requirements, as well as on the following criteria: quality/price ratio, certified management systems, payment methods, delivery availability and complaint resolution. The evaluation process also consists of auditing and visiting suppliers, in order to assess the compliance with environmental, occupational health and safety as well as social responsibility requirements.

The Group's procurement policy is correlated with the quality standards (SR EN ISO 9001), environmental standards (SR EN ISO 14001) and occupational health and safety standards (SR OHSAS 18001), but it also contains specific requirements based on the company's Code of Conduct.

This ensures the general conditions concerning:

- the quality of the products and services purchased
- product safety / management of chemical substances
- protection of the environment
- the code of conduct related to the procurement activity

The list of approved suppliers includes all suppliers from which purchases are made and we have ensured that they comply with legal and regulatory requirements both in Europe and in the areas where they operate, regarding: forced labour, child exploitation, discrimination, environment, bribery and corruption, unfair competition, etc. Suppliers are visited before a collaboration begins, and are periodically re-evaluated to determine if they can still meet the established requirements.

Providers will comply with all applicable anti-corruption laws and regulations, and will have a zero-tolerance policy with respect to any form of bribery, corruption and embezzlement. They must conduct all their transactions in a transparent manner and accurately reflect them in accounting records.



# V. CORPORATE GOVERNANCE

## **1. CORPORATE GOVERNANCE STRUCTURES AND THE CORPORATE GOVERNANCE STATEMENT**

Teraplast has implemented recommendations of the Corporate Governance Code of Bucharest Stock Exchange, setting out governance principles and structures mainly aimed at respecting shareholders' rights as well as at providing them fair treatment. In that sense, the Board of Directors elaborated a Regulation for Organization and Operation, consistent with the CGC principles, thus ensuring the company's transparency and sustainable development. The Regulation for Organization and Operation also sets out the roles corresponding to the Board of Directors, competences and responsibilities of the Board, so as to ensure observance of interests of all the company's shareholders, and not least, equal access of the shareholders, and also of potential investors to relevant information pertaining to the company.

For continuation of the process of implementing the principles of the Code of Corporate Governance, the General Meeting of September 2019 elected a new Board of Directors made up of five directors, one of whom is independent from other significant shareholders. Enough members have been this way ensured as to guarantee the Board's efficiency to supervise, analyze and evaluate the efficiency of Teraplast's executive management, the Board's main goal as a collective body being to promote and observe the interests of the company's shareholders.

Another step of the implementation process is the essential amendment of the Company's Memorandum of Association, approved by the General Meeting of Shareholders of September 2019, at which time provisions of the Memorandum were made to match regulatory documents specific to the Romanian stock market and also recommendations and principles included in Code of Corporate Governance of Bucharest Stock Exchange.

Moreover, in compliance with CGC recommendations, strict rules have been set within the company on the internal movement and disclosure to third parties of confidential documents and privileged information, a special importance being granted to data and/or information that could influence the evolution of market price of securities issued by Teraplast. In this sense, specific confidentiality agreements were concluded, with the company management and executives as well as with employees who, based on their positions and/or responsibilities, have access to such confidential/privileged information.

## Corporate Governance Statement

Principle	Requirement	Complies / Does not comply	If does not comply, actions towards compliance
A1	All companies should have internal regulation of the Board which includes terms of reference/responsibilities for Board and key management functions of the company, applying, among others, the General Principles of Section A.	Complies	
A2	Provisions for the management of conflict of interest should be included in Board regulation. In any event, members of the Board should notify the Board of any conflicts of interest which have arisen or may arise, and should refrain from taking part in the discussion (including by not being present where this does not render the meeting non-quorate) and from voting on the adoption of a resolution on the issue which gives rise to such conflict of interest.	Complies	
A3	The Board of Directors should have at least five members	Complies	
A4	The majority of the members of the Board of Directors should be non-executive. Not less than two non-executive members of the Board of Directors should be independent, in the case of Premium Tier Companies. Each member of the Board of Directors should submit a declaration that he/she is independent at the moment of his/her nomination for election or reelection as well as when any change in his/her status arises, by demonstrating the ground on which he/she is considered independent in character and judgment in practice and according to the criteria from the BVB Corporate Governance Code	Complies	
A5	A Board member's other relatively permanent professional commitments and engagements, including executive and nonexecutive Board positions in companies and not-for-profit institutions, should be disclosed to shareholders and to potential investors before appointment and during his/her mandate.	Complies	
A6	Any member of the Board should submit to the Board, information on any relationship with a shareholder who holds directly or indirectly, shares representing more than 5% of all voting rights. This obligation concerns any kind of relationship which may affect the position of the member on issues decided by the Board	Complies	
A7	The company should appoint a Board secretary responsible for supporting the work of the Board	Complies	
A8	The corporate governance statement should inform on whether an evaluation of the Board has taken place under the leadership of the chairman or the nomination committee and, if it has, summarize key action points and changes resulting from it. The company should have a policy/guidance regarding the evaluation of the Board containing the purpose, criteria and frequency of the evaluation process.	Complies	
A9	The corporate governance statement should contain information on the number of meetings of the Board and the committees during the past year, attendance by directors (in person and in absentia) and a report of the Board and committees on their activities	Complies	
A10	The corporate governance statement should contain information on the precise number of the independent members of the Board of Directors	Complies	

A11	The Board of Premium Tier companies should set up a nomination committee formed of non-executives, which will lead the process for Board appointments and make recommendations to the Board. The majority of the members of the nomination committee should be independent	Does not comply - TRP is in Standard category	
B1	The Board should set up an audit committee, and at least one member should be an independent non-executive. The majority of members, including the chairman, should have proven an adequate qualification relevant to the functions and responsibilities of the committee. At least one member of the audit committee should have proven and adequate auditing or accounting experience. In the case of Premium Tier companies, the audit committee should be composed of at least three members and the majority of the audit committee should be independent.	Complies	
B2	The audit committee should be chaired by an independent non-executive member.	Complies	
B3	Among its responsibilities, the audit committee should undertake an annual assessment of the system of internal control.	Complies	
B4	The assessment should consider the effectiveness and scope of the internal audit function, the adequacy of risk management and internal control reports to the audit committee of the Board, management's responsiveness and effectiveness in dealing with identified internal control failings or weaknesses and their submission of relevant reports to the Board	Complies	
B5	The audit committee should review conflicts of interests in transactions of the company and its subsidiaries with related parties	Complies	
B6	The audit committee should evaluate the efficiency of the internal control system and risk management system	Complies	
B7	The audit committee should monitor the application of statutory and generally accepted standards of internal auditing. The audit committee should receive and evaluate the reports of the internal audit team.	Complies	
B8	Whenever the Code mentions reviews or analysis to be exercised by the Audit Committee, these should be followed by cyclical (at least annual), or ad-hoc reports to be submitted to the Board afterwards	Complies	
B9	No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the company with shareholders and their related parties	Complies	
B10	The Board should adopt a policy ensuring that any transaction of the company with any of the companies with which it has close relations, that is equal to or more than 5% of the net assets of the company (as stated in the latest financial report), should be approved by the Board following an obligatory opinion of the Board's audit committee, and fairly disclosed to the shareholders and potential investors, to the extent that such transactions fall under the category of events subject to disclosure requirements.	Complies	
B11	The internal audits should be carried out by a separate structural division (internal audit department) within the company or by retaining an independent third-party entity	Complies	

B12	To ensure the fulfillment of the core functions of the internal audit department, it should report functionally to the Board via the audit committee. For administrative purposes and in the scope related to the obligations of the management to monitor and mitigate risks, it should report directly to the chief executive officer	Complies	
C1	The company should publish a remuneration policy on its website and include in its annual report a remuneration statement on the implementation of this policy during the annual period under review. The remuneration policy should be formulated in such a way that allows stakeholders to understand the principles and rationale behind the remuneration of the members of the Board and the CEO, as well as of the members of the Management Board in two-tier board systems. It should describe the remuneration governance and decision-making process, detail the components of executive remuneration (i.e. salaries, annual bonus, long term stock-linked incentives, benefits in kind, pensions, and others) and describe each component's purpose, principles and assumptions (including the general performance criteria related to any form of variable remuneration). In addition, the remuneration policy should disclose the duration of the executive's contract and their notice period and eventual compensation for revocation without cause. The remuneration report should present the implementation of the remuneration policy vis-à-vis the persons identified in the remuneration policy during the annual period under review. Any essential change of the remuneration policy should be published on the corporate website in a timely fashion.	Complies	
D1	The company should have an Investor Relations function - indicated, by person (s) responsible or an organizational unit, to the general public. In addition to information required by legal provisions, the company should include on its corporate website a dedicated Investor Relations section, both in Romanian and English, with all relevant information of interest for investors, including: D.1.1. Principal corporate regulations: the articles of association, general shareholders' meeting procedures; D.1.2. Professional CVs of the members of its governing bodies, a Board member's other professional commitments, including executive and non-executive Board positions in companies and not-for-profit institutions; D.1.3. Current reports and periodic reports (quarterly, semi-annual and annual reports) – at least as provided at item D.8 – including current reports with detailed information related to non-compliance with the present Code; D.1.4. Information related to general meetings of shareholders: the agenda and supporting materials; the procedure approved for the election of Board members; the rationale for the proposal of candidates for the election to the Board, together with their professional CVs; shareholders' questions related to the agenda and the company's answers, including the decisions taken; D.1.5. Information on corporate events, such as payment of dividends and other distributions to shareholders, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles applied to such operations. Such information should be published within a timeframe that enables investors to make investment decisions; D.1.6. The name and contact data of a person who should be able to provide knowledgeable information on request; D.1.7. Corporate presentations (e.g. IR presentations, quarterly results presentations, etc.), financial statements (quarterly, semi-annual, annual), auditor reports and annual reports	Complies	
D2	A company should have an annual cash distribution or dividend policy, proposed by the CEO or the Management Board and adopted by the Board, as a set of directions the company intends to follow regarding the distribution of net profit. The annual cash distribution or dividend policy principles should be published on the corporate website	Does not comply	On its way to be implemented

D3	A company should have adopted a policy with respect to forecasts, whether they are distributed or not. Forecasts means the quantified conclusions of studies aimed at determining the total impact of a list of factors related to a future period (so called assumptions): by nature such a task is based upon a high level of uncertainty, with results sometimes significantly differing from forecasts initially presented. The policy should provide for the frequency, period envisaged, and content of forecasts. Forecasts, if published, may only be part of annual, semi-annual or quarterly reports. The forecast policy should be published on the corporate website.	Complies	
D4	The rules of general meetings of shareholders should not restrict the participation of shareholders in general meetings and the exercising of their rights. Amendments of the rules should take effect, at the earliest, as of the next general meeting of shareholders	Complies	
D5	The external auditors should attend the shareholders' meetings when their reports are presented there	Complies	
D6	The Board should present to the annual general meeting of shareholders a brief assessment of the internal controls and significant risk management system, as well as opinions on issues subject to resolution at the general meeting	Complies	
D7	Any professional, consultant, expert or financial analyst may participate in the shareholders' meeting upon prior invitation from the Chairman of the Board. Accredited journalists may also participate in the general meeting of shareholders, unless the Chairman of the Board decides otherwise.	Complies	
D8	The quarterly and semi-annual financial reports should include information in both Romanian and English regarding the key drivers influencing the change in sales, operating profit, net profit and other relevant financial indicators, both on quarter-on-quarter and year-on-year terms	Complies	
D9	A company should organize at least two meetings/conference calls with analysts and investors each year. The information presented on these occasions should be published in the IR section of the company website at the time of the meetings/conference calls	Complies	
D10	If a company supports various forms of artistic and cultural expression, sport activities, educational or scientific activities, and considers the resulting impact on the innovativeness and competitiveness of the company part of its business mission and development strategy, it should publish the policy guiding its activity in this area	Complies	

# **VI. INDEPENDENT AUDITOR'S REPORT**

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders,  
Teraplast S.A.

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

1. We have audited the consolidated financial statements of Teraplast S.A. (the "Group"), with registered office in Saratel, Șieu-Măgheruș, DN 15A km 45+500, Bistrița-Năsăud county, identified by the unique tax registration code 3094980, which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, including a summary of significant accounting policies and notes to the financial statements.
2. The consolidated financial statements as at December 31, 2019 are identified as follows:

• Net assets / Equity	RON	276,148,399
• Net profit for the financial year	RON	38,907,530
3. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU with subsequent amendments.

#### Basis for Opinion

4. We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and the Council (forth named The "Regulation") and Law 162/2017 ("the Law"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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), in accordance with ethical requirements relevant for the audit of the financial statements in Romania including the Regulation and the Law 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

5. 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 financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the key audit matter
<p><b>Recoverability of the book value of the Goodwill</b></p>	
<p>Following the acquisition of Wetterbest S.A.'s shares (previously named "Depaco S.R.L."), Teraplast recorded Goodwill for the first time on 31 December 2018 in its consolidated financial statements. An external evaluator was contacted in order to determine the allocation of the purchase price and, subsequently, the Goodwill that resulted at that moment. The Goodwill was evaluated for depreciation at 31 December 2018 and as at 31 December 2019. Its book value at 31 December 2018 was 35 million RON and at 31 December 2019, 10 million RON. The decrease is due to the depreciation recorded in 2019. At 31 December 2019, the management identified depreciation indicators for the Goodwill and performed depreciation tests which resulted in the recognition of the 25 million RON which were depreciated during 2019.</p> <p>Due to the type of this transaction as well as the associated risk, we identified this depreciation analysis as a key aspect of our audit.</p> <p>The accounting policies related to the depreciation of Goodwill can be found in Note 3 of the Group's consolidated financial statements.</p>	<p>In order to address this key audit matter, we have performed the following audit procedures:</p> <p>We obtained the analysis done by management and we evaluated the key aspects which are at the basis of the potential depreciation of the Goodwill.</p> <ul style="list-style-type: none"> <li>- We analyzed the methodology used by management in order to evaluate the compliance with IAS 36.</li> <li>- We tested the mathematical accuracy of the used depreciation model.</li> <li>- We evaluated the historical accuracy of the budgets and forecasts performed by management by comparing them with the real performances.</li> <li>- We evaluated the key estimates of the company used to determine the update rate, cash flows, increase rates, the return on sales and capital expenditure.</li> <li>- We involved our specialists in order to help us in the evaluation of the estimates used by the company.</li> </ul> <p>We also assessed whether or not certain assumptions on which the assessment was based, individually and taken as a whole.</p> <p>We evaluated the presentation related to the depreciation of the Goodwill in the consolidated financial statements of the Group.</p>

## Other Matters

6. The consolidated financial statements of Teraplast Group for the year ended December 31, 2018, were audited by another auditor who expressed an unmodified opinion on those statements on April 15, 2019.

## Other information – Consolidated Administrator's Report

7. The administrator is responsible for preparation and presentation of the other information. The other information comprises the consolidated Administrator' report but does not include the consolidated financial statements and our auditors report thereon.

Our opinion on the consolidated financial statements does not cover the other information and, unless otherwise explicitly mentioned in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements for the year ended December, 31, 2019, 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.

With respect to the Administrator's report, we read and report if this has been prepared, in all material respects, in accordance with the provisions of Ministry of Public Finance Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU.

On the sole basis of the procedures performed within the audit of the financial statements, in our opinion:

- a) the information included in the administrators' report for the financial year for which the financial statements have been prepared are consistent, in all material respects, with these financial statements;
- b) the administrators' report has been prepared, in all material respects, in accordance with the provisions of Ministry of Public Finance Order no. 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU.

Moreover, based on our knowledge and understanding concerning the Group and its environment gained during the audit on the consolidated financial statements prepared as at December 31, 2019, we are required to report if we have identified a material misstatement of this consolidated Administrator's report. We have nothing to report in this regard.

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

8. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU with subsequent amendments and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
9. 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.
10. 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**

11. 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 auditor's 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.

12. 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 auditor's report to the related disclosures in the 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 auditor's 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
13. 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.
14. 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.
15. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on Other Legal and Regulatory Requirements

16. We have been appointed by the General Assembly of Shareholders on September 2, 2019 to audit the consolidated financial statements of Teraplast S.A. for the financial year ended December 31, 2019. The uninterrupted total duration of our commitment is 1 year, covering the financial year ended at December 31, 2019.

We confirm that:

- Our audit opinion is consistent with the additional report submitted to the Audit Committee of the Company that we issued the same date we issued and this report. Also, in conducting our audit, we have retained our independence from the audited entity.
- No non-audit services referred to in Article 5 (1) of EU Regulation No. 537/2014 were provided.

The engagement partner on the audit resulting in this independent auditor's report is Alina Ioana Mirea.

Alina Mirea, Audit Partner

*For signature, please refer to the original Romanian version.*

*Registered in the Electronic Public Register of Financial Auditors and Audit Firms under no. AF 1504*

On behalf of:

### **DELOITTE AUDIT SRL**

*Registered in the Electronic Public Register of Financial Auditors and Audit Firms under no. FA 25*

The Mark Building, 84-98 and 100-102 Calea Grivitei,  
8<sup>th</sup> Floor and 9<sup>th</sup> Floor, District 1  
Bucharest, Romania  
April 24, 2020

## RAPORTUL AUDITORULUI INDEPENDENT

Către Acționarii,  
Teraplast S.A.

### Raport cu privire la situațiile financiare consolidate

#### Opinie

1. Am auditat situațiile financiare consolidate ale Societății Teraplast S.A. și ale filialei sale („Grupul”), cu sediul social Sat Sărățel, Comuna Șieu-Măgheruș, DN 15A, km 45+500, Județ Bistrița-Năsăud, identificată prin codul unic de înregistrare fiscală 3094980, care cuprind situația poziției financiare consolidate la data de 31 decembrie 2019 și situația rezultatului global consolidat, situația consolidată a modificărilor capitalurilor proprii și situația consolidată a fluxurilor de trezorerie aferente exercițiului încheiat la această dată, precum și un sumar al politicilor contabile semnificative și notele explicative.
2. Situațiile financiare consolidate la 31 decembrie 2019 se identifică astfel:

• Activ net / Total capitaluri proprii:	276.148.399 Lei
• Profitul net al exercițiului financiar:	38.907.530 Lei
3. În opinia noastră, situațiile financiare consolidate anexate prezintă fidel, sub toate aspectele semnificative poziția financiară consolidată a Grupului la data de 31 decembrie 2019, și performanța sa financiară consolidată și fluxurile sale de trezorerie consolidate aferente exercițiului încheiat la data respectivă, în conformitate cu Ordinul Ministrului Finanțelor publice nr. 2844/2016 pentru aprobarea Reglementărilor contabile conforme cu Standardele Internaționale de Raportare Financiară adoptate de Uniunea Europeană cu modificările ulterioare.

#### Baza pentru opinie

4. Am desfășurat auditul nostru în conformitate cu Standardele Internaționale de Audit („ISA”), Regulamentul UE nr. 537 al Parlamentului și al Consiliului European (în cele ce urmează „Regulamentul”) și Legea nr. 162/2017 („Legea”). Responsabilitățile noastre în baza acestor standarde sunt descrise detaliat în secțiunea „Responsabilitățile auditorului într-un audit al situațiilor financiare” din raportul nostru. Suntem independenți față de Grup, conform Codului Etic al Profesioniștilor Contabili emis de Consiliul pentru Standarde Internaționale de Etică pentru Contabili (codul IESBA), conform cerințelor etice care sunt relevante pentru auditul situațiilor financiare în România, inclusiv Regulamentul și Legea, și ne-am îndeplinit responsabilitățile etice conform acestor cerințe și conform Codului IESBA. Credem că probele de audit pe care le-am obținut sunt suficiente și adecvate pentru a furniza o bază pentru opinia noastră.

#### Aspectele cheie de audit

5. Aspectele cheie de audit sunt acele aspecte care, în baza raționamentului nostru profesional, au avut cea mai mare importanță pentru auditul situațiilor financiare consolidate din perioada curentă. Aceste aspecte au fost abordate în contextul auditului situațiilor financiare în ansamblu și în formarea opiniei noastre asupra acestora și nu oferim o opinie separată cu privire la aceste aspecte.

ASPECT CHEIE AL AUDITULUI	Cum am adresat aspectul cheie al auditului
<p><b>Recuperabilitatea valorii contabile a Fondului comercial</b></p>	
<p>Ca urmare a achiziționării acțiunilor Wetterbest S.A. (numită anterior „Depaco S.R.L.”) prin mai multe etape de achiziție, Teraplast a înregistrat la 31 decembrie 2018 pentru prima dată fond comercial în situațiile financiare consolidate. Un evaluator extern a fost contractat pentru a determina alocarea prețului de achiziție și, ulterior, Fondul comercial ce a rezultat în acel moment. Fondul comercial a fost evaluat pentru depreciere atât la 31 decembrie 2018, cât și la 31 decembrie 2019. Valoarea contabilă a fondului comercial la 31 decembrie 2018 a fost de 35 milioane RON, iar la 31 decembrie 2019 a fost de 10 milioane RON. Scăderea se datorează deprecierei înregistrate în anul 2019, ca urmare a rezultatului analizei de depreciere efectuate de către Grup.</p> <p>La 31 decembrie 2019, conducerea a identificat că există indicatori de depreciere pentru Fondul comercial și a efectuat teste de depreciere pentru aceasta, rezultând ca o pierdere din depreciere de 25 milioane lei sa fie recunoscută.</p> <p>Având în vedere specificul acestui tip de tranzacții precum și riscul asociat, noi am identificat această analiză de depreciere ca fiind un aspect cheie de audit.</p> <p>Politicile contabile privind deprecierea fondului comercial se regăsesc în cadrul Notei 3 la situațiile financiare consolidate ale Grupului.</p>	<p>Procedurile noastre de audit au inclus, printre altele, următoarele:</p> <ul style="list-style-type: none"> <li>- am obținut analiza efectuată de către conducere și am evaluat ipotezele cheie care stau la baza evaluării deprecierei potențiale a Fondului comercial;</li> <li>- am analizat metodologia utilizată de management pentru a evalua conformitatea cu IAS 36 pentru metoda aplicată (valoarea utilizată);</li> <li>- am testat acuratețea matematică a modelului de depreciere utilizat;</li> <li>- am evaluat acuratețea istorică a bugetelor și a prognozelor conducerii prin compararea acestora cu performanțele reale;</li> <li>- am evaluat ipotezele și estimările cheie ale companiei utilizate pentru a determina rata de actualizare, fluxurile de numerar viitoare de exploatare, ratele de creștere, marjele de exploatare, nevoile de capital de lucru și cheltuielile de capital;</li> <li>- am implicat specialiștii noștri în evaluare pentru a ne ajuta în evaluarea ipotezelor-cheie și a estimărilor utilizate de companie, inclusiv la determinarea ratelor de actualizare.</li> </ul> <p>De asemenea, am evaluat care sunt sau nu anumite ipoteze pe care s-a bazat evaluarea, individual și luate în întregime.</p> <p>Am evaluat prezentarea deprecierei fondului comercial în situațiile financiare consolidate ale Grupului.</p>

## Alte aspecte

6. Situațiile financiare consolidate ale Grupului Teraplast pentru anul încheiat la 31 decembrie 2018 au fost auditate de un alt auditor care a emis o opinie nemodificată asupra respectivelor situații la 15 aprilie 2019.

## Alte informații – Raportul consolidat al administratorilor

7. Administratorii sunt responsabili pentru întocmirea și prezentarea altor informații. Acele alte informații cuprind Raportul consolidat al administratorilor, dar nu cuprind situațiile financiare consolidate și raportul auditorului cu privire la acestea.

Opinia noastră cu privire la situațiile financiare consolidate nu acoperă și aceste alte informații și cu excepția cazului în care se menționează explicit în raportul nostru, nu exprimăm nici un fel de concluzie de asigurare cu privire la acestea.

În legătură cu auditul situațiilor financiare consolidate pentru exercițiul financiar încheiat la 31 decembrie 2019, responsabilitatea noastră este să citim acele alte informații și, în acest demers, să apreciem dacă acele alte informații sunt semnificativ inconsecvente cu situațiile financiare consolidate, sau cu cunoștințele pe care noi le-am obținut în timpul auditului, sau dacă ele par a fi denaturate semnificativ.

În ceea ce privește Raportul consolidat al administratorilor, am citit și raportăm dacă acesta a fost întocmit, în toate aspectele semnificative, în conformitate cu Ordinul Ministrului Finanțelor publice nr. 2844/2016, cu modificările ulterioare, pentru aprobarea Reglementărilor contabile conforme cu Standardele Internaționale de Raportare Financiară adoptate de Uniunea Europeană cu modificările ulterioare.

În baza exclusiv a activităților care trebuie desfășurate în cursul auditului situațiilor financiare consolidate, în opinia noastră:

- a) Informațiile prezentate în Raportul consolidat al administratorilor pentru exercițiul financiar pentru care au fost întocmite situațiile financiare consolidate sunt în concordanță, în toate aspectele semnificative, cu situațiile financiare consolidate;
- b) Raportul consolidat al Administratorilor, a fost întocmit, în toate aspectele semnificative, în conformitate cu Ordinul Ministrului Finanțelor publice nr. 2844/2016, cu modificările ulterioare, pentru aprobarea Reglementărilor contabile conforme cu Standardele Internaționale de Raportare Financiară adoptate de Uniunea Europeană cu modificările ulterioare.

În plus, în baza cunoștințelor și înțelegerii noastre cu privire la Grup și la mediul acestuia, dobândite în cursul auditului situațiilor financiare consolidate pentru exercițiul financiar încheiat la data de 31 decembrie 2019, ni se cere să raportăm dacă am identificat denaturări semnificative în Raportul consolidat al administratorilor. Nu avem nimic de raportat cu privire la acest aspect.

## **Responsabilitățile conducerii și ale persoanelor responsabile cu guvernanta pentru situațiile financiare consolidate**

8. Conducerea este responsabilă pentru întocmirea și prezentarea fidelă a situațiilor financiare consolidate în conformitate cu Ordinul Ministrului Finanțelor publice nr. 2844/2016 pentru aprobarea Reglementărilor contabile conforme cu Standardele Internaționale de Raportare Financiară adoptate de Uniunea Europeană cu modificările ulterioare și pentru acel control intern pe care conducerea îl consideră necesar pentru a permite întocmirea de situații financiare lipsite de denaturări semnificative, cauzate fie de fraudă, fie de eroare.
9. În întocmirea situațiilor financiare consolidate, conducerea este responsabilă pentru aprecierea capacității Grupului de a-și continua activitatea, prezentând, dacă este cazul, aspectele referitoare la continuitatea activității și utilizând contabilitatea pe baza continuității activității, cu excepția cazului în care conducerea fie intenționează să lichideze Grupul sau să oprească operațiunile, fie nu are nicio altă alternativă realistă în afara acestora.
10. Persoanele responsabile cu guvernanta sunt responsabile pentru supravegherea procesului de raportare financiară al Grupului.

## **Responsabilitățile auditorului într-un audit al situațiilor financiare consolidate**

11. Obiectivele noastre constau în obținerea unei asigurări rezonabile privind măsura în care situațiile financiare, în ansamblu, sunt lipsite de denaturări semnificative, cauzate fie de fraudă, fie de eroare, precum și în emiterea unui raport al auditorului care include opinia noastră. Asigurarea rezonabilă reprezintă un nivel ridicat de asigurare, dar nu este o garanție a faptului că un audit desfășurat în conformitate cu Standardele Internaționale de Audit va detecta întotdeauna o denaturare semnificativă, dacă aceasta există. Denaturările pot fi cauzate fie de fraudă, fie de eroare și sunt considerate semnificative dacă se poate preconiza, în mod rezonabil, că acestea, individual sau cumulat, vor influența deciziile economice ale utilizatorilor, luate în baza acestor situații financiare consolidate.

12. Ca parte a unui audit în conformitate cu Standardele Internaționale de Audit, exercităm raționamentul profesional și menținem scepticismul profesional pe parcursul auditului. De asemenea:
- Identificăm și evaluăm riscurile de denaturare semnificativă a situațiilor financiare consolidate, cauzată fie de fraudă, fie de eroare, proiectăm și executăm proceduri de audit ca răspuns la respectivele riscuri și obținem probe de audit suficiente și adecvate pentru a furniza o bază pentru opinia noastră. Riscul de nedetectare a unei denaturări semnificative cauzate de fraudă este mai ridicat decât cel de nedetectare a unei denaturări semnificative cauzate de eroare, deoarece fraudă poate presupune înțelegeri secrete, fals, omisiuni intenționate, declarații false și evitarea controlului intern.
  - Înțelegem controlul intern relevant pentru audit, în vederea proiectării de proceduri de audit adecvate circumstanțelor, dar fără a avea scopul de a exprima o opinie asupra eficacității controlului intern al Grupului.
  - Evaluăm gradul de adecvare a politicilor contabile utilizate și caracterul rezonabil al estimărilor contabile și al prezentărilor aferente de informații realizate de către conducere.
  - Formulăm o concluzie cu privire la gradul de adecvare a utilizării de către conducere a contabilității pe baza continuității activității și determinăm, pe baza probelor de audit obținute, dacă există o incertitudine semnificativă cu privire la evenimente sau condiții care ar putea genera îndoeli semnificative privind capacitatea Grupului de a-și continua activitatea. În cazul în care concluzionăm că există o incertitudine semnificativă, trebuie să atragem atenția în raportul auditorului asupra prezentărilor aferente din situațiile financiare consolidate sau, în cazul în care aceste prezentări sunt neadecvate, să ne modificăm opinia. Concluziile noastre se bazează pe probele de audit obținute până la data raportului auditorului. Cu toate acestea, evenimente sau condiții viitoare pot determina Grupul să nu își mai desfășoare activitatea în baza principiului continuității activității.
  - Evaluăm prezentarea, structura și conținutul general al situațiilor financiare consolidate, inclusiv al prezentărilor de informații, și măsura în care situațiile financiare consolidate reflectă tranzacțiile și evenimentele de bază într-o manieră care realizează prezentarea fidelă.
  - Obținem, probe de audit suficiente și adecvate cu privire la informațiile financiare ale entităților sau activităților de afaceri din cadrul Grupului, pentru a exprima o opinie cu privire la situațiile financiare consolidate. Suntem responsabili pentru coordonarea, supravegherea și executarea auditului grupului. Suntem singurii responsabili pentru opinia noastră de audit.
13. Comunicăm persoanelor responsabile cu guvernanta, printre alte aspecte, aria planificată și programarea în timp a auditului, precum și principalele constatări ale auditului, inclusiv orice deficiențe semnificative ale controlului intern, pe care le identificăm pe parcursul auditului.
14. De asemenea, furnizăm persoanelor responsabile cu guvernanta o declarație că am respectat cerințele etice relevante privind independența și că le-am comunicat toate relațiile și alte aspecte despre care s-ar putea presupune, în mod rezonabil, că ne afectează independența și, acolo unde este cazul, măsurile de protecție aferente.
15. Dintre aspectele comunicate cu persoanele responsabile cu guvernanta, stabilim care sunt aspectele cele mai importante pentru auditul situațiilor financiare din perioada curentă și care reprezintă, prin urmare, aspecte cheie de audit. Descriem aceste aspecte în raportul auditorului, cu excepția cazului în care legile sau reglementările interzic prezentarea publică a aspectului sau a cazului în care, în circumstanțe extrem de rare, determinăm că un aspect nu ar trebui comunicat în raportul nostru deoarece se preconizează în mod rezonabil ca beneficiile interesului public să fie depășite de consecințele negative ale acestei comunicări.

## Raport cu privire la alte dispoziții legale și de reglementare

16. Am fost numiți de Adunarea Generală a Acționarilor la data de 2 septembrie 2019 să audităm situațiile financiare consolidate ale Teraplast S.A. pentru exercițiul financiar încheiat la 31 decembrie 2019. Durata totală neîntreruptă a angajamentului nostru este de 1 an, acoperind exercițiul financiar încheiat la 31 decembrie 2019.

Confirmăm că:

- Opinia noastră de audit este în concordanță cu raportul suplimentar prezentat Comitetului de Audit al Grupului, pe care l-am emis în aceeași dată în care am emis și acest raport. De asemenea, în desfășurarea auditului nostru, ne-am păstrat independența față de entitatea auditată.
- Nu au fost furnizate serviciile non audit interzise, menționate la articolul 5 alineatul (1) din Regulamentul UE nr. 537/2014.

Partenerul de misiune al auditului pentru care s-a întocmit acest raport al auditorului independent este Alina Ioana Mirea.

Alina Mirea, Partner de audit



*Înregistrată în Registrul public electronic al auditorilor financiari și firmelor de audit cu nr. AF 1504*



În numele:

**DELOITTE AUDIT S.R.L.**

*Înregistrată în Registrul public electronic al auditorilor financiari și firmelor de audit cu nr. FA 25*



Clădirea The Mark, Calea Griviței nr. 84-98 și 100-102,  
etajul 8 și etajul 9, Sector 1  
București, România  
24 aprilie 2020

**TERAPLAST SA**

**CONSOLIDATED FINANCIAL STATEMENTS**

Prepared in accordance with  
Minister of Public Finance Order  
no. 2844/2016 approving the accounting regulations compliant with  
the International Financial Reporting Standards,  
as of and for the year ended

**31 DECEMBER 2019**

**TERAPLAST SA**  
**Consolidated Financial Statements**  
Prepared in accordance with the  
International Financial Reporting Standards  
**31 December 2019**

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**TERAPLAST SA**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**31 December 2019**

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

	Note	Financial year	
		2019 RON	2018 RON
Total Revenue from customer contracts, <i>out of which:</i>	4	<b>972,582,408</b>	<b>804,512,197</b>
<i>Revenue from sale of finished products</i>		835,541,229	674,625,885
<i>Revenue from the sale of merchandise</i>		124,469,014	126,426,583
<i>Revenue from turnkey halls and other services</i>		12,572,165	3,459,729
Other operating income	5	2,174,416	1,821,873
Changes in inventory of finished goods and work in progress		(3,134,062)	9,129,736
Income from the variation of turnkey halls in progress		310,752	495,838
Raw materials, consumables used and merchandise	6	(698,053,436)	(605,376,072)
Employee benefit expenses	9	(86,152,804)	(68,406,348)
Amortization and the adjustments for impairment of non-current assets, net	8	(32,773,395)	(30,600,206)
Impairment of trade receivable, net	8	(2,713,577)	(1,050,428)
Impairment of trade inventory, net	8	1,976,608	(490,375)
Expenses with provisions, net	8	(1,182,096)	(208,780)
Gains / (Losses) from the disposal of tangible and intangible assets	7	(124,645)	15,131
Gains from the disposal of assets held for sale	19	15,034	185,891
Losses from the disposal/fair value measurement of investment properties	19	(133,370)	(245,552)
Other operating expenses	10	(96,921,507)	(75,010,673)
Income from debt cancellation	16	24,269,035	-
Impairment of goodwill	16	(25,204,000)	-
<b>Operating result</b>		<b>54,946,573</b>	<b>34,722,232</b>
Financial expenses	5	(3,829,085)	(4,435,430)
Interest expense, net	5	(9,005,774)	(7,577,317)
Financial income	5	2,552,272	3,324,694
Income from dividends	5	88,742	75,200
<b>Financial result, net</b>	5	<b>(10,193,841)</b>	<b>(8,612,853)</b>
<b>Profit before tax</b>		<b>44,752,732</b>	<b>26,159,379</b>
Income tax expense	11	(5,845,202)	(3,520,673)
<b>Profit for the year</b>		<b>38,907,530</b>	<b>22,638,706</b>
<b>Other comprehensive income</b>			
<i>OCI that will not be reclassified subsequently to profit or loss</i>			
Revaluation of fixed assets		205,310	(700,722)
Deferred tax	11	(32,850)	136,968
<i>OCI that will be reclassified subsequently to profit or loss</i>			
Exchange differences on translating foreign operations		(436,298)	-
		<b>(263,838)</b>	<b>(563,754)</b>
<b>Profit or loss for the period</b>			
Attributable to			
Parent entity equity holders		37,782,242	21,878,022
Non-controlling interests	22	1,125,288	760,684
<b>Result for the financial year</b>		<b>38,907,530</b>	<b>22,638,706</b>
<b>Comprehensive income</b>		<b>38,643,692</b>	<b>22,074,952</b>
Attributable to			
Parent entity equity holders		37,518,404	21,314,268
Non-controlling interests		1,125,288	760,684
<b>Comprehensive income</b>		<b>38,643,692</b>	<b>22,074,952</b>
Number of shares (weighted average)		1,114,838,813	868,046,555
<b>Basic and diluted earnings per share attributable to the parent entity equity holders</b>		<b>0.034</b>	<b>0.025</b>
<b>Alexandru Stanean</b> CEO		<b>Ioana Birta</b> 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 FINANCIAL POSITION**  
**31 December 2019**

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

	Note	31 December 2019 RON	31 December 2018 RON
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	280,815,152	214,194,882
Investment property	19	6,913,460	8,324,389
Right of use of the leased assets	14	9,172,609	-
Intangible assets	13	43,953,509	71,013,891
Long-term receivable	18	771,748	745,868
Other long-term equity investments	15	16,472	17,107
<b>Total non-current assets</b>		<b><u>341,642,950</u></b>	<b><u>294,296,137</u></b>
<b>Current assets</b>			
Inventories	17	181,596,133	194,414,744
Turnkey halls in progress		806,590	495,838
Trade receivables	18	138,795,247	127,460,704
Prepayments		1,066,286	895,914
Cash	30	29,474,903	22,817,571
<b>Total current assets</b>		<b><u>351,737,296</u></b>	<b><u>346,084,771</u></b>
Assets classified as held for sale	19	-	1,865,560
<b>Total assets</b>		<b><u>693,380,246</u></b>	<b><u>642,246,468</u></b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	20	133,780,651	107,024,527
Other capital reserves	20	-	1,472,925
Share premium		27,384,726	27,384,726
Treasury shares	20	(139)	(1,472,925)
Revaluation reserves	20	17,871,014	17,698,554
Legal reserve	21	16,096,574	15,516,164
Translation reserve		(436,298)	-
Retained earnings		79,198,291	68,526,436
<b>Capital attributable to controlling interests</b>		<b><u>273,894,819</u></b>	<b><u>236,150,407</u></b>
Non-controlling interests	22	2,253,580	1,965,458
<b>Total equity</b>		<b><u>276,148,399</u></b>	<b><u>238,115,865</u></b>
<b>Non-current liabilities</b>			
Bank loans	23	62,930,173	70,772,079
Lease liabilities	27	6,329,949	1,136,477
Other non-current liabilities	16	-	49,022,037
Employee benefit liabilities	24	1,636,529	724,849
Deferred tax liabilities	11	9,690,589	8,855,594
Investment subsidies – long-term portion	32	15,329,362	3,597,809
<b>Total non-current liabilities</b>		<b><u>95,916,602</u></b>	<b><u>134,108,845</u></b>
<b>Current liabilities</b>			
Trade and other payables	25	166,287,099	145,252,622
Bank loans	23	149,434,903	122,325,845
Lease liabilities	27	2,615,110	831,510
Income tax payable		6,445	377,800
Investment subsidies - current portion	32	1,920,804	453,766
Provisions	24	1,050,884	780,213
<b>Total current liabilities</b>		<b><u>321,315,245</u></b>	<b><u>270,021,758</u></b>
<b>Total liabilities</b>		<b><u>417,231,847</u></b>	<b><u>404,130,603</u></b>
<b>Total equity and liabilities</b>		<b><u>693,380,246</u></b>	<b><u>642,246,468</u></b>

**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 2019**  
*(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
<b>Balance as at 1 January 2018</b>	<b>85,691,097</b>	-	<b>27,384,726</b>	<b>19,652,114</b>	<b>13,939,022</b>	<b>(663,396)</b>	<b>78,250,693</b>	<b>224,254,257</b>	<b>489,480</b>	<b>224,743,737</b>
Result for the year	-	-	-	-	-	-	21,878,022	21,878,022	760,684	<b>22,638,706</b>
Other comprehensive income	-	-	-	(563,754)	-	-	-	(563,754)	-	<b>(563,754)</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(563,754)</b>	<b>-</b>	<b>-</b>	<b>21,728,022</b>	<b>21,314,268</b>	<b>760,684</b>	<b>22,074,952</b>
Share capital increase from reserves (Note 20)	21,333,483	-	-	-	-	-	(21,333,430)	-	-	-
Legal reserve setting (Note 21)	-	-	-	-	1,577,142	-	(1,577,142)	-	-	-
Own shares redemption (Note 20)	-	-	-	-	-	(809,529)	-	(809,529)	-	<b>(809,529)</b>
Employee benefits in the form of financial instruments (Note 33)	-	1,472,925	-	-	-	-	-	1,472,925	-	<b>1,472,925</b>
Acquisition of a subsidiary - Wetterbest SA (Note 22)	-	-	-	-	-	-	-	-	1,615,926	<b>1,615,926</b>
Realized revaluation reserve (Note 12)	-	-	-	(1,389,807)	-	-	1,389,807	-	-	-
Dividends declared	-	-	-	-	-	-	(10,069,404)	(10,069,404)	(1,101,638)	<b>(11,171,042)</b>
Other equity items increases / (reductions)	(53)	-	-	-	-	-	(12,057)	(12,110)	201,005	<b>188,895</b>
<b>Balance as at 31 December 2018</b>	<b>107,024,527</b>	<b>1,472,925</b>	<b>27,384,726</b>	<b>17,698,554</b>	<b>15,516,164</b>	<b>(1,472,925)</b>	<b>68,526,436</b>	<b>236,150,407</b>	<b>1,965,458</b>	<b>238,115,865</b>

As of 31 December 2018 and 31 December 2019, the revaluation reserves include amounts representing the unrealized revaluation surplus related to tangible assets land and buildings.

**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 2019**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

	<u>Total share capital</u>	<u>Other capital reserves</u>	<u>Share premium</u>	<u>Revaluation reserves</u>	<u>Legal reserve</u>	<u>Treasury shares</u>	<u>Translation reserve</u>	<u>Cumulated retained earnings</u>	<u>Capital attributable to controlling interests</u>	<u>Non-controlling interests</u>	<u>Total equity</u>
	RON	RON	RON	RON	RON	RON	RON	RON	RON	RON	RON
<b>Balance as at 1 January 2019</b>	<b>107,024,527</b>	<b>1,472,925</b>	<b>27,384,726</b>	<b>17,698,554</b>	<b>15,516,164</b>	<b>(1,472,925)</b>	-	<b>68,526,436</b>	<b>236,150,407</b>	<b>1,965,458</b>	<b>238,115,865</b>
Result for the year	-	-	-	-	-	-	-	37,782,242	37,782,242	1,125,288	38,907,530
Other comprehensive income	-	-	-	172,460	-	-	(436,298)	436,298	(263,838)	-	(263,838)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>172,460</b>	<b>-</b>	<b>-</b>	<b>(436,298)</b>	<b>38,218,540</b>	<b>37,518,404</b>	<b>1,125,288</b>	<b>38,643,692</b>
Share capital increase from reserves (Note 20)	26,756,124	-	-	-	-	-	-	(26,756,123)	-	-	-
Legal reserve setting (Note 21)	-	-	-	-	580,410	-	-	(580,410)	-	-	-
Own shares redemption (Note 20)	-	-	-	-	-	265,750	-	(265,750)	-	-	-
Employee benefits in the form of financial instruments (Note 33)	-	-	-	-	-	1,207,037	-	-	1,207,037	-	1,207,037
Dividends declared	-	-	-	-	-	-	-	-	-	(837,166)	(837,166)
Other equity items increases / (reductions) (Note 22)	-	(1,472,925)	-	-	-	-	-	55,596	(981,031)	-	(981,031)
<b>Balance as at 31 December 2019</b>	<b>133,780,651</b>	<b>-</b>	<b>27,384,726</b>	<b>17,871,014</b>	<b>16,096,574</b>	<b>(139)</b>	<b>(436,298)</b>	<b>79,198,288</b>	<b>273,894,819</b>	<b>2,253,580</b>	<b>276,148,396</b>

As of 31 December 2018 and 31 December 2019, the revaluation reserves include amounts representing the unrealized revaluation surplus related to land and buildings.

TeraPlast did not grant dividends in 2019, not did it propose dividends in 2020, from the profit of 2019 (2018: dividends granted 10,069,404, the equivalent of a dividend of RON 0.0116 per share).

**Alexandru Stanean**  
**CEO**

**Ioana Birta**  
**CFO**

**TERAPLAST SA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2019**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

	<b>Note</b>	<b>Year ended 31 December 2019</b>	<b>Year ended 31 December 2018</b>
<b>Cash flows from operating activities:</b>			
<b>Net profit before tax</b>		<b>44,752,733</b>	<b>26,159,379</b>
Losses / (Gains) from disposal of fixed assets		124,645	(15,131)
Impairment and amortization of non-current assets		32,773,395	30,600,206
Provisions for risks and charges, net		1,182,096	208,780
Allowance for doubtful debts		2,713,577	1,050,428
Inventory impairment		(1,976,608)	490,375
Income from dividends		(88,742)	(75,200)
Loss from the revaluation of investment property		133,370	245,552
Loss from the valuation of financial investments		-	494,662
Interest expense		9,005,774	7,577,317
Goodwill impairment		25,204,000	-
Income from debt cancellation		(24,269,035)	-
<b>Operating profit before changes in working capital</b>		<b>89,555,206</b>	<b>66,766,628</b>
Increase in gross trade and other receivables (before impairment allowance)		(14,888,529)	(20,431,207)
Decrease/ (Increase) in gross inventories (before impairment allowance)		16,349,736	(52,395,275)
(Decrease)/ Increase in trade and other payables		(1,378,897)	25,428,887
Income tax paid		(6,020,336)	(3,151,254)
Interest paid, net		(9,005,774)	(7,577,317)
Income from subsidies		888,234	(753,969)
<b>Cash from operating activities</b>		<b>75,499,640</b>	<b>7,886,493</b>
<b>Cash used for investment:</b>			
Payments for acquisition of tangible and intangible assets, other long-term receivables		(95,271,858)	(32,059,265)
Receipts under State aid		12,310,357	-
Payment for investments – Wetterbest SA, net of purchased cash		(4,769,350)	(6,185,777)
Receipts from the sale of tangible assets		1,014,840	2,048,116
Losses related to SOP		(265,750)	-
<b>Net cash used for investment</b>		<b>(86,981,761)</b>	<b>(36,196,926)</b>
<b>Cash inflows from financing activities:</b>			
Repayment of lease liabilities		(1,206,100)	(1,051,141)
Dividends received		88,742	75,200
Dividends paid		(837,166)	(11,171,042)
Repayment of loans and borrowings		(22,993,561)	(15,955,580)
Proceeds from loans and borrowings		32,709,424	12,870,465
Net drawings from credit lines		10,376,096	55,153,837
Own share redemption net of exercising the options		(139)	(809,529)
<b>Net cash from finance activities</b>		<b>18,137,296</b>	<b>39,112,210</b>
Net increase in cash		6,655,173	10,801,769
<b>Cash at the beginning of the financial year</b>	<b>30</b>	<b>22,817,571</b>	<b>12,015,802</b>
<b>Cash at the end of the financial year</b>	<b>30</b>	<b>29,472,744</b>	<b>22,817,571</b>

**Alexandru Stanean**  
CEO

**Ioana Birta**  
CFO

## 1. GENERAL INFORMATION

These are the consolidated financial statements of the Teraplast SA Group (the "Group").

TeraPlast Group is the largest Romanian construction materials manufacturer and comprises of seven companies with a wide range of products for the construction market. The Group offers complete solution for the following market segments: installation, window profiles, compounds, sandwich panels, galvanized steel purlins, turnkey halls, complete roof systems, PVC windows & doors, rigid PVC recycling.

Teraplast SA (or the "Company") is a joint stock company established in 1992. The Company's head office is in the „Teraplast Industrial Park”, DN 15A (Reghin-Bistrita), km 45+500, Bistrita- Nasaud County, Romania.

Starting 2 July 2008, the Company Teraplast is listed at the Bucharest Stock Exchange under the symbol TRP.

Teraplast SA has been preparing consolidated financial statements since 2007. These financial statements are available on the Company website ([www.teraplast.ro](http://www.teraplast.ro)).

Group Teraplast includes Teraplast (manufacturer of pipes, compounds and PVC profiles) and its subsidiaries:

- Terasteel Romania and Terasteel Serbia (manufacturers of sandwich panels and galvanized steel purlins),
- Wetterbest (manufacturer of metal tiles),
- Teraglass (manufacturer of PVC windows and doors),
- Teraplast Recycling (former Teraplast Logistic which, in June 2016 – September 2018, coordinated the logistic operations of the Group; as of October 2018, these operations were re-integrated with the parent) has been operating since April 2019 as a company specialised in recycling following the spin off of the recycling line from Teraplast,
- Teraplast Hungary (distributor),
- Politub (at December 31, 2017, the business of Politub was transferred to Teraplast, becoming the Polyethylene Division)

The group, operates in five locations and eight factories: Sărățel (Bistrița-Năsăud), Bistrița (Bistrița Năsăud), Băicoi (Prahova), Podari (Dolj) and Leskovac (Serbia).

### Key milestones

In 2007, the Company became the majority shareholder of Terasteel SA (Terasteel). Terasteel main activity is the production of insulating panels with polyurethane foam for the construction of industrial buildings. Starting 31 December 2015, Teraplast SA owns 97.95% in Terasteel SA.

Starting October 2017, following an asset acquisition from a company undergoing liquidation, Terasteel Serbia produces and trades polyurethane foam and mineral wool sandwich panels in Serbia and the neighboring markets.

In 2015, Teraplast SA transferred the activity of production and trading of PVC windows and doors Teraglass Bistrita SRL, its fully owned subsidiary.

In 2016, Teraplast SA, set up, as sole shareholder, Teraplast Hungary which distributes the Company products, mainly joinery profiles, on this market.

## **1. GENERAL INFORMATION (continued)**

During 2017, the Group concluded agreements for the acquisition of 67% of Wetterbest SA, the second player on the metallic tile market, through the Wetterbest brand. TeraPlast gained control over Wetterbest SA in January 2018, after a favorable approval issued by the Competition Council. The company is consolidated as a subsidiary starting with 1 January 2018.

During 2019, the Group concluded agreements for the acquisition of the remaining 33% of Wetterbest. At the date of these financial statements, Wetterbest is a fully owned subsidiary. Please see Note 3 for additional details on the acquisition.

Also, during 2019, Wetterbest entered into an agreement for the acquisition of the remaining 49% of the subsidiary Cortina WTB SRL, which was approved by the Competition Council in January 2020. Therefore, as of 31 December 2019, Cortina is not a fully owned subsidiary.

Until September 2017, the Company held 50% of the shares of Politub SA ("Politub"), controlling Politub jointly with the other shareholder, New Socotub. 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. Politub 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.

In March 2019, the recycling activity of Teraplast SA was transferred to Teraplast Recycling (99% shareholding Teraplast SA, 1% shareholding Terasteel SA).

The results of 2018 and 2019 reflect the investments made as described above.

## **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").

#### **2.2. Basis of accounting**

The financial statements have been prepared on a going concern basis, according to the historical cost convention, as modified below:

- adjusted to the effects of hyperinflation until 31 December 2003 for fixed assets, share capital and reserves,
- measurement at fair value of certain items of fixed assets and investment property, as presented in the Notes.

The accounting policies set out below have been applied consistently to all years presented in these financial statements, unless otherwise stated.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **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 2019, the Group current assets exceed the current liabilities by RON 30,422,051 (31 December 2018: RON 76,063,013). In 2019, the Group recorded profit RON 38,907,530 (2018: RON 22,638,706). As detailed in Note 28, the Group gearing ratio is 40% (31 December 2018: 42%). The Group depends on bank financing, as also described in Note 23.

The budget prepared by the Group management and approved by the Board of Administration for 2020 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.

The rapid development of the COVID-19 virus and its social and economic impact in Romania and globally may result in assumptions and estimates requiring revisions which may lead to material adjustments to the carrying value of assets and liabilities within the next financial year. Please see Note 33 for the management assessment of the impact of COVID-19 over the activity of the Group.

### **Basis for consolidation**

The financial statements comprise the financial statement of the Company and of its subsidiaries as at 31 December 2019. 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 of 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 acquire 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, 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 a bargain purchase.

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 of 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 against 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. 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.

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

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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 allocated 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. 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 accumulated amortization 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **2.4. Standards, amendments and new interpretations of the 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 2019.

#### **Initial application of new amendments to the existing standards effective for the current reporting period**

The following new standards, amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **IFRS 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement – adopted by the EU on 13 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures – adopted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015 -2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the Group's financial statements, except for IFRS 16, as presented below.

#### **First time adoption of new or revised standards**

##### **Impact of initial application of IFRS 16 Leases**

In the current year, the Group has applied IFRS 16 Leases (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note 3. The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below.

The Group adopted IFRS 16 initially on 1 January 2019, using the modified retrospective approach.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **2.4. Standards, amendments and new interpretations of the standards (continued)**

#### **(a) Impact of the new definition of a lease**

The Group elected to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group did not therefore apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Group applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Group.

#### **(b) Impact on Lessee Accounting**

##### *(i) Former operating leases*

IFRS 16 changed how the Group accounted for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16 for the first time as at January 1, 2019, for all leases (except as noted below), the Group:

- a) Recognises right-of-use assets and lease liabilities in the separate financial statements, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16 C8(b)(ii).
- b) Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight line basis.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'other expenses' in profit or loss.

The Group has used the following practical measures, when accounting for leases under IFRS 16:

- The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Group relied on its assessment of whether leases are onerous applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review. As there was no onerous contract provision recognized at December 31, 2018 consequently no impairment allowance was recognized at January 1, 2019.
- The Group has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The Group has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The Group has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **2.4. Standards, amendments and new interpretations of the standards (continued)**

#### *(ii) Former finance leases*

For leases that were classified as finance leases applying IAS 17, the carrying amount of the leased assets and obligations under finance leases measured applying IAS 17 immediately before the date of initial application is reclassified to right-of-use assets and lease liabilities respectively without any adjustments, except in cases where the Group has elected to apply the low-value lease recognition exemption.

The right-of-use asset and the lease liability are accounted for applying IFRS 16 from 1 January 2019.

#### **(c) Impact on Lessor Accounting**

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. As of December 31, 2019 the Group had no significant financial leases where it acts as a lessor.

#### **(d) Financial impact of initial application of IFRS 16**

The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 January 2019 is 4.4%.

Finance lease liabilities recognised under IAS 17 at 31 December 2018 were of RON 1,967,987, presented under Lease liabilities in the SOFP.

Operating lease commitments 31 December 2018	11,387,942
Short-term leases and leases of low value	(3,226,209)
Impact of discounting the above amounts	(685,402)
Finance lease liabilities	1,967,987
<b>Lease liabilities as of 1 January 2019</b>	<b>9,444,318</b>

As at 1 January 2019, the Group has recognized RON 9,961,990 of total right of use assets which includes balance of 2,328,649 transferred from property, plant and equipment which at 31 December 2018 were recognized as assets under finance lease and classified as property plant and equipment. Consequently, the new assets recognized on previous operating leases amount to RON 7,633,341.

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.

#### **Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective**

At the date of authorisation of these financial statements, the following amendments to the existing standards were issued by IASB and adopted by the EU and which are not yet effective:

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Material - adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** - Interest Rate Benchmark Reform - adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to References to the Conceptual Framework in IFRS Standards** adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**  
**2.4. Standards, amendments and new interpretations of the standards (continued)**

**New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU**

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU as at the date of publication of financial statements (the effective dates stated below is for IFRS as issued by IASB):

- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 3 "Business Combinations"** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of 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),
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2022),
- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **Amendments to 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 and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).

The Group anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Group in the period of initial application.

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Group's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to **IAS 39: "Financial Instruments: Recognition and Measurement"** would not significantly impact the financial statements, if applied as at the balance sheet date.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Summary of accounting and valuation principles**

#### **Cash and cash equivalents**

Cash and cash equivalents include liquid assets and other equivalent values, comprising cash at bank, petty cash.

#### **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 compounds, polypropylene and polyethylene pipes, fittings, steel cables and parts, metal roofing systems, wood joinery, heat insulating panels and metal structures.

Revenue is measured based on the consideration to which the Group is entitled in contracts with customers. The point of recognition arises when the Group satisfies a performance obligation by transferring control of a promised good or service that is distinct to the customer, which is at a point in time for finished goods and merchandise and over time for services provided.

Revenues from the sale of **goods and merchandise** are recognized at a certain point in time, when the products are delivered to the customers or readily available for the buyer. The payment terms are – in general – between 30 and 90 days from the date of issuing the invoice and delivering the goods. The contracts with the customers for sales of finished goods and merchandise imply one obligation: to deliver the goods at the agreed location (under the agreed incoterms). In rare cases, when the Group's distributors request, the Group enters into bill-and-hold arrangement, for which revenue is recognized when the goods are invoiced and the specific instructions from the clients to store the goods on their behalf for a certain period are received.

Services provided mostly consist of **light structure industrial turnkey halls** provided by TeraSteel. The construction contracts are shorter than one year and are entered into before construction begins. Clients own the land and are responsible for obtaining all necessary construction authorizations.

Income from construction of turnkey halls is recognised over time based on the actual costs incurred for work performed to date, under Income from turnkey halls in progress. The directors consider that this input method is an appropriate measure of the progress towards complete satisfaction of the performance obligation under IFRS 15.

The Group becomes entitled to invoice customers based on achieving a series of performance-related milestones. When a particular milestone is reached the customer is sent a relevant statement of work and an invoice for the related milestone payment. The Group will previously have recognised a contract asset for any work performed. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer.

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.

The Group grants volume discounts 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 warranties which are required by the law to protect the customers from the risk of acquiring malfunctioning products. The Group assessed that these do not represent a separate performance obligation and are accounted in accordance with IAS 37 (warranty provisions). Furthermore, a law that requires an entity to pay a compensation if its products cause damage or injuries does not represent a performance obligation for the Group either.

### **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 recognises 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 fulfils its execution obligation.

### **Dividend and interest income**

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

The interest income presented on the face of the Consolidated Statement of Comprehensive Income is similar to interest income and is included in finance income in the statement of profit or loss.

### **Lease**

#### **The Group as lessee**

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term. The Group leases warehouses and property that is used for show rooms and vehicles.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the fixed lease payments and the exercise price of purchase options, if the lessee is reasonably certain to exercise the options, in case of vehicles.

The lease liability is presented under the line "Lease liabilities" in the consolidated statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

• A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and plus any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented as a separate line in the consolidated statement of financial position. The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

### **Policies applicable prior to 1 January 2019**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### *The Group as a lessee*

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### **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 those 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 profit and loss account.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

	<u>31 December 2019</u>	<u>31 December 2018</u>
EUR 1	4.7793	4.6639
USD 1	4.2608	4.0736
CHF 1	4.4033	4.1404

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

### **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.

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.

### **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 statement of financial position and presented as 'investment subsidies'. The deferred income is amortized in the profit and loss statement systematically and reasonably over the useful life of the related assets or at the time the assets acquired from the subsidy are retired or disposed of.

### **Costs related to retirement rights and other long-term employee benefits**

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 also grants jubilee bonuses as a fixed amount on work anniversaries.

The Group uses an external actuary to compute the value of the retirement benefits and jubilees related liability and reviews the value of this liability each year depending on the employees' seniority within the Group. The value of the retirement benefits and jubilees is recognized as a provision in the statement of financial position.

For defined benefit retirement benefit plans, the cost of providing benefits is determined as mentioned above, with actuarial valuations being carried out at the end of each annual reporting period.

Remeasurements comprising actuarial gains and losses, and the return on plan assets (excluding interest) are recognised immediately in the statement of financial position with a charge or credit to other comprehensive income in the period in which they occur. Remeasurements recognised in other comprehensive income are not reclassified. Past service cost is recognised in profit or loss when the plan amendment or curtailment occurs, or when the Group recognises related restructuring costs or termination benefits, if earlier. Gains or losses on settlement of a defined benefit plan are recognised when the settlement occurs. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset. Defined benefit costs are split into three categories:

- service costs, which includes current service cost, past service cost and gains and losses on curtailments and settlements;
- net interest expense or income; and
- remeasurements.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The retirement benefit obligation recognised in the consolidated statement of financial position represents the deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

The adjustments resulting from the annually review of the jubilee provisions are recognized in the profit and loss statement.

The retirement benefits provision is reversed in the profit and loss statement when the Group settles the obligation.

### **Short-term employee benefits**

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service. Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

### **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 for deductible temporary differences as well as tax losses and credits carried forward 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 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 (and this is assumed as applicable for example in case of initial recognition of a lease contract by a lessee). In addition, a deferred tax liability is not recognised if the temporary difference arises from the initial recognition of goodwill.

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.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

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 income 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.

### **Tangible assets**

Tangible assets, except for 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 or administrative purposes is registered at historical cost, less impairment. The depreciation of these assets starts when the assets are ready to be used.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Depreciation is registered so as to decrease the cost or revalued amount of the asset to its residual value other than the land 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 – 6
Installations and furniture	3 –
	1
	0

### 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.

### Intangible assets

Intangible assets purchased separately are reported at cost minus accumulated amortization/impairment losses. Intangible assets acquired as part of a business combination are capitalized at fair value as at the date of acquisition.

Following initial recognition, intangible assets, which have finite useful lives, are carried at cost or initial fair value less accumulated amortisation and accumulated 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, and adjusted as necessary, having as effect changes in future accounting estimates.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

### **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 time 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.

Goodwill is tested for impairment at the same level as the goodwill is monitored by management for internal reporting purposes, which is at the individual cash generating unit level. In case of a cash generating unit with allocated goodwill, any impairment loss first adjusts the goodwill.

Goodwill is subject to impairment testing on an annual basis and at any time during the year if an indicator of impairment is considered to exist. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized in the profit or loss. Impairment losses arising in respect of goodwill are not reversed following recognition.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **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.

Raw materials are valued at the purchase price including transport, handling costs and net of trade discounts.

Work in progress, semi-finished goods and finished goods are carried at actual cost consisting of direct materials, direct labour and directly attributable production overheads and other costs incurred in bringing them to their existing location and condition using the standard cost method. Standard costs take into account normal levels of consumption of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions.

For the following classes of inventories, the average weighted cost method is used: the raw material for pipes / piping, merchandise, inventory items / small tools, packaging materials, consumables.

A provision is made, where necessary, in all inventory categories for obsolete, slow moving and defective items.

### **Share capital**

Common shares are classified in equity.

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 cancelled 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.

### **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. Interim dividends on ordinary shares are recognized when they are paid.

### **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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Segment reporting**

The Group's accounting policy for identifying segments is based on internal management reporting information that is routinely reviewed by the Board of Directors and management. The measurement policies used for the segment reporting under IFRS 8 are the same as those used in the consolidated financial statements. Segment results that are reported to the directors and management include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The Group has determined that it has six operating segments: Sandwich Panels, Metal Tiles, Installations (systems for sewage, water and gas), Joinery Profiles, Compounds and PVC windows and doors.

Each segment includes similar products, with similar production processes, with similar distribution and supply channels.

Sandwich Panels sales account for more than 85% of the segment's revenue. The segment includes the two TeraSteel legal entities, from Romania and Serbia, which provide complete solutions for industrial buildings. The rest of the items that TeraSteel sells (steel structures, trapezoidal roofs, accessories) are presented under this segment because are sold through the same distribution channel, to the same customers.

The Metal tile segments includes the complete roof solution provided by Wetterbest: metal tiles, drainage system, metal and other accessories. This is a business to consumer segment, though the Group's clients are roofers and distributors.

The Installations, Joinery Profiles and Compounds segments are part of TeraPlast. Installations and Profiles are both produced through extrusion of plastic, but the sales channels and process is different. Installations for infrastructure projects are sold to contractors and installations for residential buildings are sold through a distribution network. Joinery profiles are sold to PVC windows and doors producers.

PVC windows and doors are produced and sold by TeraGlass, mostly in European DIY chains.

### **Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### **(a) Financial assets**

### **Initial recognition and measurement**

The Group's financial assets include cash and cash equivalents, trade receivables and long-term investments.

A financial asset is classified as measured at amortized cost or fair value with any movement being reflected through other comprehensive income or through profit and loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section 2.5.2 Revenues from contracts with customers.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment by-investment basis.

### **Subsequent measurement**

For purposes of subsequent measurement, the Group's financial assets are classified in three categories:

- Financial assets at amortized cost (debt instruments). The Group's financial assets at amortized cost includes trade receivables and long term receivable.
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets at fair value through profit or loss

Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments).

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

Financial liabilities include finance lease liabilities, interest bearing bank loans, overdrafts and trade and other payables.

Two measurement categories continue to exist, fair value through the income statement and amortized cost. Financial liabilities held for trading are measured at fair value through the income statement, and all other financial liabilities are measured at amortized cost unless the fair value option is applied.

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. 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.

### **Impairment of financial assets**

The Group recognises a loss allowance for expected credit losses on trade receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

For trade receivables, a simplified approach is adopted in which impairment losses are recognized based on lifetime expected credit losses at each reporting date. If there are loan insurances or guarantees for the outstanding 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 outstanding balance, while the amount remaining not covered will have the counterparty's probability of default. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Significant increase in credit risk

Clients' credit risk is updated constantly. In assessing the IFRS 9 allowance, the Group uses the risk of a default occurring on the financial instrument at the reporting date.

In making the credit risk assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing the credit risk deterioration of debtors:

- an actual or expected significant deterioration in the financial instrument's external (KeysFin and Coface) or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an evaluation of the main projects and clients of the debtor and the sources of financing those projects.

For trade receivables the Company is using the simplified model allowed by IFRS 9 which does not differentiate between Stage 1 and Stage 2. Credit losses are measured based on provision matrix.

A financial instrument is determined to have low credit risk if:

1. the financial instrument has a low risk of default;
2. the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and
3. adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

### Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a payment incident reported; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group). Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Any recoveries made to doubtful receivables are recognised in profit or loss, together with the reversal of the allowance.

### Write-off policy

The Group writes off a financial asset when bankruptcy was finalized, as at this point the VAT on these receivables can be recovered. Financial assets written off may no longer be subject to enforcement activities.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default is based on the risk rating of each client obtained from independent parties, adjusted, if the case with forward-looking information as described above.

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance accounts.

### **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 significantly modified, paid, cancelled or they have expired.

The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification is recognised in profit or loss as the modification gain or loss within other gains and losses.

### **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 i).

The fair value of the freehold land was determined based on the market comparable approach that reflects recent transaction prices for similar properties.

The fair value of the buildings was determined using the cost approach that reflects the cost to a market participant to construct assets of comparable utility and age, adjusted for obsolescence.

The fair value of the investment property was determined based on the market comparable approach that reflects recent transaction prices for similar properties.

There has been no change to the valuation technique during the year for none of the above mentioned classes of assets. There were no transfers between Level 1, Level 2 or Level 3 during the year.

For all of the above, the level in which fair value measurement is categorised is Level 2.

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.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

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.

### **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**

#### **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:

#### **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.

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 goodwill related to the roof tiles business. When reviewing for indicators of impairment, the Group considers, among other factors:

- The relationship between its market capitalization and its book value
- The operating performance, for which the group used EBITDA as KPI, improved to 9,3% compared to 8% in the prior year, while revenue increased on all business lines, through organic growth
- Utilization of production capacity increased on all CGUs

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.

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

#### Estimates

##### Business combination - Wetterbest

TeraPlast took control of Wetterbest SA in January 2018, after obtaining the favourable approval of the Competition Council and registering the additional 17% investment with the Trade Register, thus reaching 67% shareholding.

Also in 2017, Teraplast has concluded a sale-purchase promise with the minority shareholders of Wetterbest SA, for the rest of their investment up to 99% of the company. According to the contract terms, the transaction was to be carried out within 4 years at most, for a price correlated with Wetterbest SA's results in the following years, but not less than a determined amount. As of 31 December 2017, this contract 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.

The nature of the sell-purchase promise contract was similar to a forward (or a combination of a call and a put option) and at a control acquisition date (Jan 2018, when it become enforceable) it created an obligation for the Group to deliver cash for its own equity shares (as from the perspective of the consolidated FSs, the shares of the subsidiary are equity instruments of the Group). Following IAS 32.23, such a liability shall be initially measured at the present value of the redemption price (a gross liability). Consequently, in January 2018, after obtaining the control over Wetterbest SA, the Group recognized, under the "Long-term liabilities", the fair value of the purchase price agreed with the promissory-sellers at RON 49,022,037 which was considered the best approximation of the redemption price. Also, the interest subject to the sell-purchase promise contract i.e. 32% was deemed to have been acquired at the acquisition date. Therefore, on the other side, this liability was treated as part of the consideration transferred to obtain control (deferred consideration).

Consequently, the Group consolidated Wetterbest SA as if it held 99% shares since control acquisition in January 2018. The deferred consideration for 32% interest was subsequently measured in accordance with IFRS 9.

The fair value of Wetterbest SA 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 in a goodwill of RON 35,230,839.

The consideration transferred in exchange for the 50% investment	39,163,540
The consideration transferred in exchange for the 17% investment	17,456,625
The consideration transferred in exchange for the 32% investment	48,527,375
<b>The fair value of the total consideration of 99%</b>	<b><u>105,081,832</u></b>
The fair value of the minority interests (1% of the net asset fair value)	705,566
<b>The fair value of the subsidiary at acquisition date</b>	<b><u>105,787,398</u></b>
The net book value of the purchased assets	70,556,559
<b>Goodwill obtained at acquisition</b>	<b><u>35,230,839</u></b>

In 2019, further to the conclusion of the sale-purchase agreement for an additional 32% ownership, the value of the transaction was RON 24,269,035 lower than the value of the initial agreement, amount which was accounted as a debt cancellation. On November 2017 between Teraplast SA and Wetterbest S.A.'s minor shareholders (previously called DEPACO SRL) a bilateral promise for sale-acquisition was signed (32% of the company's shares in the value of 10 million EUR.)

On January 2018, Teraplast obtained control over Wetterbest SA and became a major shareholder of the subsidiary.

On April 2019, the promise for sale-acquisition was finalised through a contract for 5 million EUR. The decrease is due to the negotiations which took place between the parties.

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

#### **Impairment of goodwill resulting from the Wetterbest business combination**

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.

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 Wetterbest, the Group performs annually an impairment test, according to IAS 36. For this purpose, the goodwill recognised on Wetterbest acquisition was allocated to the cash generating unit represented by the operating segment of metallic roof tile business. The Group recorded a provision for impairment of goodwill in amount of 25,204,000 lei as of December 31, 2019. As per management's valuation, the recoverable amount of Wetterbest as of 31 December 2019 is of RON 91,916,940 (2018: RON 119,147,139).

Estimating the recoverable value as of 31 December 2019 was based on determining the value in use by estimating the present value of the future cash flows generated by Wetterbest. 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 forecast for 2020 and the following 5 years. The cash flows reflect past experience, the estimated evolution of the roof tiles market in Romania and development of competitors in more mature roof tile markets. The forecasted results are EBITDA and EBIT margins similar to the results of 2019.

The forecast used for the impairment test performed as of 31 December 2018 had an average EBITDA increase of 2.5%. Forecasted profit margins were revised based on the results of 2019.

Working capital is forecasted to decrease at an average of 11% - 12% as a result of inventory optimization.

The terminal value was set based on the cash flows forecast for 2025, using a perpetuity increase rate of 2.5% (2018: 2,5%).

The discount rate used was of 12.3% (2018:10,52%), 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. The change in the discount rate represented the main driver for the goodwill impairment.

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.

#### **Revaluation of land and buildings**

The Group measures land and buildings at revalued amounts with changes in fair value being recognized in other comprehensive income. 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. As of 31 December 2019, based on internal assessment and opinion of the external valuation expert, management concluded that the accounting value of land and buildings approximates their market value and therefore a revaluation of land and buildings was deemed unnecessary.

#### 4. REVENUE AND OPERATING SEGMENTS

An analysis of the Group revenues is detailed below:

	<b>Year ended 31 December 2019</b>	<b>Year ended 31 December 2018</b>
	<b>RON</b>	<b>RON</b>
Sales of finished goods	847,469,033	684,720,115
Sale of merchandise	124,469,014	126,426,583
Revenues from turnkey halls and other activities	12,572,165	3,459,729
Trade discounts granted	(11,927,804)	(10,094,230)
<b>Total</b>	<b>972,582,408</b>	<b>804,512,197</b>

#### Geographical analysis

	<b>Year ended 31 December 2019</b>	<b>Year ended 31 December 2018</b>
	<b>RON</b>	<b>RON</b>
Sales on the internal market (Romania)	740,899,508	644,352,774
Sales on the external market	231,682,899	160,159,423
<b>Total</b>	<b>972,582,408</b>	<b>804,512,197</b>

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.

The product portfolio of the TeraPlast Group is structured on six business lines: **Installations, PVC joinery profiles, Compounds, Sandwich panels, Windows & Doors and Metal roof tiles.**

On the construction materials market, the seasonality influences the monthly evolution of the sales.

Therefore, the peak in our activity consists of approximately 6 months (May – October).

The Group's distribution policy targets specialised clients in the constructions sector through the following channels:

- Distributors and resellers (domestic and exports)
- Specialised networks (DIY stores – domestic and exports)
- Contractors and builders (infrastructure projects auctions)
- Producers (domestic and exports)

#### **4. REVENUE AND OPERATING SEGMENTS (continued)**

##### **Sandwich panels**

TeraSteel is one of the largest producers on the sandwich panels and galvanized purlings market in Romania and an important exporter in the CEE area. Starting with 2015, the company offers turnkey halls – a complete building solution. The product portfolio also includes, starting with 2018, self-supporting trapezoidal sheets. During 2018, TeraSteel Serbia developed its production capacity through an over EUR 1 million investment and started producing self-supporting trapezoidal sheets and mineral wool sandwich panels.

The distribution network of TeraSteel is comprised of large DIY chains in Romania, contractors and partner-companies in the warehousing industry.

The TeraSteel products are present in over 25 European countries. The exports account for more than 44% of the business's revenue, the main destination markets being Hungary, Slovakia, the Czech Republic, the Republic of Moldova and Bulgaria.

Sales of sandwich panels accounts for more than 85% of the segment's revenue.

TeraSteel offers a complete solution for light structure industrial buildings. The TeraSteel turnkey halls are made from TeraSteel panels and structure, while design and project coordination is done in-house. Construction work is outsourced.

##### **Metallic roof tiles**

Wetterbest is the second largest producer on the metallic roof tiles market in Romania, both quantitative and in value. Wetterbest offers complete roofing systems.

##### **Installations**

The Installations business line is part of TeraPlast and includes the interior and exterior sewage systems, water & gas distribution systems, rain and wastewater management systems, telecommunications, electric networks, individual utilities branches.

TeraPlast is the leader of the PVC pipes market and the second player on the installations market in Romania.

From its local top-producer position the company has an advantage in contracting the infrastructure works in Romania compared to the foreign competitors.

According to the sustainable development strategy "Romania 2025", the total value of the investments needed for the rehabilitation of the public services of water and sewage infrastructure is EUR 12,5 billion, while the annual medium of the necessary investments is EUR 625 million. As for the population connected to the water and sewage systems, in 2017 in Romania only 50,8% of the residents were connected to a sewage system, while 49,4% were connected to sewage systems with treatment stations. EUR 11 billion were allotted for the Large Infrastructure Operational Program between 2014 and 2020. So far, EUR 2,3 billion in payments and EUR 9,7 billion in signed contracts were used.

Taking this into consideration, an increase of the demand during the next 2 years, due to the execution phase of these projects.

##### **PVC joinery Profiles**

TeraPlast, through its PVC joinery profiles business line, offers systems with 4, 6 and 7 insulating chambers. The PVC joinery profiles portfolio are constantly improved to meet the domestic and international clients' needs.

The joinery profiles business line serves over 200 clients, producers of insulated openings. On the domestic market, the best-seller is the 4 insulating chambers system, while on the international markets the demand targets the 6 and 7 insulating chambers systems.

##### **Compounds**

With an over 34% market share, TeraPlast is the leader of the compounds market in Romania and the main supplier of PVC compounds for the cable industry in Romania. The compounds portfolio includes flexible and rigid compounds with appliance in the extrusion and injection manufacturing industry.

##### **Windows & Doors**

Through the Windows and Doors business line, TeraGlass offers windows and doors.

Over 70% of its production is intended for export, the main destination markets being Germany, Hungary and Slovakia. The TeraGlass products are present mostly in the DIY networks.

**TERAPLAST SA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the financial year ended 31 December 2019  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

**4. REVENUES AND OPERATING SEGMENTS (continued)**

The reporting segments of the Group are aggregated according to the main types of activities and are presented below:

2018	Sandwich panels	Metal tiles	Installations	Joinery profiles	Compounds	PVC windows and doors	Un allocated amounts	Total
<b>Revenue from third party customers (*)</b>	<b>261,992,982</b>	<b>220,999,584</b>	<b>173,537,733</b>	<b>55,970,409</b>	<b>63,091,541</b>	<b>28,919,946</b>	-	<b>804,512,197</b>
Other operating income	827,620	330,306	287,096	293,442	73,602	9,809	-	1,821,874
Income from subsidies	445,858	304,734	-	-	-	-	-	750,592
<b>Operating income, total</b>	<b>262,820,602</b>	<b>221,329,890</b>	<b>173,824,829</b>	<b>56,263,851</b>	<b>63,165,143</b>	<b>28,929,755</b>	-	<b>806,334,071</b>
Raw materials, consumables used and merchandise	(206,045,308)	(169,487,851)	(123,390,712)	(34,141,646)	(48,130,720)	(14,554,262)	-	(595,750,498)
Employee benefits expenses	(11,716,002)	(17,295,948)	(23,067,877)	(6,475,778)	(3,942,754)	(5,907,989)	-	(68,406,348)
Amortization and adjustments for the impairment of assets and provisions	(5,124,663)	(6,543,390)	(12,171,889)	(4,754,750)	(1,512,569)	(746,257)	-	(30,853,518)
Adjustments for the impairment of current assets	(151,934)	(778,687)	(289,473)	(211,007)	-	(109,702)	-	(1,540,803)
Other expenses	(18,042,052)	(18,869,311)	(17,216,379)	(11,948,741)	(3,824,170)	(5,110,020)	-	(75,010,673)
<b>Total expenses related to sales, indirect and administrative expenses</b>	<b>(241,079,961)</b>	<b>(212,975,186)</b>	<b>(176,136,330)</b>	<b>(57,531,922)</b>	<b>(57,410,213)</b>	<b>(26,428,230)</b>	-	<b>(771,561,838)</b>
<b>Operating result</b>	<b>21,740,641</b>	<b>8,354,704</b>	<b>(2,311,500)</b>	<b>(1,268,071)</b>	<b>5,754,930</b>	<b>2,501,525</b>	-	<b>34,772,232</b>
<b>EBITDA</b>	<b>26,419,446</b>	<b>14,593,359</b>	<b>9,860,389</b>	<b>3,486,679</b>	<b>7,267,499</b>	<b>3,247,782</b>	-	<b>64,875,155</b>
<b>Assets</b>								
<b>Total assets, out of which</b>	<b>144,765,996</b>	<b>189,137,726</b>	<b>169,045,528</b>	<b>67,744,885</b>	<b>38,715,501</b>	<b>22,646,883</b>	<b>10,189,949</b>	<b>642,246,468</b>
Non-current assets	53,623,251	99,815,668	72,378,186	34,199,641	15,155,042	10,799,960	8,324,389	294,296,137
Current assets	91,142,745	89,322,058	96,667,342	33,545,244	23,560,459	11,846,923	-	346,084,771
Assets held for sale	-	-	-	-	-	-	1,865,560	1,865,560
<b>Liabilities</b>								
<b>Total liabilities, out of which:</b>	<b>96,037,732</b>	<b>162,835,756</b>	<b>109,949,339</b>	<b>31,174,500</b>	<b>19,389,230</b>	<b>5,581,413</b>	-	<b>404,130,603</b>
Non-current liabilities	18,111,998	92,766,044	11,375,401	8,360,680	2,581,214	602,974	-	133,798,312
Current liabilities	77,925,734	70,069,712	77,736,572	22,813,820	16,808,015	4,978,439	-	270,332,291

EBITDA = Operating result + amortization and the adjustments for the impairment of non-current assets and provisions – Income from subsidies

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

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**4. REVENUES AND OPERATING SEGMENTS (continued)**

2019	Sandwich panels	Metal tiles	Installations	Joinery profiles	Compounds	PVC windows and doors	Total
<b>Revenue from third party customers</b>	<b>308,798,619</b>	<b>269,856,527</b>	<b>239,801,610</b>	<b>61,050,050</b>	<b>64,200,791</b>	<b>28,874,813</b>	<b>972,582,410</b>
Other operating income	877,561	82,712	303,612	3,418	0	18,819	1,286,122
Income from subsidies	434,679	303,960	132,144	0	0	17,451	888,234
<b>Operating income, total</b>	<b>310,110,859</b>	<b>270,243,199</b>	<b>240,237,366</b>	<b>61,053,468</b>	<b>64,200,791</b>	<b>28,911,083</b>	<b>974,756,766</b>
Raw materials, consumables used and merchandise	(231,736,093)	(207,947,809)	(157,333,349)	(40,501,206)	(47,501,334)	(15,845,685)	<b>(700,865,476)</b>
Employee benefits expenses	(16,507,089)	(21,889,151)	(28,016,266)	(8,636,151)	(4,560,275)	(6,543,870)	<b>(86,152,803)</b>
Amortization and adjustments for the impairment of assets and provisions	(5,425,845)	(6,624,898)	(13,058,407)	(6,790,689)	(1,541,375)	(757,257)	<b>(34,198,472)</b>
Adjustments for the impairment of current assets	(843,770)	(696,812)	689,820	203,480	0	(89,687)	<b>(736,969)</b>
Sponsorship expenses	(690,814)	(116,818)	(115,555)	(56,484)	(53,896)	(39,087)	<b>(1,072,654)</b>
Other expenses	(23,065,103)	(25,086,136)	(30,230,072)	(7,975,624)	(4,504,008)	(4,987,909)	<b>(95,848,851)</b>
<b>Total expenses related to sales, indirect and administrative expenses</b>	<b>(278,268,714)</b>	<b>(262,361,624)</b>	<b>(228,063,830)</b>	<b>(63,756,674)</b>	<b>(58,160,889)</b>	<b>(28,263,495)</b>	<b>(918,875,225)</b>
Goodwill impairment and debt cancellation, net		<b>(934,965)</b>					<b>(934,965)</b>
<b>Operating result</b>	<b>31,842,144</b>	<b>6,946,610</b>	<b>12,173,536</b>	<b>(2,703,205)</b>	<b>6,039,902</b>	<b>647,589</b>	<b>54,946,576</b>
<b>EBITDA</b>	<b>36,833,310</b>	<b>14,202,513</b>	<b>25,099,800</b>	<b>4,087,484</b>	<b>7,581,278</b>	<b>1,387,394</b>	<b>89,191,779</b>
<b>Financial result</b>	<b>(2,411,706)</b>	<b>(3,234,975)</b>	<b>(3,229,464)</b>	<b>(400,038)</b>	<b>(620,215)</b>	<b>(297,442)</b>	<b>(10,193,840)</b>
<b>Profit before tax</b>	<b>29,430,438</b>	<b>3,711,635</b>	<b>8,944,073</b>	<b>(3,103,243)</b>	<b>5,419,687</b>	<b>350,147</b>	<b>44,752,736</b>

EBITDA = operating result + amortization and the adjustments for the impairment of non-current assets and provisions – Income from subsidies - Goodwill impairment and debt cancellation, net

Goodwill impairment and debt cancellation related to the metal tiles CGU (Notes 3 and 16) are considered one-off events, not reflecting the operating performance of the Group.

The amounts disclosed above are net of the inter-segment transactions elimination

The following inter – segment transactions, made at prices that approximate market prices, were eliminated in the above segment information, to reflect third party sales which are one of the objectives of management:

- Sales of steel of RON 7,748,802 from the Roof tiles segment to the Sandwich panels segment;
- Sales of PVC joinery profiles of RON 12,964,877 to the Windows and Doors segment.

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2019	Sandwich panels	Metal tiles	Installations	Joinery profiles	Compounds	PVC windows and doors	Un allocated	Total
<b>Assets</b>								
<b>Total assets, out of which:</b>	<b>136,320,875</b>	<b>197,410,757</b>	<b>212,277,770</b>	<b>52,818,321</b>	<b>39,752,366</b>	<b>47,886,697</b>	<b>6,913,460</b>	<b>693,380,246</b>
Non-current assets	53,116,775	101,293,573	101,956,914	30,037,519	21,590,023	26,734,686	6,913,460	341,642,950
Current assets	83,204,099	96,117,184	110,320,856	22,780,803	18,162,343	21,152,010		351,737,296
Assets held for sale								
<b>Liabilities</b>								
<b>Total liabilities, out of which:</b>	<b>72,532,759</b>	<b>145,344,717</b>	<b>120,851,604</b>	<b>27,065,016</b>	<b>26,768,012</b>	<b>24,669,740</b>	<b>-</b>	<b>417,231,847</b>
Non-current liabilities	11,866,884	35,258,399	30,850,871	2,017,455	6,032,378	9,890,614		95,916,602
Current liabilities	60,665,875	110,086,317	90,000,733	25,047,561	20,735,634	14,779,126		321,315,245
<b>Additions to non-current assets</b>	<b>3,727,587</b>	<b>31,778,473</b>	<b>32,054,090</b>	<b>4,206,018</b>	<b>7,783,519</b>	<b>16,334,314</b>		<b>95,884,001</b>

The investment in the metal tiles business is a new production facility of 38,000 sqm in Baicoi (Prahova County). The factory and new production lines will ensure optimal logistics and an annual production capacity of over 10 million sqm of tiles.

The investment in the installations segment includes a production line for polypropylene pipes and an injection machine for fittings. These products are for sewage systems inside of buildings.

With the investment in the new compounder, TeraPlast will be the first producer in Romania of halogen-free, fire-resistant compounds used for insulation of electric cables.

The objective of the investment project of TeraGlass is a fully automated production line for windows and doors, which will also contribute to increasing production capacity and labor productivity.

In addition to these investments that will increase production capacity in 2020 and generate operating efficiencies, the Group invested in maintenance capex.

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**5. SUNDRY INCOME**

**Financial income / costs**

	<b>Year ended 31 December 2019</b>	<b>Year ended 31 December 2018</b>
	<b>RON</b>	<b>RON</b>
Interest expense	(9,051,686)	(7,578,252)
Interest income	45,912	935
Loss from foreign exchange differences, net	(1,829,772)	(626,834)
Dividend income	88,742	75,200
Other financial income/ expenses	480,965	(483,902)
<b>Net financial loss</b>	<b>(10,193,841)</b>	<b>(8,612,853)</b>

The Group did not capitalize any borrowing cost in 2019 and 2018 because the investments financed through bank debt were non qualifying assets.

Interest expense is for loans from banks which are measured at amortized cost.

**Other operating income**

	<b>Year ended 31 December 2019</b>	<b>Year ended 31 December 2018</b>
	<b>RON</b>	<b>RON</b>
Compensations, fines and penalties	674,148	364,854
Other income	611,974	706,427
Subsidies income	888,234	750,592
<b>Total</b>	<b>2,174,356</b>	<b>1,821,873</b>

**6. RAW MATERIALS, CONSUMABLES USED AND MERCHANDISE**

	<b>Year ended 31 December 2019</b>	<b>Year ended 31 December 2018</b>
	<b>RON</b>	<b>RON</b>
Raw materials expenses	564,972,716	462,124,546
Consumables expenses	30,816,190	24,990,443
Merchandise expenses	98,326,251	114,549,848
Packaging expenses	3,927,007	3,711,235
<b>Total</b>	<b>698,042,164</b>	<b>605,376,072</b>

**7. GAINS AND LOSSES ON DISPOSAL OF FIXED ASSETS**

	Year ended 31 December 2019 RON	Year ended 31 December 2018 RON
Income from the disposal of the tangible and intangible assets	1,014,840	2,048,116
Expenses with the disposal of tangible and intangible assets	<u>(1,139,485)</u>	<u>(2,032,985)</u>
<b>Net loss/ Gain from the disposal of tangible and intangible assets</b>	<b><u>(124,645)</u></b>	<b><u>15,131</u></b>

**8. EXPENSES WITH PROVISIONS, IMPAIRMENT ADJUSTMENTS AND AMORTIZATION**

	Year ended 31 December 2019 RON	Year ended 31 December 2018 RON
Expenses with non-current assets impairment (IAS 36)	(1,532,070)	(1,294,955)
Income from reversal of non-current assets impairment (IAS 36)	747,415	434,199
Amortization and depreciation expenses (Notes 12 and 13) (IAS 36)	<u>(31,988,740)</u>	<u>(29,739,450)</u>
<b>Net adjustments for non-current assets impairment</b>	<b><u>(32,773,395)</u></b>	<b><u>(30,600,206)</u></b>
Inventory impairment expenses (IAS 36)	(4,002,400)	(4,815,438)
Income from inventory impairment reversal (IAS 36)	5,979,008	4,325,063
<b>Net adjustments for inventory impairment (Note 17)</b>	<b><u>1,976,608</u></b>	<b><u>(490,375)</u></b>
Expenses with allowance for doubtful debts (IFRS 9)	(3,937,822)	(3,493,008)
Income from impairment reversal (IFRS 9)	2,995,190	3,082,933
Receivables charged to expenses (IFRS 9)	<u>(1,770,945)</u>	<u>(640,353)</u>
<b>Net adjustments for doubtful debts (Note 18)</b>	<b><u>(2,713,577)</u></b>	<b><u>(1,050,428)</u></b>
Provisions (IAS 36)	(1,489,741)	(512,009)
Revenues from provisions reversal / cancellation (IAS 36)	307,645	303,229
<b>Net adjustments for provisions (Note 24)</b>	<b><u>(1,182,096)</u></b>	<b><u>(208,780)</u></b>

**Impairment of non-current assets**

The Group sets up impairment allowances for equipment that will no longer be used because it is damaged or obsolete. When this equipment is scrapped, recycled or sold, the impairment allowance is reversed. During 2019, the Group incurred a loss of RON 124,645 (2018: gain of RON 15,131) on disposal of non-current assets, presented on line "Gains / (Losses) from the disposal of tangible and intangible assets"

Most of the allowance refers equipment that is part of the extrusion production lines for joinery profiles and installations. Given the nature of the production process of these 2 segments, some parts become damaged before the end of their economic useful life.

**Inventory impairment**

Allowance are set up for inventory that was not used or sold during the last 12 months, finished goods for which the demand is decreasing, that are damaged or have quality issues. The cost of finished goods on stock as at quarter end is also compared to the expected selling price and an allowance is set up, if necessary, to adjust the cost to the lower net realizable value.

The net reversal is because the Group obtained a value higher than expected for the finished goods that remained on stock from product group that were discontinued in prior 2017 – 2018, namely window seals, PVC decoration elements and PVC rainwater system elements.

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**9. EMPLOYEE BENEFIT EXPENSES AND REMUNERATION OF THE BOARD OF DIRECTORS**

	<b>Year ended 31 December 2019</b>	<b>Year ended 31 December 2018</b>
	<b>RON</b>	<b>RON</b>
Wages	79,132,440	62,826,216
Contributions to the public social security fund	3,300,456	2,370,201
Meal tickets	3,719,908	3,209,931
<b>Total, as presented on line "Employee benefit expenses"</b>	<b><u>86,152,804</u></b>	<b><u>68,406,348</u></b>

In 2019, the employees and managers of the Group that were awarded free shares of TeraPlast SA, were transferred the property of these shares. As a result, treasury shares of 1,472,925 lei were derecognized. The cost of the shares was expensed in 2017 and 2018, as these were the periods in which the respective employees were granted the bonus in shares.

**Remuneration of the Board of Directors**

The Chairman and the Members of the Board have a monthly gross salary of RON 8,443. The total remuneration in 2019 and 2018 was of RON 506,580 per year. They do not receive any other benefits.

**10. OTHER EXPENSES**

	<b>Year ended 31 December 2019</b>	<b>Year ended 31 December 2018</b>
	<b>RON</b>	<b>RON</b>
Transport costs	40,038,520	29,453,184
Expenses with utilities	13,177,175	9,436,746
Expenses with third party services	18,153,155	13,857,324
Expenses with compensations, fines and penalties	325,277	60,693
Entertainment, promotion and advertising expenses	6,437,334	5,155,895
Other general expenses	4,002,197	2,696,494
Expenses with other taxes and duties	2,495,649	2,107,177
Repair expenses	3,531,213	3,083,141
Travelling expenses	1,726,262	1,430,365
Rent expenses	2,974,288	3,824,486
Mail and telecommunication expenses	713,764	752,756
Insurance premium expenses	2,274,019	1,895,322
Sponsorship expenses	1,072,654	1,257,090
<b>Total</b>	<b><u>96,921,507</u></b>	<b><u>75,010,673</u></b>

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**11. INCOME TAX**

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

	<b>Period ended 31 December 2019 RON</b>	<b>Period ended 31 December 2018 RON</b>
<b>Profit before tax</b>	<b>44,752,732</b>	<b>26,159,379</b>
Income tax calculated (2019: 16% in Romania and 15% in Serbia; 2018: 16% and 10% respectively)	7,078,161	4,185,501
Items assimilated to income	60,154	259,686
Deductions	(4,399,024)	(3,042,199)
Not taxable income	(3,574,141)	(3,168,218)
Non-deductible expenses	7,752,706	6,535,393
Sponsorship (tax credit)	(1,072,654)	(1,249,490)
Credit from tax loss used	(795,906)	-
<b>Total income tax at the effective rate 13.5% (2018: 13.5%)</b>	<b>5,845,202</b>	<b>3,520,673</b>
Current income tax recognized in the profit and loss account - expense	5,043,054	4,198,150
Deferred income tax – expense/ (benefit)	802,148	(677,477)
<b>Total income tax - expense</b>	<b>5,845,202</b>	<b>3,520,673</b>

The tax rate applied for the reconciliation above for 2019 and 2018 is 16% and is payable by Romanian legal entities. During 2019, Teraplast SA used its credit from the tax loss incurred in the prior year, amounting to RON 4,940,007. In 2019, TeraGlass incurred a tax loss in amount of RON 415,426 which will be used in the following year. According to the Romanian tax legislation, the tax loss may be carried forward for seven years.

The taxation rate in Serbia is 15% (2018: 10%).

**The components of the deferred tax:**

<b>2018</b>	<b>Opening balance</b>	<b>Recorded in the income statement</b>	<b>Registered in other comprehensive income</b>	<b>The acquisition of Wetterbest</b>	<b>Closing balance</b>
Tangible and intangible assets and investment properties	(4,199,662)	109,624	136,968	(6,462,576)	(10,423,669)
<b>Deferred tax liability recognized</b>	<b>(4,199,662)</b>	<b>109,624</b>	<b>136,968</b>	<b>(6,462,576)</b>	<b>(10,423,669)</b>
Fiscal loss	-	795,906	-	-	795,906
Investments in subsidiaries	399,924	(392,000)	-	-	15,936
Employee benefit liabilities	119,445	57,831	-	-	177,288
Trade and similar payables	472,831	106,115	-	-	578,946
<b>Deferred tax asset recognized</b>	<b>992,200</b>	<b>(228,054)</b>	<b>-</b>	<b>-</b>	<b>772,170</b>
<b>Net liabilities with deferred tax recognized</b>	<b>(3,207,462)</b>	<b>677,477</b>	<b>136,968</b>	<b>(6,462,576)</b>	<b>(8,855,594)</b>

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**11. INCOME TAX (continued)**

2019	Opening balance	Recorded in the income statement	Registered in other comprehensive income	Closing balance
Tangible and intangible assets and investment properties	(10,423,669)	(72,332)	(32,850)	(10,528,850)
<b>Deferred tax liabilities recognized</b>	<b>(10,423,669)</b>	<b>(72,332)</b>	<b>(32,850)</b>	<b>(10,528,850)</b>
Fiscal loss	795,906	(729,438)	-	66,468
Investments in subsidiaries	15,936	-	-	15,936
Employee benefit liabilities	177,288	140,889	-	318,177
Trade and similar payables	578,946	(141,268)	-	437,678
<b>Deferred tax assets recognized</b>	<b>1,568,076</b>	<b>(729,817)</b>	<b>-</b>	<b>(838,259)</b>
<b>Net liabilities with deferred tax recognized</b>	<b>(8,855,594)</b>	<b>(802,148)</b>	<b>(32,850)</b>	<b>(9,690,590)</b>

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**12. PROPERTY, PLANT AND EQUIPMENT**

	Land	Buildings	Plant and equipment and vehicles	Installations and furniture	Tangible assets in progress	Total
	RON	RON	RON	RON	RON	RON
<b>COST</b>						
<b>Balance as at 1 January 2018</b>	<b>12,560,965</b>	<b>91,670,179</b>	<b>219,086,237</b>	<b>1,684,258</b>	<b>5,342,961</b>	<b>330,344,600</b>
Increases:	2,331,508	7,556,282	28,344,831	1,076,638	20,360,758	59,670,018
Out of which:						
Increases from the acquisition of Wetterbest SA Group	2,096,125	8,069,765	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	9,419,807	127,407	(11,309,736)	(10,684)
Transfers from inventory 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	599,425	622,201	-	-	-	1,221,626
Decrease from valuation prior to the classification as assets held for sale, with impact on reserves	(522,189)	(333,862)	-	-	-	(856,051)
Increases / (decreases) from value adjustments with impact on reserves	-	155,328	-	-	-	155,328
Disposals and other decreases	-	(2,555,084)	(14,684,417)	(210,367)	-	(17,449,869)
<b>Balance as at 31 December 2018</b>	<b>13,832,218</b>	<b>98,040,028</b>	<b>242,216,342</b>	<b>2,677,936</b>	<b>14,393,983</b>	<b>371,160,508</b>
<b>Balance as at 1 January 2019</b>	<b>13,832,218</b>	<b>98,040,028</b>	<b>242,216,342</b>	<b>2,677,936</b>	<b>14,393,983</b>	<b>371,160,508</b>
Increases:	319,885	387,931	13,029,097	209,565	80,245,320	94,191,799
Out of which:						
Increases from the internal production of non-current assets	-	-	-	-	1,578,283	1,578,283
Transfers in / from non-current assets in progress	-	24,199,335	59,644,743	394,668	(83,904,414)	334,332
Transfer to right of use assets	-	-	(2,145,494)	-	-	(2,145,494)
Increases / (decreases) from value adjustments with impact on reserves	-	-	-	-	-	-
Disposals and other decreases	(24,539)	-	(2,678,205)	(18,317)	(455,217)	(3,176,278)
Exchange differences on translating foreign operations	-	530,937	400,172	-	102,719	1,033,827
<b>Balance as at 31 December 2019</b>	<b>14,127,564</b>	<b>123,158,231</b>	<b>310,466,655</b>	<b>3,263,853</b>	<b>11,960,673</b>	<b>462,976,976</b>

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**12. PROPERTY, PLANT AND EQUIPMENT (continued)**

	Land RON	Buildings RON	Plant and equipment RON	Installations and furniture RON	Tangible assets in progress RON	Total RON
<b>ACCUMULATED DEPRECIATION</b>						
<b>Balance as at 1 January 2018</b>	<b>346</b>	<b>4,550,778</b>	<b>137,800,175</b>	<b>1,112,499</b>	<b>964,893</b>	<b>144,428,691</b>
Depreciation recorded during the year	346	4,495,501	22,256,684	310,261	-	27,062,791
Disposals and decreases	23,615	(1,515,779)	(13,760,561)	(160,156)	-	(15,436,495)
Impairment	-	(153,253)	474,412	-	539,597	860,756
Transfers from inventory items	-	-	49,884	-	-	49,884
<b>Balance as at 31 December 2018</b>	<b>692</b>	<b>7,377,247</b>	<b>146,820,594</b>	<b>1,262,604</b>	<b>1,504,490</b>	<b>156,965,627</b>
<b>Balance as at 1 January 2019</b>	<b>692</b>	<b>7,377,247</b>	<b>146,820,594</b>	<b>1,262,604</b>	<b>1,504,490</b>	<b>156,965,627</b>
Depreciation recorded during the year	346	4,571,166	21,381,054	378,623	-	26,331,188
Disposals and decreases	23,615	-	(2,117,390)	(11,410)	-	(2,105,185)
Impairment	-	(31,997)	760,816	-	(200,512)	528,325
Transfers to right of use assets	-	-	264,982	-	-	264,982
Exchange differences on translating foreign operations	-	40,616	136,272	-	-	176,888
<b>Balance as at 31 December 2019</b>	<b>24,652</b>	<b>11,957,050</b>	<b>167,246,327</b>	<b>1,629,817</b>	<b>1,303,978</b>	<b>182,161,824</b>
<b>NET CARRYING AMOUNT</b>						
<b>Net carrying amount as at 1 January 2019</b>	<b>13,831,526</b>	<b>90,662,781</b>	<b>95,395,748</b>	<b>1,415,332</b>	<b>12,889,493</b>	<b>214,194,880</b>
<b>Net carrying amount as at 31 December 2019</b>	<b>14,102,912</b>	<b>111,201,182</b>	<b>143,220,328</b>	<b>1,634,035</b>	<b>10,656,696</b>	<b>280,815,152</b>

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.

## **12. PROPERTY, PLANT AND EQUIPMENT (continued)**

As at 31 December 2019, the Group had pledged in favour of financial institutions non-current assets and investment properties with a net carrying amount RON 143,432,083 (31 December 2018: RON 93,640,578).

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 2018 and 2019, the management analyzed, with the assistance of an authorizer 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.

The impairment adjustments are related to assets not used. As at 31 December 2019, the Group recorded impairment adjustments for tangible assets in an amount RON 3,410,349 (2018: RON 2,312,454).

The revaluation reserve as of 31 December 2019 is in amount of RON 17,871,014 (31 December 2018: RON 17,698,554) is not distributable to shareholders. The change in revaluation reserve of RON 172,460 is presented in OCI.

Presentation of the historical cost values that would have been recorded in connection with these assets, in the event that they would have been recognized had the assets been carried under the cost model, is not possible due to technical limitations of the accounting system. The company considers that the costs that would be incurred with obtaining this information exceed the expected benefits to users of the financial statements. Thus, the presentation of the historical cost values is not presented.

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**13. INTANGIBLE ASSETS**

	<b>Goodwill</b>	<b>Licenses and other intangible assets</b>	<b>Intangible assets in progress</b>	<b>Total</b>
<b>Cost</b>				
<b>Balance as at 1 January 2018</b>	-	<b>6,786,169</b>	<b>3,097</b>	<b>6,789,266</b>
Increases, out of which:	35,230,839	36,585,892	724,056	<b>72,541,010</b>
Wetterbest SA acquisition, out of which:	35,230,839	36,083,307	-	<b>71,314,146</b>
- Goodwill	35,230,839	-	-	<b>35,230,839</b>
- Wetterbest brand	-	27,351,076	-	<b>27,351,076</b>
- Commercial relations	-	7,427,844	-	<b>7,427,844</b>
Transfers into / from tangible assets in progress	-	333,163	(322,479)	<b>10,684</b>
Disposals and other decreases	-	(216,139)	-	<b>(216,139)</b>
<b>Balance as at 31 December 2018</b>	<b>35,230,839</b>	<b>43,489,085</b>	<b>404,897</b>	<b>79,124,821</b>
<b>Balance as at 1 January 2019</b>	<b>35,230,839</b>	<b>43,489,085</b>	<b>404,897</b>	<b>79,124,821</b>
Increases	-	428,624	1,263,578	<b>1,692,202</b>
Transfers into / from tangible assets in progress	-	1,168,494	(1,502,826)	<b>(334,332)</b>
Exchange differences on translating foreign operations	-	16,566	-	16,566
<b>Balance as at 31 December 2019</b>	<b>35,230,839</b>	<b>45,102,769</b>	<b>165,649</b>	<b>80,499,257</b>
<b>Cumulated amortization</b>				
<b>Balance as at 1 January 2018</b>	-	<b>5,126,916</b>	-	<b>5,126,916</b>
Amortization expense	-	2,695,736	-	<b>2,695,736</b>
Wetterbest SA acquisition	-	503,772	-	<b>503,772</b>
Impairment	-	56	-	<b>56</b>
Decreases	-	(215,606)	-	<b>(215,606)</b>
<b>Balance as at 31 December 2018</b>	-	<b>8,110,874</b>	-	<b>8,110,874</b>
<b>Balance as at 1 January 2019</b>	-	<b>8,110,874</b>	-	<b>8,110,874</b>
Amortization expense	-	2,969,498	-	<b>2,969,498</b>
Impairment	25,204,000	256,347	-	<b>25,460,347</b>
Decreases	-	-	-	-
Exchange differences on translating foreign operations	-	5,027	-	<b>5,027</b>
<b>Balance as at 31 December 2019</b>	<b>25,204,000</b>	<b>11,341,747</b>	-	<b>36,545,747</b>
<b>Net carrying amount</b>				
<b>As at 31 December 2018</b>	<b>35,230,839</b>	<b>35,378,211</b>	<b>404,897</b>	<b>71,013,891</b>
<b>As at 31 December 2019</b>	<b>10,026,839</b>	<b>33,761,022</b>	<b>165,649</b>	<b>43,953,510</b>

At the date of purchasing the majority package of Wetterbest SA company, according to the valuation report issued by an external appraiser, in the fair value of the Wetterbest SA 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 Wetterbest SA are included in other intangible assets. The carrying amount of the Wetterbest brand as of 31 December 2019 is RON 24,615,968 (31 December 2018: RON 25,983,522) with a remaining amortisation period of 18 years (31 December 2018: 19 years). The carrying amount of the Commercial relations as of 31 December 2019 is RON 6,685,060 (31 December 2018: RON 7,056,452) with a remaining amortisation period of 18 years (31 December 2018: 19 years).

A goodwill impairment loss was recognized, see Note 3 for details on test performed.

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**14. RIGHT OF USE ASSETS**

The Group has right of use assets from rented buildings, warehouses and showrooms. The Group finances through lease agreements vehicles.

The total cash outflow for leases amount to 2,947,288 RON (for low value assets and short term contracts as presented below) and 1,206,100 RON representing payment of lease liabilities.

Please see maturity analysis of lease liabilities in note 27.

	Buildings	Equipment from previous operating leases	Vehicles & Equipment from previous finance Leases	Equipment	Total
<b>Cost</b>					
Balance as of 1 January 2019	7,225,441	407,899	3,624,654	4,032,553	11,257,994
Additions			2,390,609	2,390,609	2,390,609
Transfer to equipment on exercise of the purchase option			(1,479,160)	(1,479,160)	(1,479,160)
<b>Balance as of 31 December 2019</b>	<b>7,225,441</b>	<b>407,899</b>	<b>4,536,103</b>	<b>4,944,002</b>	<b>12,169,443</b>
<b>Amortization</b>					
Balance as of 1 January 2019	-	-	1,296,004	1,296,004	1,296,004
Amortization expense	1,930,279	43,317	758,256	801,573	2,731,851
Amortization of equipment transferred to PPE			(1,031,023)	(1,031,023)	(1,031,023)
<b>Balance as of 31 December 2019</b>	<b>1,930,279</b>	<b>43,317</b>	<b>1,023,238</b>	<b>1,066,554</b>	<b>2,996,833</b>
<b>Carrying amount 01 January 2019</b>	<b>7,225,441</b>	<b>407,899</b>	<b>2,328,649</b>	<b>2,736,549</b>	<b>9,961,990</b>
<b>Carrying amount 31 December 2019</b>	<b>5,295,162</b>	<b>364,583</b>	<b>3,512,865</b>	<b>3,877,448</b>	<b>9,172,610</b>

The amount recognized to profit and loss in respect of the right of use assets were:

	Buildings	Equipment	Total
Amortization expense	1,930,279	801,573	<b>2,731,851</b>
Interest expense on lease liabilities	260,361	-	<b>260,361</b>

In 2019, the Group expensed the lease for low value assets and short term contracts:

<b>Rent expense</b>	<b>2,947,288</b>
short-term	1,894,039
low value	1,053,249

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**15. SUBSIDIARIES AND OTHER EQUITY INVESTMENTS**

As at 31 December 2019 and 31 December 2018, TeraPlast SA has the following investments:

<b>Subsidiary</b>	<b>Place of set-up and of operations</b>	<b>Main activity</b>	<b>Shareholding 31 December 2019 (%)</b>	<b>Shareholding 31 December 2018 (%)</b>
Terasteel SA Bistrita	Romania	Heat insulating panel production	97.95	97.95
Teraglass Bistrita SA	Romania	Heat insulating joinery production	100	100
Politub SA	Romania	Polyethylene pipes production	99.99	99.99
Teraplast Recycling SRL	Romania	PVC recycler	99	99
Teraplast Hungaria	Hungary	Distributor	100	100
Terasteel DOO Serbia	Serbia	Heat insulating panel production	100	100
Wetterbest SA	Romania	Metal tile production	99	99
Cortina WTB SRL	Romania	Metal tile production	51	51

In 2019, the recycling business of TeraPlast SA was spin off in Teraplast Recycling. The recycled PVC was sold to TeraPlast SA which used it for the production of pipes and joinery profiles.

*Other long-term equity investments*

Details concerning other equity investments of Teraplast SA are the following:

<b>Investment name</b>	<b>Country</b>	<b>Investment share %</b>	<b>31 December 2019 RON</b>	<b>Investment share %</b>	<b>31 December 2018 RON</b>
CERTIND SA	Romania	7.50	14,400	7.5	14,400
Partnership for sustainable development	Romania	7.14	1,000	7.14	1,000
Tera Tools SRL	Romania	24	72	24	72
The Association of Metal Panels Producers	Romania	11.11	1,000	11.11	1,000
		-	<b>16,472</b>	-	<b>16,472</b>

CERTIND 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.

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 equity investments.

## 16. ACQUISITION OF WETTERBEST

On 1 March 2017, Teraplast has concluded a contract with the shareholders of Wetterbest SRL to purchase 50% of its capital shares. Subsequently, Teraplast acquired another 17% of the Wetterbest 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 Wetterbest 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 Wetterbest, in January 2018, the Wetterbest group is being consolidated into the financial statements through the full consolidation method.

In November 2017, Teraplast has concluded a sale-purchase promise with the minority shareholders of Wetterbest, for the rest of their investment up to 99% of the company as mentioned in Note 3, 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, under "Other long term liabilities" 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 Wetterbest group's net consolidated asset purchased. The Group assesses the value of minority interests proportionally from the fair value of the net asset of the consolidated companies.

As a result of the purchase of 67% of the shares and of the sale-purchase promise mentioned above, the group consolidates the Wetterbest sub-group considering an investment of 99% from the acquisition date. Following the consolidation of the Wetterbest sub-group, the Group has registered goodwill amounting to RON 35,230,839, 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 Wetterbest SRL at the date of obtaining control, namely 1 January 2018, in amount of RON 70,556,559.

The estimation of the market value of Wetterbest 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 Wetterbest 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 Wetterbest 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:

- **Wetterbest 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.

## **16. ACQUISITION OF WETTERBEST (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 191,945 lower as compared to their net book value as of the purchase date amounting to RON 25,986,052.

### **Financial investments**

Wetterbest 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 Wetterbest amounts to RON 947,518.

### **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.

### **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, 1 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 favourable 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.

**16. ACQUISITION OF WETTERBEST (continued)**

The fair value of the consideration agreed for a minimum price of EUR 10,000,000, correlated with Wetterbest's results in the following years was determined as being the present value of the cash flows forecast for Wetterbest, during the agreed 4-year timeframe, 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 494,662:

**1 January 2018**

The fair value of the promise for the 32% investment (48,527,375)

Financial expenses resulted from discounting the fair value (494,662)

**31 December 2018** (49,022,037)

**T**

**he amount is presented as at 31 December 2018 under Other Long Term Liabilities in the SOFP.**

**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.

	<b>31 December 2017</b>
The consideration transferred in exchange for the 50% investment	39,163,540
The consideration transferred in exchange for the 17% investment	17,456,625
The consideration transferred in exchange for the 32% investment	48,527,375
<b>The fair value of the total consideration of 99%</b>	<u><u>105,081,832</u></u>
The fair value of the minority interests (1% of the net asset fair value)	705,566
<b>The fair value of the subsidiary at acquisition date</b>	<u><u>105,787,398</u></u>
The net book value of the purchased assets	70,556,559
<b>Goodwill obtained at acquisition</b>	<u><u>35,230,839</u></u>

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

In April 2019 the share purchase agreement for 32% was concluded for RON 24,258,340, as a result of negotiations between parties. The difference between the fair value of the promise and the consideration agreed under the SPA of RON 24,269,035 was recorded as Income from debt cancellation in correspondence with the decrease in liability.

At the date of the SPA the promise was terminated.

As of 31 December 2019, the goodwill impairment test was performed, resulting in an impairment of RON 25,204,000 (details on the impairment test are disclosed in Note 3).

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**17. INVENTORIES**

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>RON</b>	<b>RON</b>
Finished goods	41,392,276	49,352,661
Raw materials	117,168,078	125,931,763
Commodities	13,626,150	13,436,897
Consumables	3,886,442	3,577,615
Inventory items	312,482	260,198
Semi-finished goods	8,251,520	3,908,861
Residual products	470,187	909,669
Goods to be purchased	845,314	3,732,496
Packaging	2,048,296	1,684,609
<b>Inventories – gross value</b>	<b>188,000,740</b>	<b>202,794,769</b>
	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>RON</b>	<b>RON</b>
Value adjustments for raw materials and consumables	(2,600,884)	(2,968,793)
Value adjustments for finished products	(2,751,569)	(4,463,451)
Value adjustments for merchandise	(1,052,154)	(947,781)
<b>Total value adjustments</b>	<b>(6,404,607)</b>	<b>(8,380,025)</b>
<b>Total inventories – net value</b>	<b>181,596,133</b>	<b>194,414,744</b>

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 depreciated in full.

The Group's inventories are pledged in favor of financing banks. As of December 31, 2019 the total closing balance is pledged.

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**18. TRADE AND OTHER RECEIVABLES**

<b>Short-term receivables</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>RON</b>	<b>RON</b>
Trade receivables	145,618,505	133,856,312
Advances paid to suppliers of assets	4,482,479	6,404,825
Advances paid to suppliers of inventories and services	4,490,544	1,528,978
Other receivables	10,242,580	10,766,819
Loss allowance	(26,038,861)	(25,096,230)
<b>Total</b>	<b>138,795,247</b>	<b>127,460,704</b>

Other receivables include the amount of RON 8,496,794 (2017: RON 8,773,733) representing VAT receivable (Teraglass Bistrita SRL, Terasteel Doo Serbia, Teraplast Recycling SRL, Wetterbest SA, Politub SA).

**The changes in adjustment for impairment on doubtful receivables**

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>RON</b>	<b>RON</b>
<b>Balance at the beginning of the year</b>	<b>(25,096,230)</b>	<b>(21,939,056)</b>
Receivables written-off during the year	1,770,945	640,353
Impairment adjustment charged to profit and loss for trade receivables	(2,713,576)	(1,050,491)
Acquisition of a subsidiary	-	(2,747,037)
<b>Balance at the end of year</b>	<b>(26,038,861)</b>	<b>(25,096,230)</b>

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 and they are not related to each other.

An allowance for impairment is recorded for the full amount of trade receivables overdue for more than 90 days.

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default is based on the risk rating of each client obtained from independent parties, adjusted, if the case with forward-looking information as described above.

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

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

## 19. ASSETS HELD FOR SALE AND INVESTMENT PROPERTY

### Assets held for sale

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Opening balance as of 1 January</b>	<b>1,865,560</b>	<b>653,215</b>
Inputs through transfers from tangible non-current assets	-	1,865,560
Outputs through sale	1,865,560	653,215
<b>Closing balance as of 31 December</b>	<b>-</b>	<b>1,865,560</b>

In 2017, the Company reclassified its warehouse in Galati (land and building) with a net book value of RON 653,215 from tangible assets into assets held for sale and it was measured at the reclassification date at the lowest of its net book value and the fair value minus the costs generated by the sale. The warehouse was sold in 2018, generating a profit of RON 185,891.

In 2018, the Company reclassified its warehouse in Otopeni (land and buildings) to assets held for sale; they were valued at the date of reclassification at the lower of net book value and fair value less costs to sell, namely RON 1,865,560. The warehouse was sold in January 2019, generating a profit of RON 15,034. The profit from the sale of these assets is classified in the Income Statement under "Gains from the disposal of assets held for sale"

The sale of these warehouses were the result of the Group's strategy to divest from noncore assets. The warehouses were used to service Installations clients.

### Investment property

The Group holds assets which were classified to investment property, as follows:

- The Group owns 36 thousand sqm of land in Bistrita for appreciation, classified as investment property. The production facility of TeraPlast was on this land, before the company relocated in the TeraPlast Industrial Park.
- As of 31 December 2018, the Group owned land and buildings (previously used as warehouses), in Constanta. The final destination of land and buildings would be as held for appreciation followed by subsequent sale. In July 2019, the property was sold, registering a net loss of RON 133 thousand.

The Group carries its investment properties at fair value, with changes in fair value being recognized in the statement of profit or loss. Investment properties were revalued as at 31 December 2019 by an external independent valuator. The valuation method used was the market comparison.

	<b>Year ended 31 December 2019 RON</b>	<b>Year ended 31 December 2018 RON</b>
<b>Opening balance at 1 January</b>	<b>8,324,389</b>	<b>9,791,568</b>
Disposals	(1,410,929)	(1,221,627)
Net variation from valuation of investment properties at fair value	-	(245,552)
<b>Closing balance at 31 December</b>	<b>6,913,460</b>	<b>8,324,389</b>

In July 2019, the warehouse in Constanta was sold, generating a reduction of the Group's investment property by RON 1,411 thousand. The warehouse was classified as Investment property because it was vacated and kept for value appreciation.

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**20. SHARE CAPITAL**

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>RON</b>	<b>RON</b>
Common shares paid in full	<u>133,780,650</u>	<u>107,024,527</u>
<b>Total</b>	<b><u>133,780,650</u></b>	<b><u>107,024,527</u></b>

As at 31 December 2019, the value of the share capital called-up and paid up of the Company included 1,337,806,508 (2018: 1,070,245,274) authorized shares, issued and paid in full, at a value RON 0.1 and having a total nominal value of RON 1,337,806,508 (2018: RON 107,024,527). Common shares bear a vote each and give the right to dividends.

On September 18, 2019, the Financial Supervisory Authority issued Certificate for registration of securities, corresponding to the increase of share capital approved by the amount of RON 26,756,123.40, through the issuance of 267,561,234 new shares, at a nominal value of RON 0.1 /share.

On 12 December 2018, the Financial Supervisory Authority has issued the Security Registration Certificate related to the share capital increase 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.

***Treasury shares***

On September 27, 2019, the Central Depository registered in the Shareholders' Registry of Teraplast SA the transfer of shares to its own employees, as laid down in the program begun in September 2017.

**21. LEGAL RESERVES**

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>RON</b>	<b>RON</b>
Opening balance	15,516,164	13,939,022
Increases in the period	<u>578,852</u>	<u>1,577,142</u>
<b>Total</b>	<b><u>16,095,016</u></b>	<b><u>15,516,164</u></b>

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**

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>RON</b>	<b>RON</b>
<b>Balance at the beginning of the year</b>	<b>1,965,458</b>	<b>489,480</b>
Result for the year	1,125,288	760,684
Dividends	(837,166)	(1,101,638)
Acquirement of non-controlling interests	-	1,615,926
Other items	-	201,005
<b>Balance at the end of year</b>	<b>2,253,580</b>	<b>1,965,458</b>

As of 31 December 2018 and 31 December 2019, non-controlling interests consist of 2.05% holdings in Terasteel SA, 1% in Wetterbest SA and 49% in Cortina WTB SRL.

**23. LOANS FROM BANKS**

	<b>Short-term</b>		<b>Long-term</b>	
	<b>31 December 2019</b>	<b>31 December 2018</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
Transilvania Bank	73,074,586	71,161,905	61,477,051	67,757,841
Raiffeisen Bank	28,076,297	32,606,025	-	-
Exim Bank	41,605,958	-	-	-
UniCredit Bank	1,383,090	12,490,290	1,453,122	3,014,238
BCR Bank	5,294,972	-	-	-
Citi Bank	-	5,724,129	-	-
ING Bank	-	343,496	-	-
<b>Total</b>	<b>149,434,903</b>	<b>122,325,845</b>	<b>62,930,173</b>	<b>70,772,079</b>

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

<b>Currency</b>	<b>2019</b>	<b>2018</b>
EUR	21,543,331	14,985,632
RON	190,821,745	178,112,292
<b>Total</b>	<b>212,365,076</b>	<b>195,065,913</b>

The distribution of bank loans per companies is as follows:

	<b>Short-term</b>		<b>Long-term</b>	
	<b>31 December 2019</b>	<b>31 December 2018</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
Teraplast SA	81,721,328	58,948,895	57,682,317	67,218,258
Terasteel SA	8,939,856	27,537,494	-	-
Teraglass Bistrita SRL	11,282,796	2,678,585	3,794,734	539,583
Wetterbest SA	37,849,339	23,704,363	1,323,281	2,814,869
Terasteel Doo Serbia	9,572,054	9,366,195	-	-
Cortina WTB SRL	69,527	90,313	129,841	199,369
<b>Total</b>	<b>149,434,900</b>	<b>122,325,845</b>	<b>62,930,173</b>	<b>70,772,079</b>

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**23. LOANS (continued)**

Bank loans as of 31 December 2018 and 31 December 2019 are the following:

**Teraplast SA**

<b>Financing bank</b>	<b>Financing type</b>	<b>Date granted</b>	<b>Balance as of 31 December 2018</b>	<b>Balance as of 31 December 2019</b>	<b>Short-term as of 31 December 2019</b>	<b>Long-term as of 31 December 2019</b>	<b>Period</b>
Transilvania Bank	Working capital	07.06.2017	28,059,730	37,075,977	37,075,977	-	12 MONTHS
Transilvania Bank	Investments	20.04.2017	15,035,639	12,266,144	2,725,810	9,540,334	84 MONTHS
Transilvania Bank	Investments	07.06.2017	28,200,000	23,500,000	4,700,000	18,800,000	84 MONTHS
Transilvania Bank	Investments	19.07.2017	14,411,254	11,747,950	2,610,656	9,137,295	84 MONTHS
Transilvania Bank	Investments	24.07.2017	3,824,857	2,723,529	1,089,412	1,634,118	60 MONTHS
Transilvania Bank	Investments	31.07.2017	8,345,754	5,942,682	2,377,073	3,565,609	60 MONTHS
Transilvania Bank	Investments	07.11.2017	7,820,000	4,500,000	1,500,000	3,000,000	60 MONTHS
Transilvania Bank	Investments	04.04.2018	6,230,303	5,172,953	1,034,591	4,138,362	72 MONTHS
Raiffeisen Bank	Working capital	01.07.2017	14,239,615	18,504,243	18,504,243	6,871,016	12 MONTHS
Transilvania Bank	Investments	07.03.2019	-	8,834,164	1,963,148	995,583	60 MONTHS
Transilvania Bank	Investments	05.12.2019	-	1,194,700	199,117	-	60 MONTHS
Transilvania Bank	Investments	18.03.2019	-	7,941,303	7,941,303	-	12 MONTHS
<b>TOTAL</b>			<b>126,167,153</b>	<b>139,403,645</b>	<b>81,721,328</b>	<b>57,682,317</b>	

**Terasteel SA**

<b>Financing bank</b>	<b>Financing type</b>	<b>Date granted</b>	<b>Balance as of 31 December 2018</b>	<b>Balance as of 31 December 2019</b>	<b>Short-term as of 31 December 2019</b>	<b>Long-term as of 31 December 2019</b>	<b>Period</b>
Transilvania Bank	Working capital	08.07.2018	18,002,763	8,939,856	8,939,856	-	12 MONTHS
Transilvania Bank	Investments	30.11.2017	534,516	-	-	-	12 MONTHS
Raiffeisen Bank	Working capital	31.05.2018	9,000,215	-	-	-	12 MONTHS
<b>TOTAL</b>			<b>27,537,494</b>	<b>8,939,856</b>	<b>8,939,856</b>	<b>-</b>	

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**23. LOANS (continued)**

**Teraglass Bistrita SRL**

<u>Financing bank</u>	<u>Financing type</u>	<u>Date granted</u>	<u>Balance as of 31 December 2018</u>	<u>Balance as of 31 December 2019</u>	<u>Short-term as of 31 December 2019</u>	<u>Long-term as of 31 December 2019</u>	<u>Period</u>
Transilvania Bank	Working capital	07.12.2017	2,493,585	-	-	-	12 MONTHS
Transilvania Bank	Investments	07.12.2017	724,583	539,583	185,000	354,583	60 MONTHS
Transilvania Bank	Investments	08.03.2019	-	4,172,796	732,645	3,440,151	60 MONTHS
Transilvania Bank	Working capital	14.05.2019	-	3,001,262	3,001,262	-	12 MONTHS
Transilvania Bank	Investments	08.03.2019	-	7,363,889	7,363,889	-	24 MONTHS
<b>TOTAL</b>			<b>3,218,169</b>	<b>15,077,530</b>	<b>11,282,796</b>	<b>3,794,734</b>	

**Wetterbest SA**

<u>Financing bank</u>	<u>Financing type</u>	<u>Date granted</u>	<u>Balance as of 31 December 2018</u>	<u>Balance as of 31 December 2019</u>	<u>Short-term as of 31 December 2019</u>	<u>Long-term as of 31 December 2019</u>	<u>Period</u>
UniCredit Bank	Investments	-	28,317	-	-	-	48 MONTHS
UniCredit Bank	Investments	26.05.2017	1,230,674	520,947	519,559	1,388	30 MONTHS
UniCredit Bank	Investments	20.04.2016	580,994	284,402	244,555	39,846	60 MONTHS
UniCredit Bank	Investments	26.05.2015	42,655	-	-	-	48 MONTHS
UniCredit Bank	Investments	28.02.2018	1,796,821	1,831,495	549,449	1,282,047	48 MONTHS
UniCredit Bank	Investments	-	-	-	-	-	48 MONTHS
UniCredit Bank	Working capital	09.02.2012	3,340,914	-	-	-	12 MONTHS
UniCredit Bank	Working capital	17.01.2017	3,969,081	-	-	-	24 MONTHS
UniCredit Bank	Working capital	25.02.2011	4,261,625	-	-	-	12 MONTHS
Transilvania Bank	Working capital	14.12.2016	23,216	-	-	-	23 MONTHS
Transilvania Bank	Working capital	20.02.2018	5,213,545	-	-	-	12 MONTHS
CITI Bank	Working capital	29.05.2018	5,724,129	-	-	-	12 MONTHS
ING Bank	Investments	07.04.2016	343,496	-	-	-	41 MONTHS
BCR Bank	Working capital	29.08.2019	-	5,294,969	5,294,969	-	12 MONTHS
Exim Bank	Working capital	14.05.2019	-	31,240,807	31,240,807	-	12 MONTHS
<b>TOTAL</b>			<b>26,519,232</b>	<b>39,172,620</b>	<b>37,849,339</b>	<b>1,323,281</b>	

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**23. LOANS (continued)**

**Terasteel d.o.o Serbia**

<u>Financing bank</u>	<u>Financing type</u>	<u>Date granted</u>	<u>On balance as of 31 December 2018</u>	<u>On balance as of 31 December 2019</u>	<u>Short-term as of 31 December 2019</u>	<u>Long-term as of 31 December 2019</u>	<u>Period</u>
Raiffeisen Bank Serbia	Working capital	10.04.2018	9,366,195	9,572,054	9,572,054	-	12 MONTHS
<b>TOTAL</b>			<b>9,366,195</b>	<b>9,572,054</b>	<b>9,572,054</b>	<b>-</b>	

**Cortina WTB SRL**

<u>Financing bank</u>	<u>Financing type</u>	<u>Date granted</u>	<u>On balance as of 31 December 2018</u>	<u>On balance as of 31 December 2019</u>	<u>Short-term as of 31 December 2019</u>	<u>Long-term as of 31 December 2019</u>	<u>Period</u>
UniCredit Bank	Investments	01.06.2015	53,973	-	-	-	60 MONTHS
UniCredit Bank	Investments	01.06.2016	52,751	16,411	16,411	-	60 MONTHS
UniCredit Bank	Investments	28.02.2018	182,958	182,958	53,117	90,313	60 MONTHS
<b>TOTAL</b>			<b>289,682</b>	<b>199,368</b>	<b>69,527</b>	<b>90,313</b>	

The financial covenants agreed with the main financing bank, Banca Transilvania, were met as of 31 December 2019.

The Group's inventories, receivables and cash are pledged in favour of financing banks, as well as part of the Group's non current assets.

## 24. EMPLOYEE BENEFIT LIABILITIES AND PROVISIONS

The Group grants its employees a retirement benefit according to the seniority within the Group when they turn the retirement age of 65 for men and of 61 for women.

The provision represents the present value of the retirement benefit as calculated on an actuarial basis.

	<b>Short-term</b>		<b>Long-term</b>	
	<b>31 December 2019</b>	<b>31 December 2018</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
Employee benefits	-	-	1,636,529	724,849
Provisions for risks and charges	1,050,884	780,213	-	-
<b>Total</b>	<b>1,050,884</b>	<b>780,213</b>	<b>1,636,529</b>	<b>724,849</b>

The latest actuarial valuations were performed on 31 December 2019 by Mr. Silviu Matei, 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 2019, Teraplast SA set provisions amounting to RON 369,831 (2018: RON 404,011) 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.

<b>Long Term Employee benefits</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
Opening balance	724,849	320,838
Movements	369,831	404,011
<b>Closing balance</b>	<b>1,094,680</b>	<b>724,849</b>

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.

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**25. TRADE AND OTHER PAYABLES**

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>RON</b>	<b>RON</b>
Trade payables	117,526,712	125,833,102
Trade notes payable	1,027,752	818,625
Liabilities from the purchase of non-current assets	1,779,442	2,270,474
Other current payables (Note 26)	36,430,880	9,075,734
Advance payments from clients	9,522,313	7,254,687
<b>Total</b>	<b><u>166,287,099</u></b>	<b><u>142,252,622</u></b>

Revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period is of RON 7,254,687 as the advance payments from clients are usually settled within less one month.

**26. OTHER CURRENT LIABILITIES**

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>RON</b>	<b>RON</b>
Liability towards the former shareholders of Wetterbest for the 32% shareholding	19,034,400	-
Salary-related payables to employees and social security payables	8,581,177	6,877,775
VAT payable	6,912,167	1,210,565
Unclaimed employee rights	93,138	91,531
Other creditors	73,585	12,556
Deferred income	-	8,928
Commercial guarantees received	386,027	114,859
Other taxes payable	967,691	524,373
Dividends payable	382,695	235,147
<b>Total</b>	<b><u>36,430,880</u></b>	<b><u>9,075,734</u></b>

RON 19 million included in line "Other creditors" represents the short-term liability in relation to the minority shareholders of Wetterbest SA according to the SPA concluded in April 2019 for the acquisition of additional 32% ownership in Wetterbest.

As at 31 December 2018 the liability towards the former shareholders of Wetterbest is included under Other long term liabilities in the SOFP (please see Note 16 for further details).

## 27. LEASE OBLIGATIONS

### Lease contracts – accounting treatment according to IAS 17

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.

	<b>Minimum lease payments as of 31 December 2018 RON</b>
<b>Present value of minimum lease payments</b>	
Amounts payable in one year	741,431
More than one year but less than five years	1,403,743
Above 5 years	-
<b>Total lease liabilities</b>	<b>2,145,174</b>
Minus future financial expenses	(156,565)
<b>The current value of financial lease liabilities</b>	<b>1,967,987</b>

Operating lease commitments as of 31 December 2018 were of RON 11,387,942.

As of 31 December 2018, the current value of financial lease liabilities was in amount of RON 1,967,987. The finance lease liabilities are for vehicles.

### Lease contracts as recognised under IFRS 16

Maturity analysis as of 31 December 2019:

Year 1	2,615,110
Year 2	2,178,425
Year 3	2,075,404
Year 4	1,086,368
Year 5	457,332
Onwards	532,420
<b>Total</b>	<b>8,945,059</b>
Non-current	6,329,949
Current	2,615,110

## 28. FINANCIAL INSTRUMENTS

In the normal course of business, the Group has exposure to a variety of financial risks, including foreign currency risk, interest rate risk, liquidity risk and credit risk, market risk, geographic risk, but also operating risks and legal risks. The Group's focus is to understand these risks and to put in place policies that minimise the economic impact of an adverse event on the Group's performance. Meetings are held on a regular basis to review the result of the risk assessment, approve recommended risk management strategies and monitor the effectiveness of such policies.

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.

The Group measures trade receivable and other financial assets at amortized cost.

Financial assets	At amortized cost 31 December 2019	At amortized cost 31 December 2018
<b>Non-current</b>		
Long term receivable	771,748	745,868
Other financial instruments measured at amortized cost	16,472	17,107
<b>Current</b>		
Trade receivable	138,795,252	127,460,704
Cash	29,472,744	22,817,571
Prepayment	1,066,286	895,914

### (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.

**28. FINANCIAL INSTRUMENTS (continued)**

The gearing ratio as at 31 December 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
	<u>RON</u>	<u>RON</u>
Total loans (Note 23)	221,310,135	195,065,913
Less cash and cash equivalents	<u>(29,474,903)</u>	<u>(22,817,571)</u>
<b>Net debt</b>	<b><u>191,835,232</u></b>	<b><u>172,248,340</u></b>
<b>Total equity</b>	<b><u>276,847,565</u></b>	<b><u>238,115,865</u></b>
<b>Total equity and net debt</b>	<b><u>468,682,797</u></b>	<b><u>410,364,205</u></b>
<b>Gearing ratio</b>	<b><u>41%</u></b>	<b><u>42%</u></b>

**(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.

**(c) Objectives of the financial risk management**

The treasury department 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 primarily 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**

There are two types of foreign currency risk to which the Group is exposed, namely transaction risk and translation risk. The objective of the Group's foreign currency risk management strategy is to manage and control market risk exposures within acceptable parameters.

## 28. FINANCIAL INSTRUMENTS (continued)

### Transaction risk

This arises because operating units have input costs or sales in currencies other than their functional currencies. In addition, where operating entities carry monetary assets and liabilities at year end denominated other than in their functional currency, their translation at the year-end rates of exchange into their functional currency will give rise to foreign currency gains and losses. The exposures to the exchange rate are managed according to the approved policies.

The Group is mainly exposed to the EUR-RON exchange rate.

Currency		EUR	HUF	USD	RSD	RON	TOTAL
Trade receivable	RON equivalent	21,502,476	295,940	218,079	1,150,182	115,628,574	138,795,252
Currency		EUR	USD	RSD	PLN	RON	TOTAL
Trade and other payable	RON equivalent	78,800,798	135,648	1,396,286	66	76,437,098	156,769,897

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.

**28. FINANCIAL INSTRUMENTS (continued)**

**Sensitivity analysis for primary currency risk**

	<b>31 December 2019</b>		<b>31 December 2018</b>	
	<b>RON</b>	<b>RON</b>	<b>RON</b>	<b>RON</b>
Profit or (loss)	(2,283,616)	2,283,616	3,976,917	(3,976,917)

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

**Translation risk**

This exists due to the fact that the Group has operations whose functional currency is not the RON, the Group's presentational currency. Changes in the exchange rate between the reporting currencies of these operations and the RON, have an impact on the Group's consolidated reported result. For 2019, the impact of changing currency rates versus RON compared to the average 2018 rates was negative RON 0.4m (2018: nil).

**(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 due to fluctuation of EURIBOR for the 2 mil EUR overdraft of TeraSteel Serbia and ROBOR for the other loans with variable interest rate. Out of the loans as at 31 December 2019, RON 108,711,849 is the balance of investment loans with fixed interest rate. The Group performed no hedging operation with a view to reducing its exposure to the interest rate risk.

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 optimal balance between fixed rate and floating rate interest loans.

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

As at 31 December 2019 and, respectively 31 December 201, in the case of a CU 100pb 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.

**Sensitivity analysis for interest rate risk**

	<b>31 December 2019</b>		<b>31 December 2018</b>	
	<b>RON</b>	<b>RON</b>	<b>RON</b>	<b>RON</b>
Profit or (loss)	2,155,508	(2,155,508)	1,950,659	(1,950,659)

**(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.

## **28. FINANCIAL INSTRUMENTS (continued)**

### **(h) Credit risk management**

Credit risk encompasses the risk of financial loss to the Group of counterparty default in relation to any of its financial assets.

The Group has adopted a policy of performing transactions with trustworthy parties, parties that have been assessed in respect of the credit quality, taking into account its financial position, past experience and other factors, and additionally, obtaining guarantees or advance payments, 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.

Group's maximum exposure to credit risk is represented by the carrying value of each financial asset: The credit risk relates to the risk that a counterparty will not meet its obligations causing financial losses to the Group.

Trade receivables are from 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 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. The Group had more than four thousand clients in 2019, with the highest exposure on one client not exceeding 3%.

### **(i) Liquidity risk management**

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. Each Group company prepares annual and short term cash flows (weekly, monthly and quarterly). Financing needs for working capital are determined and contracted based on the budgeted cash flows. Investments projects are approved only with a concrete financing plan.

### **(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.

Financial liabilities are at their carrying amount which is an approximation to their fair value, due to the fact that the liabilities are at variable interest rates and there are no material initial fees and charges amortized over time.

**TERAPLAST SA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2019**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

**28. 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.

**2019**

<b>Non-interest bearing</b>	<b>less than 1 month</b>	<b>1-3 months</b>	<b>3 months - 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>more than 5 years</b>	<b>Total</b>
Trade payables and other liabilities	(101,341,635)	(46,329,589)	(9,077,742)	(9,538,132)	0	0	<b>(166,287,099)</b>
<b>Interest-bearing instruments</b>							
Short and long-term loans	(129,297,798)	(2,881,926)	(18,187,857)	(39,422,253)	(25,042,004)	(718,935)	<b>(215,550,773)</b>
Future interest on loans	(618,615)	(1,764,647)	(6,865,120)	(3,648,050)	(922,886)	(6,335)	<b>(13,825,653)</b>
Leases	(180,504)	(511,081)	(990,850)	(3,299,844)	(451,352)	(325,730)	<b>(5,759,361)</b>
Future interest on leases	(21,118)	(59,372)	(135,079)	(289,135)	(47,413)	(14,923)	<b>(567,040)</b>
<b>Non-interest bearing</b>							
Cash	29,472,745						<b>29,472,745</b>
Receivable	78,729,768	56,884,640	3,131,402	20,784	20,784	7,874	<b>138,795,252</b>
Net cash outflows	(123,257,157)	5,338,025	(32,125,246)	(56,176,630)	(26,442,871)	(1,058,049)	<b>(233,721,929)</b>

Within the net cash outflows presented for less than a month the Group has presented the credit lines, which are, by nature, short term. However, the credit lines are daily revolving and have been renewed from year to year. The Group is under no constrain regarding the repayment of the credit lines within a month, and is confident that they will be continued to be used. Thus, the Group is confident that it will remain solvent and to pay their liabilities within term. RON 114 million out of it refers to credit lines and excluding these the position is RON 15 million.

**TERAPLAST SA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**28. FINANCIAL INSTRUMENTS (continued)**

<b>2018</b>	<b>Below 1 month</b>	<b>1-3 months</b>	<b>3 months to 1 year</b>	<b>1-3 years</b>	<b>3 - 5 years</b>	<b>Above 5 years</b>	<b>Total</b>
<b>Non-interest bearing</b>							
Trade payables and other liabilities	(96,723,892)	(48,253,632)	(275,099)	(49,022,037)	-	-	<b>(194,274,661)</b>
<b>Interest-bearing instruments</b>							
Short and long-term loans	(24,290,899)	(13,493,867)	(84,683,731)	(53,004,077)	(19,593,338)	-	<b>(195,065,911)</b>
Future interest	(515,878)	(1,597,492)	(3,706,581)	(11,086,541)	(4,479,623)	-	<b>(21,386,116)</b>
<b>Non-interest bearing</b>							
Cash	22,817,571	-	-	-	-	-	<b>22,817,571</b>
Receivables	78,720,055	46,253,683	2,486,967	-	-	-	<b>127,460,704</b>
Net cash outflows	(19,993,043)	(17,091,308)	(86,178,444)	(113,112,655)	(24,072,961)	-	<b>(260,448,413)</b>

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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**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2019**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

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**29. RELATED PARTY TRANSACTIONS**

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

**December 31, 2019**

**Subsidiaries**

Teraglass Bistrita SRL  
 Terasteel SA  
 Politub SA  
 Teraplast Recycling SA  
 Teraplast Hungaria Kft  
 Wetterbest SA  
 Terasteel Doo Serbia  
 Cortina WTB SRL

**Related parties (common shareholding/decision-makers)**

ACI Cluj SA Romania  
 AGROLEGUMICOLA DRAGU SRL Romania  
 Ditovis Impex SRL Romania  
 Eurohold AD Bulgaria  
 FERMA POMICOLA DRAGU SRL Romania  
 Hermes 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 PIZZERIE SRL  
 Parc SA  
 PARCSERV SRL  
 RSL Capital Advisors SRL  
 Sphera Franchise Group SA  
 Dedal As s.r.l.  
 Rematinvest s.r.l.  
 Remat Salaj s.a.  
 Remat s.a. Satu Mare  
 Remat Alba s.a.  
 Recomet s.r.l.  
 Paziv s.r.l.  
 Anda Imobiliare s.r.l.  
 Colina Construct s.r.l.

The transactions between the parent and its subsidiaries, Group affiliates were eliminated from the consolidation.

<b>Transactions and balances with related parties</b>	<b>31 December 2019 RON</b>	<b>31 December 2018 RON</b>
Sales of goods and services	868,860	157,463
Purchases of goods and services	150,467	154,477
Debit balances	123,625	97,276
Credit balances	137	18,496

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The accompanying notes from 1 to 34 are an integral part of these consolidated financial statements.  
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**TERAPLAST SA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

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**30. NOTES TO THE CASH FLOW STATEMENT**

**Cash**

For cash flow statement purposes, the cash include cash on hand and in current bank accounts. The carrying amount of these assets is approximately equal to their fair value.

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:

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>RON</b>	<b>RON</b>
Cash in bank accounts	26,710,537	22,284,803
Cash in transit	192,795	235,668
Cash on hand	244,817	192,728
Cash in bank accounts, restricted	2,324,595	104,372
<b>Total</b>	<b><u>29,472,744</u></b>	<b><u>22,817,571</u></b>

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

**Non-cash transactions**

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

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>RON</b>	<b>RON</b>
Net value – vehicles	2,138,328	1,891,654
Net value – equipment	252,281	436,995
<b>Total</b>	<b><u>2,390,609</u></b>	<b><u>2,328,649</u></b>

The liability to fixed assets suppliers of RON 1,779,442 as of 31 December 2019 (31 December 2018: RON 2,270,474) relates to additions acquired on payment terms of 30 to 60 days, still outstanding at year end.

**Changes in liabilities arising from financing activities**

The total net amount of cash used from long term investment loans and overdraft was of RON 20,091,959 in 2019 (2018: RON 52,068,722). The new debt, adjusted with the net amount of dividends paid or received, represents the movement on the Bank Loans lines from the SOFP.

### **31. COMMITMENTS AND CONTINGENT LIABILITIES**

#### **TeraPlast SA**

The Company signed a contract with Banca Transilvania for multi-currency bank letter of guarantee with multiple use, extended for 24 months from August 8, 2019. The value of the ceiling is RON 1,750,000, letters of credit amounting to RON 100.000 are issued.

At December 31, 2019, tangible assets and investment property with a net book value of RON 77,420,197 (December 31, 2018: 56,463,119 RON) are collateral for loans and credit lines. For banks loans, the Company has guaranteed with all the present and future money available, with all the present and future commodity stocks and goods and has assigned the present and future debt rights, as well as the related accessories coming from the present and future contracts with its customers which are assigned debtors. Also, the Company assigned the rights resulting from the insurance policies issued for real estate and movable goods brought as guarantee.

The Company has ongoing finance leases for which the capital rate is included in the short or long term debt, as applicable.

In 2017, the Company granted to Banca Transilvania a guarantee for joint liability with Terasteel SA for the repayment of loans in amount of RON 31,168,950 (December 31, 2018: RON 47,846,249), which Terasteel has contracted from Banca Transilvania

At December 31, 2019, the Company has unused credit facilities of RON 17,190,916 (December 31, 2018: RON 18,794,869 ).

The company signed in November 2018 a financing agreement for an investment project of RON 28,987 thousand, under the State aid scheme for stimulating investments with major impact on the economy, 50% of the value of the project being financed by State aid. The project of TeraPlast SA aims to offer a new product in the field of compounds and the equipment of a line that will allow to expand the production capacity of polypropylene systems.

On March 7, 2019, the Company contracted a loan amounting to RON 14,493,278 from Banca Transilvania in order to support the investments it undertook within the State aid scheme to stimulate investments with major impact on the economy, for which Teraplast SA has received the financing agreement in November 2018.

Until the date of these financial statements, the Company has submitted three requests for reimbursement (in June, August and September 2019) and received, until December 31, 2019, the amount of RON 5.42 million.

In 2018, Teraplast SA and EON Energie Romania signed an agreement worth EUR 1.9 million. Based on such partnership, E.ON will mount solar energy 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 a value of EUR 4 million.

### **31. COMMITMENTS AND CONTINGENT LIABILITIES (continued)**

#### **Terasteel SA**

At December 31, 2019, the Company registers unused credit facilities, amounting to RON 23,560,144 (December 31, 2018: RON 5,497,027).

The Group's long-term loans and short-term loans are guaranteed with the current and future cash availability deposited in the current accounts opened with the banks which granted the loans, with assignments of inventories and commercial contracts and real estate mortgages.

At December 31, 2019, the Company registers a ceiling of letters of credit of EUR 1,500,000 which expires on 07.08.2020. Within this ceiling, at December 31, 2019, letters of credit amounting to EUR 439,750 are issued.

In 2017, the Company granted to Banca Transilvania a guarantee for joint liability with Teraplast SA for repayment of loans in amount of RON 103,630,305 (December 31, 2018: RON 150,763,303), which Teraplast SA has contracted from Banca Transilvania.

At December 31, 2019, the Company registers a ceiling of letters of guarantee of RON 1,500,000 which expires on 07.08.2020, letters of credit amounting to RON 295,207 are issued.

#### **Teraglass Bistrita SRL**

At December 31, 2019, the Company registers unused credit facilities amounting to RON 1,998,738 (December 31, 2018: RON 506,415).

In November 2018, the Company signed a financing agreement for an investment project of RON 16.057 thousand, under the State aid scheme to stimulate investments with major impact on the economy, 50% of the value of the project being financed through State aid. The project of Teraglass Bistrita SRL aims to create a new flow, fully automated, for the production of PVC windows and doors, a process that will contribute both to the increase of the production capacity and the productivity of work, as well as to meeting the growing demand.

On 08.03.2019, the Company contracted a loan amounting to RON 8,028,744 from Banca de Export Import a Romaniei EximBank, in order to support the investments it undertook within the State aid scheme to stimulate investments with major impact on the economy, for which Teraglass Bistrita SA received the financing agreement in November 2018.

On December 31, 2019, the Company submitted a request for reimbursement amounting to RON 6.63 million, unpaid until the date of these financial statements.

### **31. COMMITMENTS AND CONTINGENT LIABILITIES (continued)**

#### **Wetterbest SA**

At December 31, 2019, the Company has unused credit facilities amounting to RON 23,889,000 and EUR 5,000,000 (31 December 2018: RON 8,107,433 and EUR 608,105).

At December 31, 2019, tangible assets with a net book value of RON 8,226,068 (December 31, 2018: RON 16,163,194) are collateral for loans and credit lines.

The Company signed, in November 2018, a financing agreement for an investment project of RON 18.266 thousand, under the State aid scheme for stimulating investments with major impact on the economy, 50% of the value of the project being financed from state aid. The project of Wetterbest SA aims to open a new manufacturing unit in Băicoi (Prahova), which, at a production capacity of over 10 million square meters of tile, will ensure optimal flows of logistics and storage.

At December 31, 2019, the Company has received a reimbursement in amount of RON 2.05 million, in relation to the State aid scheme.

On 12.03.2019, Wetterbest contracted a loan worth EUR 5 million from the European Bank for Reconstruction and Development, in order to support the investments it has committed under the State aid scheme to stimulate investments with major impact on the economy, for which Wetterbest SA was granted the financing in November 2018.

Up to the date of these financial statements, the Company did not draw any amounts from the loan from EBRD.

At December 31, 2019, Cortina WTB SRL registers unused credit facilities, in amount of RON 1,500,000 (31 December 2018: RON 1,500,000).

#### **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.

#### **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.

### 31. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

#### 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.

### 32. INVESTMENT SUBSIDIES

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

	<u>2019</u>	<u>2018</u>
<b>As at 1 January</b>	<b>4,051,575</b>	<b>2,928,557</b>
Wetterbest SA acquisition	-	1,873,607
Subsidies additions	14,086,828	-
Transferred to profit and loss	(888,234)	(750,592)
<b>As at 31 December</b>	<b><u>17,250,166</u></b>	<b><u>4,051,575</u></b>
Current	1,920,804	453,766
Long-term	15,329,362	3,597,809

As of 31 December 2019, the total value of the subsidies recorded was of RON 17,250,166 (2018: 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.

### **33. BUSINESS IMPACT OF THE CORONAVIRUS OUTBREAK**

The rapid development of the COVID-19 virus and its social and economic impact in Romania and globally may result in assumptions and estimates requiring revisions which may lead to material adjustments to the carrying value of assets and liabilities within the next financial year. At this stage, management is not able to reliably estimate the impact as events are unfolding day-by-day.

In the context of the COVID-19 virus situation, the Group management constantly analyzes and evaluates the appearance of potential external risks that could disrupt the Group's activity and has prepared various reaction scenarios for a potential impact, for each of the companies within the Group. At the current moment, all the Group manufacturing units are operating within expected parameters.

Starting end of March, there were decreases in the demand of roof tiles, joinery profiles and PVC windows and doors of up to 25% compared to the average of the prior year's corresponding figures.

Sales of installations, sandwich panels and compounds remain within the budgeted levels.

Cost cutting and operational efficiency measures were implemented in the businesses in which the activity was reduced:

- contracts with suppliers were renegotiated;
- personnel costs were reduced by a temporary cut in managements' salaries of 25% - 50%, reduced work schedule for a number of employees in line with the reduction of the work load, technical temporary unemployment for the personnel working on sectors where production was reduced as a result of decreased demand.

Additional risks identified at this time are the continuity of the supply with raw materials and personnel availability. The Group is in permanent contact with its main suppliers, and is constantly receiving the same message, namely that their production is in operation and that there are no reasons for concern. As an additional assurance, the Group has alternative suppliers for all raw materials, in order to be sure that it will not experience any supply shortages.

Strict sanitary measures are in place to ensure safety of the Group's personnel. Also, part of the Group's staff is working from home, by rotation.

Moreover, the group is in permanent contact with its customers in and outside of Romania and has no indication according to which, on the very short term (the first quarter of 2020), the demand for TeraPlast Group products could be significantly affected. All the Group companies have Business Continuity Plans, which have been updated in order to address the current situation. Furthermore, an Analysis Committee was created in order to monitor the developments and implement new measures, if required. The Committee members are representatives of the Board of Directors and the top management of the Group. The daily agenda of the Analysis Committee includes monitoring potential issues related to staff safety, sales and sales orders backlog and forecast, availability of raw materials, the business developments of the Group's clients and potential negative impact on timely collection of receivable. Daily monitoring also has the objective of ensuring that appropriate measures are planned for all scenarios, that adverse effects are identified immediately and the required scenario is executed effectively.

The longer-term impact may also affect trading volumes, cash flows, and profitability. Nevertheless, at the date of these financial statements the companies within TeraPlast Group continue to meet their obligations as they fall due and therefore continue to apply the going concern basis of preparation.

### **34. SUBSEQUENT EVENTS**

#### **Changes in participations in subsidiaries**

In January 2020, the Group has concluded a sale-purchase agreement for the remaining 1% minority interest for the counter value of RON 955,960.

In September 2019, the Group has concluded a sale-purchase agreement with the minority shareholder of Cortina WTB SRL, for the remaining participation of 49%. The transaction was concluded for the counter value of RON 2,397,223 and was approved by the Competition Council in January 2020. Thus, at the date of the present financial statements, Cortina WTB SRL was consolidated considering 49% minority interest.

#### **Commitments**

In February 2020, Wetterbest SA has drawn EUR 4 million out of the EUR 5 million investment loan from EBRD.

**Alexandru Stanean**  
CEO

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**Ioana Birta**  
CFO

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**Declaration of the Management**

We confirm to the best of our knowledge that the preliminary and unaudited financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group as required by the applicable accounting standards and that the Preliminary Consolidated Financial Statements of the TeraPlast Group give a true and fair view of the development and performance of the business and the position of the Group together with a description of the principal risks and uncertainties that the Group faces.

March 24, 2020  
The Executive Board

**Alexandru Stanean**  
CEO

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**Ioana Birta**  
CFO

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## **The Board of Directors report on the consolidated financial statements of Teraplast Group prepared in accordance with the International Financial Reporting Standards (“IFRS”)**

**Headquarters:** Saratel village, Sieu-Magherus commune, DN 15A, km 45 + 500, Bistrita-Nasaud county

**Sole registration number at the Trade Register Office:** 3094980

**Trade Register No:** J06/735/1992

**Regulated market on which the issued shares are traded:** Bucharest Stock Exchange

**Subscribed and paid share capital:** RON 133.780.650,80

**Main features of securities issued by the trading company:** 1.337.806.508 nominative shares with a nominal value of RON 0.1/share

The Board of Directors of Teraplast SA, appointed by the General Meeting of Shareholders, has drawn up for fiscal year 2019 this report on the balance sheet, profit and loss statement, statement of changes in shareholders' equity, cash flow statement and accounting policies and explanatory notes included in the 2019 consolidated financial statements of Teraplast Group.

These consolidated financial statements are submitted along with the Audit Report and this Directors Report and refer to:

<b>Equity</b>	<b>RON 276,148 thousands</b>
<b>Turnover</b>	<b>RON 972,582 thousands</b>
<b>Net result – profit</b>	<b>RON 38,908 thousands</b>

Of which, attributable to the equity holders of the parent – profit: RON 37,782 thousands

The financial statements have been drawn up in accordance with:

- (i) Accounting Law 82/1991 republished in June 2008 (“Law 82”)
- (ii) Order of the Minister of Public Finance no. 2844/2016 for the approval of the Accounting Regulations in accordance with International Financial Reporting Standards

The consolidated financial statements include the financial statements of the parent company, of the subsidiaries and of the jointly controlled unit. The control is obtained when the Company has the power to control the financial and operational politics of an entity in order to obtain benefits from its activity.

Where necessary, correction is made on the financial statements of the subsidiary in order to bring its accounting policies in accordance with those of the Group.

All the intragroup transactions balance, income and expenses are eliminated from the consolidation. Non-controlling interests in assets (excluding goodwill) of the consolidated subsidiary are separately identified from the Group's equity owned in this. Non-Controlling interests are the amount of these interests at the initial combination of the companies and in the part owned by the non-controlling interests in the changes of the equity starting with the combination date.

The consolidated financial statements were audited by the independent auditor Deloitte, which issued an unqualified opinion.



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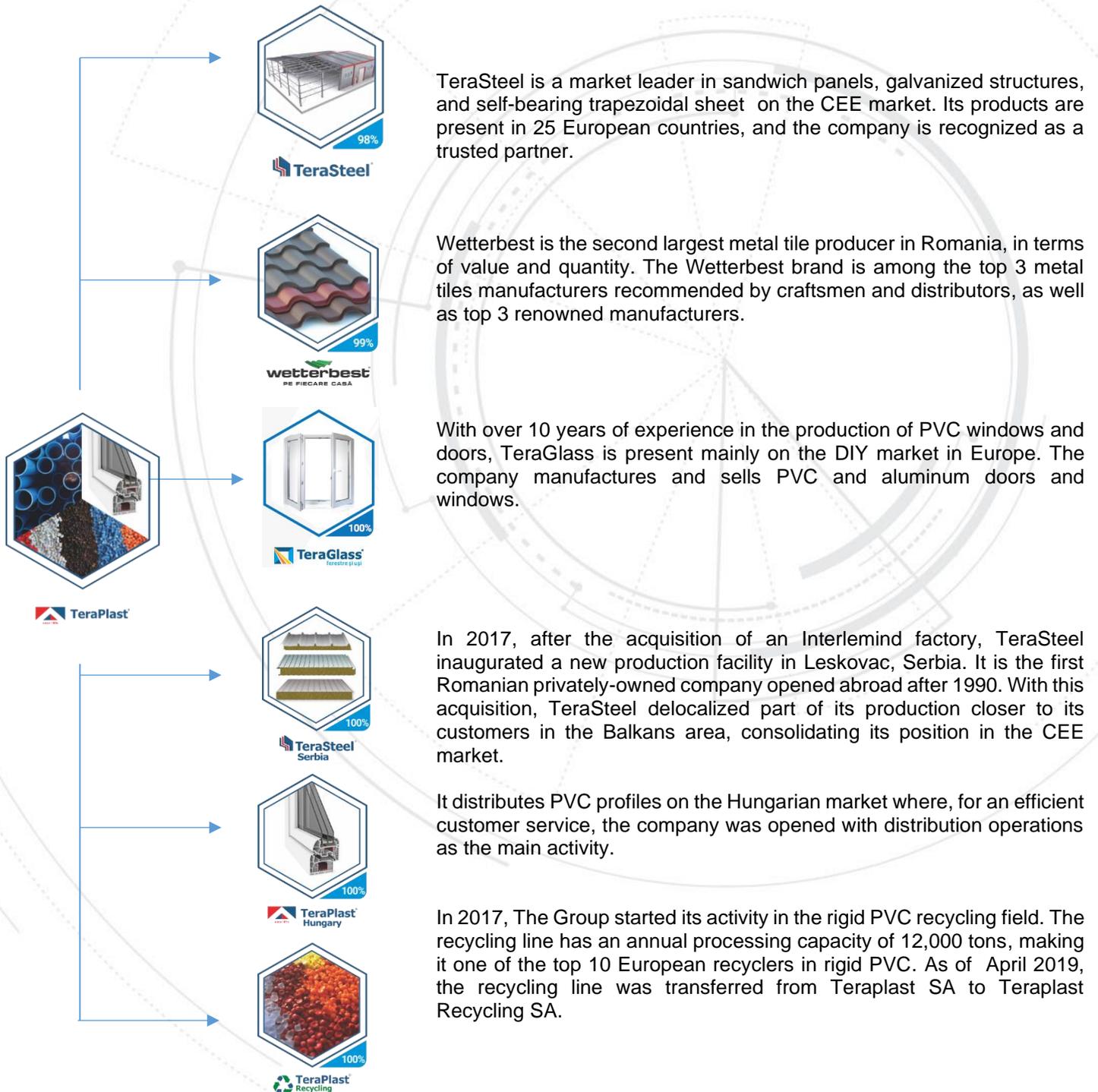
# 1. About TeraPlast Group

## 1.1 Group Structure

The history of TeraPlast started in 1896, with the ceramic tile production workshop in Bistrita. Today, almost 125 years later, the TeraPlast Group is the largest Romanian construction materials manufacturer. These achievements are the natural result of more than a century of continuous development and innovation, all done for one objective: providing efficient solutions for people and the environment.

With over 120 years of tradition, TeraPlast SA, the parent company, is the leader of the exterior sewage market and of the compounds market in Romania. The company's product portfolio is organized on seven business lines: Installations, Window Profiles, Compounds, Thermal Insulating Panels, Windows & Doors and Roof Systems. As of July 2<sup>nd</sup>, 2008, TeraPlast SA has been listed on the Bucharest Stock Exchange under the TRP symbol. TeraPlast shares are included within BET, BET-TR, BET-BK, BET-XT, BET-XT-TR si BET-Plus index range.

The Group Companies as of December 31<sup>st</sup>, 2019 is:



# 1. About TeraPlast Group (continued)

## 1.2 Production capacity of the Group

Today, the TeraPlast Group products are made in the 11 factories located in Romania (Saratel, Bistrita, Baicoi, Podari) and outside the country (Leskovac, Serbia) with a surface area of over 300,000 square meters:

1. PVC factory, Saratel (TeraPlast)
2. Polypropylene Factory, Saratel (TeraPlast)
3. Polyethylene products factory, Saratel (TeraPlast)
4. PVC windows and doors factory, Bistrita (TeraGlass)
5. Thermal insulating panels factory, Saratel (TeraSteel)
6. Galvanized steel purlins factory, Bistrita (TeraSteel)
7. Roof systems Factory, Baicoi (Wetterbest)
8. Roof systems factory, Saratel (Wetterbest)
9. Roof systems factory, Podari (Wetterbest)
10. Thermal insulating panels factory, Leskovac (TeraSteel)
11. Rigid PVC recycling factory, Saratel (TeraPlast Recycling)

**The PVC plant** has a processing capacity of over 50 thousand tons / year.

- 4 dosing / mixing plants, 100% automatic;
- 6 PVC pipe extrusion lines for indoor and outdoor sewers as well as for water supply;
- 16 PVC profile extrusion and lamination lines;
- 4 granulators for the production of plasticized granules (especially for the production of electric cables) and rigid (for the production of fittings or other injected parts);



**The Polyolefine Factory** has a production capacity of 3,800 to / year of extruded, injected and rotoformed polyethylene, polypropylene and PVC products, for internal sewage, external sewerage (fireplaces and some fittings), water supply (bins), liquid storage (tanks) as well as water treatment solutions (septic tanks, purification micro-plants) and comprises:

- 8 injection machines for the production of PP and PVC fittings
- 3 line for polypropylene pipe;
- 1 rotomoulding machine;
- 1 line for thermoformed fittings;



**The polyethylene pipe factory**, with a production capacity of 11,500 t / y, produces high density polyethylene pipes for water and gas networks, but also for telecommunication, sewage or irrigation, as well as corrugated polyethylene pipes.

- 5 lines of pressure pipe extrusion for water, gas and irrigation;
- 1 line for corrugated pipe production for sewerage, drain and cable protection.



**The PVC windows and doors factory**, with a production capacity of 250,000 pieces / year, manufactures PVC and aluminum (Al) insulating joinery,

- 1 Lisec line for glass processing
- 1 automated center for cutting & machining PVC profiles
- 2 cutting centers;
- 1 cantilever cutting machine;
- 3 automatic machining centers,
- 5 welding & 5 deburring lines;
- Semi automated line for hardware & internal logistics.



## 1. About TeraPlast Group (continued)

**The sandwich panel factory** from TeraPlast Industrial Park in Saratel, Bistrita-Nasaud (RO):

- 1 Pu.Ma line for production of PUR and PIR sandwich panels, with capacity: 2.2 mil sq m and press length: 32m,
- Accessories line

**Sandwich panel and corrugated sheet factory** from Serbia:

- 1 Pu.Ma line for production of mineral wool, PUR and PIR sandwich panels with a capacity of 2.2 mil sqm and length of the press 32m;
- mineral wool module integrated into the panel line;
- 1 self supporting trapezoidal sheet up to 153mm;

**Galvanized profile factory**, Bistrita, Bistrita-Nasaud (RO), with the following equipment:

- 1 slicing line;
- 1 C, Z, U and Sigma profile production line, up to 4 mm thick with a capacity of 5,500 tons;
- 2 metal reinforcement lines for PVC joinery, with a production capacity of 4,000 tons / line;

**The metal tile and sheet metal factory** in Baicoi operates on 33 automatic lines: for metal tiles with different profiles, for 4-dimensional sheet metal, for the gutter and pipe system, for folded sheet metal and many other accessories.

- at present, in the factory in Podari, Dolj County, there are 4 automatic production lines of the Wetterbest metal tile;
- from the second half of 2017, an automatic metal tile production line operates in Bistrita.

**The rigid PVC recycling factory** is a complex PVC recycling facility for both post-industrial and post-consumer rigid PVC & electrostatic separation of recycled materials with a processing capacity of 12,000 to / year, thus being the largest rigid PVC recycler in Romania and one of the top 10 rigid PVC recyclers at European level.



### 1.3 Customers and markets

The TeraPlast Group exports to 25 European countries, including all of Romania's neighboring countries and as far Germany, France or Norway. The companies with the highest export activity within the group are TeraSteel and TeraGlass, with over 50% and over 80% respectively. Overall exports of the Group are 23% of the turnover.

Currently, the number of TeraPlast Group's active clients exceeds 3,000. Customer satisfaction levels increase from year to year, according to studies conducted by independent third parties.

### 1.4 Products and business lines

TeraPlast Group products are certified and tested by institutions such as: IFT Rosenheim, FIRES Slovakia, ZAG Slovenia, TECHNALIA Spain, INCERC Romania, ICECON Romania. In addition, the Group has its own R & D department, Quality Management: ISO 9001, 14001, 18001. The internal testing laboratory is accredited by RENAR (Romanian Association of Accreditation).

## 1. About TeraPlast Group (continued)

### **Installations**

The Installations business line includes external sewage systems, internal sewage, water and gas transport and distribution, rainwater and domestic water management, irrigation, water drilling, telecommunication, electrical networks accessories, individual utilities connections.

TeraPlast is the leader of the external sewage market and the second player on the Romanian overall installation market.

According to the sustainable development strategy "Romania 2025", the total investment needs for the rehabilitation of the public water supply and sewage infrastructure are 12.5 billion euros, and the annual average of the required investments is 625 million euros per year. As regards the connection of the population to water and sewage, in 2018 in Romania, 69,4% of the resident population is connected to the water supply systems, while the percentage of connection to the resident population of the sewage systems provided with sewage treatment plants is 52,7%. Furthermore, only 35% of Romania's dwellings are connected to a gas network.



For 2014-2020, € 11 billion was earmarked under the POIM. Of this amount, 2.75 billion euros were settled to date and contracts worth 9.8 billion euros were signed. In this context, demand is expected to increase over the next 3 years as a result of reaching the execution stage of these projects.

TeraPlast constantly invests in improving the solutions it offers. This implies obtaining systems with functionalities that meet the needs of the clients, but also reflect responsible development - one of the main directions of the Society in this area. In 2019, the company launched the PE 100-RC pipe with protective PP layer, which provides a lifetime of up to 100 years, ease of installation and superior properties.

TeraPlast diversified its product portfolio outside the infrastructure market and into the residential market. For example, under the state aid scheme, TeraPlast has increased its presence into the polypropylene pipes market offering multilayered polypropylene pipes for interior sewerage.

### **Window profiles**

The window profiles business line serves over 200 clients producing thermal insulating window profiles. On the domestic market, the best-selling system is the 4-chamber, while for export the demand is stronger for 6 and 7-chamber systems.



## 1. About TeraPlast Group (continued)

### **Compounds**

With a market share of more than 34%, TeraPlast is the leader in the compounds market in Romania and the main supplier of PVC compounds for the cable industry in Romania. The portfolio includes plasticized compounds and rigid compounds, with applications in the extrusion and injection industry.

The state aid project also targeted this line of business. As a result of the investment, the company brought an innovation on the Romanian compounds market - halogen-free, fire resistant compounds (HFFR).



### **Metallic roof tiles**

Wetterbest products are present through a wide range of dealers, 3 showrooms and in most DIY stores in Romania. The product portfolio covers a complete range of finished products and accessories for roofing:

- Metallic tiles
- Flat roofs
- Roof accessories, which include the complete range of accessories needed for the installation of roof systems
- Trapezoidal sheets
- Drainage systems
- Metallic fence slats
- Membranes and other accessories, marketed in the form of commodities, required to provide a complete roofing system.



Wetterbest invested a total of EUR 9 million, partially funded by a state aid project, aimed at opening a new manufacturing facility in Baicoi (Prahova), which, at a production capacity of more than 10 million square meters of tile, ensures optimal flow of logistics and storage, and increase operational efficiency.

### **Sandwich panels and galvanized steel purlins**

The business line includes an extensive portfolio of products obtained in the three factories, two in Bistrita Nasaud county, Romania, respectively one in Serbia, offering the next product categories:

- PUR, PIR, MW thermal insulation panels
- Galvanized steel purlins
- Turnkey halls
- Lead by TeraSteel turnkey halls
- Self-supporting trapezoidal sheet

TeraSteel is a trusted strategic partner in the CEE area and one of the main regional producers through its two factories.

Through the network of partner companies in the refrigeration industry, the Group has provided over 50% of the panels used for refrigeration chambers in the major supermarket chains in Romania.



## 1. About TeraPlast Group (continued)

### Windows & Doors

The production and marketing of windows and doors includes 2 product families, namely:

1) PVC windows, door and accessories, with the following product groups:

- TeraGlass Windows and Doors systems with 4,6 and 7 chambers;
- Salamander windows and door systems with 5 and 6 chambers;

2) Aluminum doors, windows and structural walls, , including M11000, M9000 and M9300 profiles, with or without thermal barrier depending on the requirements and needs of the final beneficiary.

The state aid project through which Teraglass Bistrita SRL created a new fully automated flow for the production of PVC windows and doors, a process that contributes both to the increase of production capacity and productivity, to meet the demand that is on an upward trend and to enter new market segments.



### 1.5 The Group's employees

During 2019, the employees' structure was as follows:

	2019	2018
Directors	14	14
Managers	48	49
Sales personnel	135	129
Administrative staff	133	127
Logistic staff	165	144
Production staff	631	574
<b>Total</b>	<b>1,125</b>	<b>1,037</b>

According to the applicable collective agreement, Group's minimum pay rates are above the national minimum wage. Furthermore, TeraPlast has implemented variable pay to several structures in order to keep the employees motivated.

TERAPLAST Group aims to hire and retain the best professionals in the labor market, so as to continuously improve operations and create added value.

The HR strategy is driven by the business strategy and aims to respond to the requirements of business objectives through actions on human resources field such as organization, recruitment and selection, performance, development and remuneration. In this respect, the Group has specific internal procedures for each of these stages.

## 1. About TeraPlast Group (continued)

Guidelines for policy implementation are:

- recruiting and employing staff based on competencies;
- quick integration of new employees;
- developing adequate training and improvement programs with the objectives of each organization in the Company;
- developing incentive plans designed to encourage efficiency and cost cutting;
- elaboration of non-financial stimulation systems;
- development of career programs and succession plans;
- the standardization of human resources policies at the TeraPlast Group level.



We aim to provide a trained and motivated workforce that contributes, by continually improving individual and team performance, to achieving the goals of the Group's Companies. We know that each member of the team is important and can bring added value to the group, which is why we are trying to always have the right person in the right place.

Our values are: quality, seriousness, performance. These values have been embedded in our organizational culture and have been incorporated into the ongoing improvements of group companies.

The human resources policy focuses on the following directions:

- ensuring the necessary trained personnel in the context of competition resulting from the free movement of labor within the European Community area and achieving a balanced distribution of human resources at group level;
- increasing the level of professional competence of the employees;
- Strengthening its internal system of promoting staff with potential for performance;
- Anticipating fluctuations in staff shortages or surpluses;
- covering the operational needs of the organization through the efficient use of human resources;
- Constantly Adjusting the manpower plan with the company's forecasted performance;

The Group's responsibility towards employees means ensuring a safe and healthy work environment, offering professional and personal development opportunities, and establishing a permanent dialogue to monitor their satisfaction and expectations. Each employee has the responsibility to maintain a safe and healthy workplace for all employees, following health and safety regulations and practices in work and by reporting accidents, injuries, and equipment, practices and unsafe conditions.

The main strategic directions for Occupational Health and Safety Management that TeraPlast aims and is committed to accomplish are: to continually prevent and reduce the risks of injury and occupational disease, to create the conditions necessary for the continuous improvement of the occupational health and safety performance and the involvement of all staff in achieving the proposed objectives.

## 1. About TeraPlast Group (continued)

### 1.6 Effective solutions for people and the environment

Responsibility towards the environment and the community in which we operate is an important part of the principles we abide by. We are constantly allocating resources to identify and minimize the negative impact that our work can have on the environment and we are actively involved in the community.

Effective management of the impact that our work has on the environment means:

- Waste management, recycling and keeping the percentage of waste / ton of finished product below 1%
- Optimizing the consumption of electricity, water and natural gas
- Monitoring environmental factors

The TeraPlast Group has implemented and certified, at each company level, the Quality-Environment-Health and Occupational Safety Integrated Management System according to ISO 9001: 2015, ISO 14001: 2015 and OHSAS 18001: 2007.

TeraPlast Recycling is a statement of this responsible attitude towards sustainability. We have an annual processing capacity of 12,000 tons, which places us on the 1st place in Romania and in the top 10 in Europe.

In addition, the partnership with E.ON Energie at the end of 2018 will lead to the construction of a photovoltaic power plant, which will partially generate our own electricity, saving up to 11.45% of the total energy required today. The energy systems will be installed on the roof of the halls of TeraPlast Industrial Park and, in the long run, make it possible to reduce CO<sub>2</sub> emissions by up to 600,000 tons per year.

Community involvement means supporting initiatives in sports, healthcare, social and education areas, both locally and nationally.

The Group supports local community initiatives through long-term partnerships. For example, the Wetterbest Association for the Community aims to support excellence, the chances of education and the social, economic, entrepreneurial and physical development of young people in the communities in which the company operates.

At the end of 2019, the Group launched its CSR platform *Impreuna Cladim Romania* – Building Romania Together. It is aimed to express the Group's responsibility philosophy and concentrate its CSR projects.

At the same time, within the business lines of roof systems, in the desire to bring about a visible change in the way in which the work of fitter is performed and in the quality of work execution, as well as from the effects of the lack of craft schools, in 2015 the Wetterbest School was established. The school is accredited by the Ministry of National Education, through the National Authority for Qualifications and the County Agency for Payments and Social Inspection.

Minimizing the environmental impact of your business, engaging in local communities, creating attractive working conditions, and working with responsible suppliers are the main guiding principles in our day-to-day business.

## 2. The Group's results

### 2.1. Evolution of the key-items of profit and loss

The results of TeraPlast Group for 2019 are summarized as follows:

Profit and loss account (RON thousand)	2019	2018
<b>Net turnover</b>	<b>972,582</b>	<b>804,512</b>
<b>Operating result</b>	<b>54,947</b>	<b>34,722</b>
<b>Net profit</b>	<b>38,908</b>	<b>22,639</b>

The increase in turnover is organic and the improvement in profitability is a result of improved operational efficiency, increased of production capacity utilization and consolidation of the client base.

77% of the Group sales are on the domestic market. The Group has a sales system that includes its own network of rented or owned storehouses, as well as partnerships with the distributors, construction companies, plasticized and rigid PVC processors, as well as with the manufacturers of doors and windows all over the country, roof carpenters.

Considering that the Group operates on construction materials market, seasonality is a major factor in the monthly evolution of sales.

In these circumstances, the peak activity covers about 6 months (May to October).

The distribution policy targets mainly specialist customers in the installation and construction fields, and the distribution channels are:

- Sales through distributors and resellers (internal market and partially exports);
- Sales by specialized networks (DIY) (internal market and exports);
- Sales to general contractors and constructors (tenders for infrastructure projects);
- Direct sales to cable manufacturers or other profiles (internal market and exports);

The Group has a maximum exposure of 7 % of the turnover for the largest client.

During 2019 and 2018, the weight of receivables for one client did not exceed 2% of the turnover.

## 2. The Group's results (continued)

The reporting segments of the Group are aggregated according to the main types of activities and are presented below:

2018	Sandwich panels		Metal tiles		Installations		Joinery profiles		Compounds		PVC windows and doors	Un allocated amounts	Total
<b>Revenue from third party customers (*)</b>	<b>261,992,982</b>	<b>220,999,584</b>	<b>173,537,733</b>	<b>55,970,409</b>	<b>63,091,541</b>	<b>28,919,946</b>	-	<b>804,512,197</b>					
Other operating income	827,620	330,306	287,096	293,442	73,602	9,809	-	<b>1,821,874</b>					
Income from subsidies	445,858	304,734	-	-	-	-	-	<b>750,592</b>					
<b>Operating income, total</b>	<b>262,820,602</b>	<b>221,329,890</b>	<b>173,824,829</b>	<b>56,263,851</b>	<b>63,165,143</b>	<b>28,929,755</b>	-	<b>806,334,071</b>					
Raw materials, consumables used and merchandise	(206,045,308)	(169,487,851)	(123,390,712)	(34,141,646)	(48,130,720)	(14,554,262)	-	<b>(595,750,498)</b>					
Employee benefits expenses	(11,716,002)	(17,295,948)	(23,067,877)	(6,475,778)	(3,942,754)	(5,907,989)	-	<b>(68,406,348)</b>					
Amortization and adjustments for the impairment of assets and provisions	(5,124,663)	(6,543,390)	(12,171,889)	(4,754,750)	(1,512,569)	(746,257)	-	<b>(30,853,518)</b>					
Adjustments for the impairment of current assets	(151,934)	(778,687)	(289,473)	(211,007)	-	(109,702)	-	<b>(1,540,803)</b>					
Other expenses	(18,042,052)	(18,869,311)	(17,216,379)	(11,948,741)	(3,824,170)	(5,110,020)	-	<b>(75,010,673)</b>					
<b>Total expenses related to sales, indirect and administrative expenses</b>	<b>(241,079,961)</b>	<b>(212,975,186)</b>	<b>(176,136,330)</b>	<b>(57,531,922)</b>	<b>(57,410,213)</b>	<b>(26,428,230)</b>	-	<b>(771,561,838)</b>					
<b>Operating result</b>	<b>21,740,641</b>	<b>8,354,704</b>	<b>(2,311,500)</b>	<b>(1,268,071)</b>	<b>5,754,930</b>	<b>2,501,525</b>	-	<b>34,772,232</b>					
<b>EBITDA</b>	<b>26,419,446</b>	<b>14,593,359</b>	<b>9,860,389</b>	<b>3,486,679</b>	<b>7,267,499</b>	<b>3,247,782</b>	-	<b>64,875,155</b>					
<b>Assets</b>													
<b>Total assets, out of which</b>	<b>144,765,996</b>	<b>189,137,726</b>	<b>169,045,528</b>	<b>67,744,885</b>	<b>38,715,501</b>	<b>22,646,883</b>	<b>10,189,949</b>	<b>642,246,468</b>					
Non-current assets	53,623,251	99,815,668	72,378,186	34,199,641	15,155,042	10,799,960	8,324,389	294,296,137					
Current assets	91,142,745	89,322,058	96,667,342	33,545,244	23,560,459	11,846,923	-	346,084,771					
Assets held for sale	-	-	-	-	-	-	1,865,560	1,865,560					
<b>Liabilities</b>													
<b>Total liabilities, out of which:</b>	<b>96,037,732</b>	<b>162,835,756</b>	<b>109,949,339</b>	<b>31,174,500</b>	<b>19,389,230</b>	<b>5,581,413</b>	-	<b>404,130,603</b>					
Non-current liabilities	18,111,998	92,766,044	11,375,401	8,360,680	2,581,214	602,974	-	133,798,312					
Current liabilities	77,925,734	70,069,712	77,736,572	22,813,820	16,808,015	4,978,439	-	270,332,291					

EBITDA = Operating result + amortization and the adjustments for the impairment of non-current assets and provisions – Income from subsidies

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

## 2. The Group's results (continued)

2019	Sandwich panels	Metal tiles	Installations	Joinery profiles	Compounds	PVC windows and doors	Total
<b>Revenue from third party customers</b>	<b>308,798,619</b>	<b>269,856,527</b>	<b>239,801,610</b>	<b>61,050,050</b>	<b>64,200,791</b>	<b>28,874,813</b>	<b>972,582,410</b>
Other operating income	877,561	82,712	303,612	3,418	0	18,819	1,286,122
Income from subsidies	434,679	303,960	132,144	0	0	17,451	888,234
<b>Operating income, total</b>	<b>310,110,859</b>	<b>270,243,199</b>	<b>240,237,366</b>	<b>61,053,468</b>	<b>64,200,791</b>	<b>28,911,083</b>	<b>974,756,766</b>
Raw materials, consumables used and merchandise	(231,736,093)	(207,947,809)	(157,333,349)	(40,501,206)	(47,501,334)	(15,845,685)	(700,865,476)
Employee benefits expenses	(16,507,089)	(21,889,151)	(28,016,266)	(8,636,151)	(4,560,275)	(6,543,870)	(86,152,803)
Amortization and adjustments for the impairment of assets and provisions	(5,425,845)	(6,624,898)	(13,058,407)	(6,790,689)	(1,541,375)	(757,257)	(34,198,472)
Adjustments for the impairment of current assets	(843,770)	(696,812)	689,820	203,480	0	(89,687)	(736,969)
Sponsorship expenses	(690,814)	(116,818)	(115,555)	(56,484)	(53,896)	(39,087)	(1,072,654)
Other expenses	(23,065,103)	(25,086,136)	(30,230,072)	(7,975,624)	(4,504,008)	(4,987,909)	(95,848,851)
<b>Total expenses related to sales, indirect and administrative expenses</b>	<b>(278,268,714)</b>	<b>(262,361,624)</b>	<b>(228,063,830)</b>	<b>(63,756,674)</b>	<b>(58,160,889)</b>	<b>(28,263,495)</b>	<b>(918,875,225)</b>
Goodwill impairment and debt cancellation, net		(934,965)					(934,965)
<b>Operating result</b>	<b>31,842,144</b>	<b>6,946,610</b>	<b>12,173,536</b>	<b>(2,703,205)</b>	<b>6,039,902</b>	<b>647,589</b>	<b>54,946,576</b>
<b>EBITDA</b>	<b>36,833,310</b>	<b>14,202,513</b>	<b>25,099,800</b>	<b>4,087,484</b>	<b>7,581,278</b>	<b>1,387,394</b>	<b>89,191,779</b>
<b>Financial result</b>	<b>(2,411,706)</b>	<b>(3,234,975)</b>	<b>(3,229,464)</b>	<b>(400,038)</b>	<b>(620,215)</b>	<b>(297,442)</b>	<b>(10,193,840)</b>
<b>Profit before tax</b>	<b>29,430,438</b>	<b>3,711,635</b>	<b>8,944,073</b>	<b>(3,103,243)</b>	<b>5,419,687</b>	<b>350,147</b>	<b>44,752,736</b>

EBITDA = operating result + amortization and the adjustments for the impairment of non-current assets and provisions – Income from subsidies - Goodwill impairment and debt cancellation, net

Goodwill impairment and debt cancellation related to the metal tiles CGU (Notes 3 and 16) are considered one off events, not reflecting the operating performance of the Group.

The amounts disclosed above are net of the inter-segment transactions elimination

The following inter – segment transactions, made at prices that approximate market prices, were eliminated in the above segment information, to reflect third party sales which are one of the objectives of management:

- Sales of steel of RON 7,748,802 from the Roof tiles segment to the Sandwich panels segment;
- Sales of PVC joinery profiles of RON 12,964,877 to the Windows and Doors segment.

## 2. The Group's results (continued)

2019	Sandwich panels	Metal tiles	Installations	Joinery profiles	Compounds	PVC windows and doors	Un allocated	Total
<b>Assets</b>								
<b>Total assets, out of which:</b>	<b>136,320,875</b>	<b>197,410,757</b>	<b>212,277,770</b>	<b>52,818,321</b>	<b>39,752,366</b>	<b>47,886,697</b>	<b>6,913,460</b>	<b>693,380,246</b>
Non-current assets	53,116,775	101,293,573	101,956,914	30,037,519	21,590,023	26,734,686	6,913,460	341,642,950
Current assets	83,204,099	96,117,184	110,320,856	22,780,803	18,162,343	21,152,010		351,737,296
Assets held for sale								
<b>Liabilities</b>								
<b>Total liabilities, out of which:</b>	<b>72,532,759</b>	<b>145,344,717</b>	<b>120,851,604</b>	<b>27,065,016</b>	<b>26,768,012</b>	<b>24,669,740</b>	<b>-</b>	<b>417,231,847</b>
Non-current liabilities	11,866,884	44,775,602	30,850,871	2,017,455	6,032,378	9,890,614		105,433,805
Current liabilities	60,665,875	100,569,114	90,000,733	25,047,561	20,735,634	14,779,126		311,798,043
<b>Additions to non current assets</b>	<b>3,727,587</b>	<b>31,778,473</b>	<b>32,054,090</b>	<b>4,206,018</b>	<b>7,783,519</b>	<b>16,334,314</b>		<b>95,884,001</b>

The investment in the metal tiles business is a new production facility of 38,000 sqm in Baicoi (Prahova County). The factory and new production lines will ensure optimal logistics and an annual production capacity of over 10 million sqm of tiles.

The investment in the installations segment includes a production line for polypropylene pipes and an injection machine for fittings. These products are for sewage systems inside of buildings.

With the investment in the new compounder, TeraPlast will be the first producer in Romania of halogen-free, fire-resistant compounds used for insulation of electric cables.

The objective of the investment project of TeraGlass is a fully automated production line for windows and doors, which will also contribute to increasing production capacity and labor productivity.

In addition to these investments that will increase production capacity in 2020 and generate operating efficiencies, the Group invested in maintenance capex.

### 3. Risk management

In the normal course of business, the Group has exposure to a variety of financial risks, including foreign currency risk, interest rate risk, liquidity risk and credit risk, market risk, geographic risk, but also operating risks and legal risks. The Group's focus is to understand these risks and to put in place policies that minimise the economic impact of an adverse event on the Group's performance. Meetings are held on a regular basis to review the result of the risk assessment, approve recommended risk management strategies and monitor the effectiveness of such policies.

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.

The Group measures trade receivable at fair value through profit and loss while the other financial assets are measured at amortized cost

Financial assets	As at 31 Decemver 2019		As at 31 Decemver 2019	
	At fair value through profit and loss	At amortized cost	At fair value through profit and loss	At amortized cost
<b>Non current</b>				
Long term receivable		771,748		745,868
Other financial instruments measured at amortized cost		16,472		17,107
<b>Current</b>				
Trade receivable	138,795,252		127,460,704	
Cash		29,472,744		22,817,571
Prepayment		1,066,286		895,914

#### (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.

### 3. Risk management

The gearing ratio as at 31 December 2019 and 2018 was as follows:

	<u>2019</u> <u>RON</u>	<u>2018</u> <u>RON</u>
Total loans	221,310,135	195,065,913
Less cash and cash equivalents	(29,474,903)	(22,817,571)
<b>Net debt</b>	<b><u>191,835,232</u></b>	<b><u>172,248,340</u></b>
<b>Total equity</b>	<b><u>276,847,565</u></b>	<b><u>238,115,865</u></b>
<b>Total equity and net debt</b>	<b><u>468,682,797</u></b>	<b><u>410,364,205</u></b>
<b>Gearing ratio</b>	<b><u>41%</u></b>	<b><u>42%</u></b>

#### (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.

#### (c) Objectives of the financial risk management

The treasury department 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 analyse 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 primarily 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

There are two types of foreign currency risk to which the Group is exposed, namely transaction risk and translation risk. The objective of the Group's foreign currency risk management strategy is to manage and control market risk exposures within acceptable parameters.

### 3. Risk management (continued)

#### Transaction risk

This arises because operating units have input costs or sales in currencies other than their functional currencies. In addition, where operating entities carry monetary assets and liabilities at year end denominated other than in their functional currency, their translation at the year-end rates of exchange into their functional currency will give rise to foreign currency gains and losses. The exposures to the exchange rate are managed according to the approved policies.

The Group is mainly exposed to the EUR-RON exchange rate.

<i>Currency</i>		<i>EUR</i>	<i>HUF</i>	<i>USD</i>	<i>RSD</i>	<i>RON</i>	<i>TOTAL</i>
<i>Trade receivable</i>	<i>RON equivalent</i>	21,502,476	295,940	218,079	1,150,182	115,628,574	138,795,252

<i>Currency</i>		<i>EUR</i>	<i>USD</i>	<i>RSD</i>	<i>PLN</i>	<i>RON</i>	<i>TOTAL</i>
<i>Trade and other payable</i>	<i>RON equivalent</i>	78,800,798	135,648	1,396,286	66	76,437,098	156,769,897

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.

### 3. Risk management (continued)

#### Sensitivity analysis for primary currency risk

	31 December 2019		31 December 2018	
	RON	RON	RON	RON
Profit or (loss)	(2,283,616)	2,283,616	3,976,917	(3,976,917)

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

#### Translation risk

This exists due to the fact that the Group has operations whose functional currency is not the RON, the Group's presentational currency. Changes in the exchange rate between the reporting currencies of these operations and the RON, have an impact on the Group's consolidated reported result. For 2019, the impact of changing currency rates versus RON compared to the average 2018 rates was negative RON 0.4m (2018: nil).

#### (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 due to fluctuation of EURIBOR for the 2 mil EUR overdraft of TeraSteel Serbia and ROBOR for the other loans with variable interest rate. Out of the loans as at 31 December 2019, RON 108,711,849 is the balance of investment loans with fixed interest rate. The Group performed no hedging operation with a view to reducing its exposure to the interest rate risk.

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 optimal balance between fixed rate and floating rate interest loans.

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

As at 31 December 2019 and, respectively 31 December 201, in the case of a CU 100pb 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.

#### Sensitivity analysis for interest rate risk

	31 December 2019		31 December 2018	
	RON	RON	RON	RON
Profit or (loss)	2,155,508	(2,155,508)	1,950,659	(1,950,659)

#### (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.

### 3. Risk management (continued)

#### (h) Credit risk management

Credit risk encompasses the risk of financial loss to the Group of counterparty default in relation to any of its financial assets.

The Group has adopted a policy of performing transactions with trustworthy parties, parties that have been assessed in respect of the credit quality, taking into account its financial position, past experience and other factors, and additionally, obtaining guarantees or advance payments, 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.

Group's maximum exposure to credit risk is represented by the carrying value of each financial asset: The credit risk relates to the risk that a counterparty will not meet its obligations causing financial losses to the Group.

Trade receivables are from 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 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 analysing the receivables individually and making impairment adjustments. The Group had more than four thousand clients in 2019, with the highest exposure on one client not exceeding 3%.

#### (i) Liquidity risk management

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. Each Group company prepares annual and short term cash flows (weekly, monthly and quarterly). Financing needs for working capital are determined and contracted based on the budgeted cash flows. Investments projects are approved only with a concrete financing plan.

#### (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.

Financial liabilities are at their carrying amount which is an approximation to their fair value, due to the fact that the liabilities are at variable interest rates and there are no material initial fees and charges amortized over time.

### 3. Risk management (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.

#### 2019

<b>Non-interest bearing</b>	<b>less than 1 month</b>	<b>1-3 months</b>	<b>3 months - 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>more than 5 years</b>	<b>Total</b>
Trade payables and other liabilities	(101,341,635)	(46,329,589)	(9,077,742)	(9,538,132)	0	0	<b>(166,287,099)</b>
<b>Interest-bearing instruments</b>							
Short and long-term loans	(129,297,798)	(2,881,926)	(18,187,857)	(39,422,253)	(25,042,004)	(718,935)	<b>(215,550,773)</b>
Future interest on loans	(618,615)	(1,764,647)	(6,865,120)	(3,648,050)	(922,886)	(6,335)	<b>(13,825,653)</b>
Leases	(180,504)	(511,081)	(990,850)	(3,299,844)	(451,352)	(325,730)	<b>(5,759,361)</b>
Future interest on leases	(21,118)	(59,372)	(135,079)	(289,135)	(47,413)	(14,923)	<b>(567,040)</b>
<b>Non-interest bearing</b>							
Cash	29,472,745						<b>29,472,745</b>
Receivable	78,729,768	56,884,640	3,131,402	20,784	20,784	7,874	<b>138,795,252</b>

#### 2018

	<b>Below 1 month</b>	<b>1-3 months</b>	<b>3 months to 1 year</b>	<b>1-3 years</b>	<b>3 - 5 years</b>	<b>Above 5 years</b>	<b>Total</b>
<b>Non-interest bearing</b>							
Trade payables and other liabilities	(96,723,892)	(48,253,632)	(275,099)	(49,022,037)	-	-	<b>(194,274,661)</b>
<b>Interest-bearing instruments</b>							
Short and long-term loans	(24,290,899)	(13,493,867)	(84,683,731)	(53,004,077)	(19,593,338)	-	<b>(195,065,911)</b>
Future interest	(515,878)	(1,597,492)	(3,706,581)	(11,086,541)	(4,479,623)	-	<b>(21,386,116)</b>
<b>Non-interest bearing</b>							
Cash	22,817,571	-	-	-	-	-	<b>22,817,571</b>
Receivables	78,720,055	46,253,683	2,486,967	-	-	-	<b>127,460,704</b>

## 4. The budget for 2020

The likely evolution of the Group is included in the **Revenues and Expenses Budget for 2020**:

- Turnover: RON 1.256,342 thousand
- Operating profit: RON 115,168 thousand

TeraPlast Group has planned for 2020 an investment budget of RON 31 million.

These investments can be directed towards: equipment, capital repairs and constructions.

The full Budget presentation can be seen at the following link: <https://www.teraplast.ro/wp-content/uploads/2020/04/2020-Budget-TeraPlast-Group-ENG.pdf>

### Potential factors of influence on 2020 budget

Considering the events related to the Coronavirus outbreak worldwide at the beginning of 2020, the TeraPlast Group and its companies had a proactive attitude regarding the management of the potential risks. The crisis led to European states, including Romania, declaring the state of emergency, and implementing various levels of lockdown.

At TeraPlast Group level, progressive and firm measures were taken in order to ensure the employees' and partners' health and security. The set of measures aim to all areas of activity, are monitored, and reviewed as needed by the Analysis Commission of the Group, regularly.

In order to ensure a fair and equal information of the stakeholders, the Group reports, in line with the regulations in place, any event that exceeds the materiality threshold and could, to some extent, influence the Group's business evolution.

Considering that

the first impact of Covid-19 was first visible in Europe and Romania at the beginning of March, the current situation is changing rapidly and has a high level of uncertainty,

At the time of this report, the TeraPlast Group management team considers it can not provide a firm prognosis of the Covronavirus pandemic impact on the Group businesses.

**10 potential action scenarios were set up** depending on the possible evolution of the current crisis. These scenarios imply the following parameters:

- The potential negative influences on the revenue due to both the pandemic evolution and a potential economic crisis following it, including a total activity suspension simulation in case the authorities would impose so
- Cash flow impact due to potential clients' defaults
- The ability of managing the debt service
- Fixed costs adjustment to minimize the impact on profitability in the demand drop scenarios
- Monitoring of the cost structure to secure a sustainable long-term performance

### **Measures already in place**

- Heightened hygiene measures in order to protect our employees' health and security at work. Highly digital close collaboration among employees and with third parties. Special procedures on production sites.
- Personnel costs were temporarily reduced in areas where the production and demand declined. For a part of the white-collar personnel the working schedule was reduced.
- Temporary income reduction in management by 25%-50%
- Renegotiated contracts with the suppliers. Alternative suppliers were identified in order to ensure the raw materials availability.
- The raw materials and finished goods stocks were diminished in order to decrease the working capital need
- The rent contracts were renegotiated for at least 3 months
- Tightened credit procedures in order to minimize credit risk
- Cash conservation policies in place

New measures are being planned and implemented.

## 5. Non-Financial statement

According to the legal regulation on the disclosure of non-financial information, the Group prepares and publishes a distinctive sustainability report which includes information required by the non-financial statement and which describes our initiatives regarding sustainability. The Teraplast sustainability report for 2019 will be published by 31<sup>st</sup> of December 2020.

### ***Environmental policy***

We are aware of the impact that our activity and products can have on the environment. One of our goals is to mitigate the negative impact and prevent situations that can affect the environment and society. As a result, we constantly allocate resources to identify and minimize them, and we are actively involved in sustainable development.

### ***Integrated management system***

Teraplast has implemented the ISO 14001 Environmental Management System as a component of an integrated quality-environment-occupational health and safety management system. The environmental management system has been certified for the first time in Teraplast in 2009. The activities regulated by this system are maintained and continually improved, being systematically verified by internal audit and also by the certification body. Action programs are based on internal, external audits and management reviews.

### ***Rigorous implementation of Environmental Policy***

In order to fulfill the Policy, the commitment undertaken and the achievement of the environmental objectives and targets, management programs (annual or long-term) are established, which include general and specific objectives, deadlines and means of accomplishment, responsibilities and authorities designated for the relevant functions.

In order to achieve the objectives and targets, Environmental Management Plans are established and the Environmental Officer monitors the stage of their implementation during the year, according to their evolution.

When preparing Management Programs, consideration is given to introducing new technologies and to the views of stakeholders. These programs are periodically analyzed by the responsible factors to determine the stage of their implementation or are monitored directly by the Environmental Manager and brought to the attention of top management.

In the case of projects and / or developments (changes in product design, introduction of new working conditions), management programs are tailored to suit the situation and actions are set up to ensure management involvement. Changes resulting from the implementation of these projects / developments, as well as the new requirements of the applicable legal and regulatory norms, are documented so as to ensure the continued operation of the management system.

### ***Sustainable Development***

Teraplast is actively involved in the development of sustainable systems, and within the Research and Development Center, research activities are performed annually to improve the existing products and to obtain new products.

Research projects in 2019 were focused on product development aiming at obtaining higher physical and mechanical properties than existing ones and cost efficiency with raw materials. Thus, PVC multi-layer pipes with micronized recycled PVC were obtained from various recycled rigid PVC. The impact of using this micronized recycled PVC is a major one, both for the environment, through its reuse in the production process and substitution of virgin PVC as well as cost optimization. Recycled PVC obtained in the form of granules was tested on the co-extruded layer of the joinery profiles. The results obtained were positive, superior to the substituted dry-blend in which the base raw material is virgin PVC. The research department studies recycled PVC in various compositions in order to identify new applications. TeraPlast has patents pending for some of these applications.

TeraSteel also introduced Leed Pannels with decreased environmental impact and increased thermal transfer properties, in partnership with Dow Chemicals. Wetterbest introduced as well new product groups, the Supreme 50 product line, with increased corrosion protection and lower carbon footprint.

Suppliers of raw materials are also assessed from the point of view of complying with environmental requirements. We avoid the use of hazardous chemicals in the activities and in the supply chain.

All hazardous chemicals used in the activities are carefully monitored, accompanied by the Safety Data Sheet and their requirements are transposed into internal measures (allocation of special spaces, storage / handling, use, training, etc.).

## 5. Non-financial statement (continued)

### ***Pollution prevention and control***

To prevent soil contamination, all pools are properly sealed. At the same time, both the interior surfaces where the productive activities are carried out as well as part of the exterior surfaces such as the surface of the transport paths are constructed from concrete. The remainder of the land is partially formed of green areas. Loading and unloading of material takes place in designated areas, protected against leakage through liquid leakage or dust dispersion. In storage there are adequate quantities of absorbents suitable for controlling any accidental spillage, in the unlikely event of such an occurrence. The rainwater from the platform is circulated through an oil separator.

Over 80% of the technological water is recirculated and wastewater is passed through the sewage treatment station. Wastewater quality indicators are determined quarterly. In 2020 we will invest in upgrading this station to accommodate the increase in staff.

Dangerous chemical substances are purchased in strict compliance with applicable legislation and their handling, use and disposal is in accordance with the safety data sheet that allows for all measures for environmental protection, occupational health and safety to be taken. The storage of the various dangerous chemicals is made taking into account the compatibility of the substances. The management of these substances is carried out by trained persons who know the measures to be taken in case of emergency situations.

### ***Waste management***

In the Group companies, recoverable waste (plastic waste, metal waste, paper packaging waste, cardboard, plastic packaging, wood packaging, etc.) and non-recoverable waste (industrial waste, contaminated metal packaging and household waste) are generated.

The implemented environmental management system aims to minimize the quantities of waste resulting from production processes, where possible. The resulting waste in the company is collected selectively and used/disposed of by authorized economic operators.

Hazardous waste sent off-site for disposal is transported only by authorized economic operators, in compliance with the legal provisions in force. Waste is transported only from the site of activity to the disposal site without adversely affecting the environment.

Waste is packaged and labeled in accordance with the laws and regulations in force for mandatory inscriptions. During collection, recovery or disposal, all waste is temporarily stored in specially designed areas and places, properly protected against dispersion in the environment. Waste is clearly labeled and separated accordingly.

The management of all categories of waste is carried out in strict compliance with the legal provisions. Waste is collected and stored temporarily by types and categories without being mixed. These are stored separately, inert and non-hazardous waste separately from the hazardous one.

The recovery of recyclable industrial waste is carried out in compliance with the provisions of Law 211/2011 and other legal provisions in force.

Reaching recycling and collection targets is done individually through contracts with authorized recycling / collection companies.

### ***Combating corruption and bribery***

Internal compliance programs in this area focus on the following directions:

- anticompetitive practices;
- economic sanctions and embargoes;
- the fight against corruption;
- gift policies;
- conflicts of interests.

## 5. Non-financial statement (continued)

Conflicts of interests may arise when personal interests conflict with the ability to exercise one's duties properly and efficiently. In relation to relationships or activities that may affect or appear to affect the ability to make objective and fair decisions when carrying out activities on behalf of the Company, there is an internal procedure at the level of the Group with the aim of complying with the legal provisions in force, namely Law 24/2017 on Issuers of Financial Instruments and Market Operations, which states: "The managers of issuers whose securities are admitted to trading on a regulated market are obliged to report immediately any legal act concluded by the issuer with the directors, the employees, the controlling shareholders, as well as the persons with whom they act in concert, whose cumulative value represents at least the equivalent in RON of EUR 50,000. "(Art.82 (1) of Law 24/2017)

Sanctions and embargoes restrict transactions with certain countries, individuals and legal entities. These restrictions need to be known and analyzed before starting any transaction.

When integrating any new employee, according to the New Employee's Guide, it is clear what the Group companies are asking for the expected behaviors with respect to the issues listed above. Our employees have clearly defined limitations on the acceptance of gifts, services and benefits of any kind coming from suppliers or customers in order to facilitate commercial transactions with any of the Group companies. They are authorized to accept or offer gifts and invitations that are appropriate in the circumstances, subject to the limitations, approvals and registration requirements defined in our internal rules. No money or equivalent gift may be offered or received.

In our business relationships with public and state institutions, our employees do not solicit or accept gifts, services, favors, invitations or any other personal benefits that may affect their impartiality in the exercise the function held. No gifts or other free gifts are given to government officials or state organ representatives, except for small-value promotional items customized with the Company's logo.

### ***Responsible procurement policy***

Procurement is critical to the Company's competitiveness and its ability to innovate. The main objective of the procurement activity is the complete material availability both in terms of quantity and quality, in due time, in conditions of maximum safety and with minimal cost of material resources necessary for the development of productive activities within the Company. At the same time, the activity involves proactive management of supply chain risks in order to minimize their potential impact.

The purchasing policy within Group companies is an integral part of the overall objective of the Group, to meet customer requirements, to manage production processes efficiently and to meet the requirements of the integrated management system.

An essential role in continuously improving the quality of our products and working standards lies with our suppliers who are carefully selected for the production process.

We are building long term partnerships with our suppliers, based on trust and responsibility. We are constantly evaluating suppliers and applying an internal qualification and acceptance system. Furthermore, we are actively seeking alternative suppliers to reduce dependence on a single supplier.

Group suppliers will comply with and observe local, national and international environmental regulations. They are required to hold all the environmental permits and authorizations required to conduct the business. Suppliers will systematically manage environmental impacts, including: energy, water, waste, chemicals and air pollution.

Suppliers will comply with all applicable anti-corruption laws and regulations, and will have a zero tolerance policy for any form of bribery, corruption, and misappropriation. They must carry out all transactions in a transparent manner and accurately reflect them in accounting records and books. Suppliers must comply to intellectual property regulations and warrant against any risks that might arise from this field.

Selecting and accepting suppliers is based on both assessing their ability to deliver products according to our requirements, as well as: quality / price ratio, certified management systems, payment options, availability on delivery, complaint handling. The evaluation process also involves auditing and visiting suppliers as much as possible, and assessing the compliance with environmental, occupational health and safety requirements, and social responsibility.

The TeraPlast Group believes that establishing strong partnerships with suppliers ensures a positive outcome for both parties.

## 5. Non-financial statement (continued)

The Group's procurement policy is linked to the quality standards (SR EN ISO 9001), the environment (SR EN ISO 14001) and Occupational Health and Safety (SR OHSAS 18001), but it also contains specific requirements based on the Group's Code of Conduct.

This ensures the general conditions for:

- the quality of the products and services purchased
- product safety / chemicals management
- protecting the environment
- the code of conduct in the procurement activity

Supplier selection and evaluation follow their capacity for innovation, continuous improvement of processes and adaptation of environmental codes.

The procurement policy applies to all suppliers of raw materials, materials and services in the Group.

The list of approved vendors includes all procurement providers and we have ensured that they comply with legal and regulatory requirements both in Europe and in the areas in which they operate, with regard to: forced labor, child exploitation, discrimination, the environment, bribery and corruption, unfair competition, etc. Suppliers are visited before they start a collaboration, and periodically are re-evaluated to determine whether they can still meet the set requirements.

### ***Responsible sales policy***

The Group's sales policy is based on a transparent procedure, tailored to a normal and fair competitive environment, designed to sustain sales growth through various economic and non-economic leverage, such as: sales price, gross margin to production cost, profit conditions, transportation conditions, cashing conditions, discount quota etc.

How to use these levers forms distinct chapters of commercial policy for each business line, customer category, or product. At the same time, the Commercial Policy is correlated with the quality standards and contains specific measures and procedures based on the Group Code of Conduct, as well as measures and procedures for the prevention of corruption acts.

The Sales Department of the Group is coordinated by the Commercial Director and follows a simple structure based on both the geographical structure of the market served by the Group and the structure of the Group's portfolio on business lines. Each business line is coordinated by a Business Line Manager, who further coordinates the Regional Managers, with Sales Agents subordinate to them. Each sales agent is assigned a territory of his own, being also informed of the Commercial Policy. All sales of the Group closely follow the Commercial Policy, subject to a hierarchical approval system and with its own elements of substantiation and action either directly on sales. Changes to the fundamental elements of the Commercial Policy, for example the sale price, are reapproved at the appropriate hierarchical level before they are exposed to the market by the sales agents.

Both our clients and our employees will comply with all applicable anti-corruption laws and regulations, and will have a zero tolerance policy for any form of bribery, corruption, and misappropriation. They must carry out all transactions in a transparent manner and accurately reflect them in accounting records and books. The main documents underlying customer transactions, Sales Agreements, are also subject to an internal approval and signature procedure that minimizes the risk of unfair trading.

## 6. Group Management

### Directors` presentation

Teraplast is managed in a unitary system by a Board of Directors composed of five members appointed by the General Meeting of Shareholders by secret vote. The length of service of the Directors is one year and the Directors can be reappointed. At the date of this Report the structure of the Board of Directors is as follows:

#### DOREL GOIA

- Position: Chairman of the Board
- Background area: entrepreneurship
- First elected on the Board of Directors: 2008
- Activity: ACI Cluj SA; Parc SA; Hermes SA

#### LIVIU CIUPE

- Position: Independent Non-executive Director
- Background area: industrial
- First elected on the Board of Directors: 2019
- Activity: Rematinvest Group

#### RĂZVAN LEFTER (RSL Capital Advisors SRL)

- Position: Non-executive Director
- Background area: economy
- First elected on the Board of Directors: 2014
- Activity: RSL Capital Advisors, Conpet Ploiesti (Board of Directors), Mundus Services AD Bulgaria (Board of Directors)

#### MAGDA PALFI

- Position: Non-executive Director
- Background area: Banking
- First elected on the Board of Directors: 2008
- Activity: Raiffeisen Bank (Regional Corporate Director– Cluj Corporate Center), TeraSteel SA (Board of Directors)

#### ALEXANDRU STÂNEAN

- Position: **Executive Director**
- Background area: Business Administration
- First elected on the Board of Directors: 2007
- Activity: TeraPlast SA (Chief Executive Officer)

Members of the Board of Directors are elected at the General Meeting of Shareholders on the basis of shareholders' voting in accordance with legal requirements. Therefore, there are no agreements or understandings to report in this document.

### Members of the executive team

Teraplast's executive management is appointed by the Board of Directors, and at the date of this report it is delegated to the CEO and the CFO. The CEO and CFO manage the everyday activity of the company.

The executive team is comprised of:

#### **Alexandru Stănean – Chief Executive Officer**

Year of Birth: 1982

In office: July 2018 – present

Alexandru Stănean joined the TeraPlast Team in 2007, occupying, over time, different positions within the TeraPlast Group, such as Deputy General Manager, Director of Operations, in charge of external development. In 2008, he was part of the team responsible for TeraPlast's IPO. Currently, Mr. Stănean is Chief Executive Officer of TeraPlast, in his second term.

#### **Ioana Birta – Chief Financial Officer**

Year of birth: 1983

In office: June 2017 – present

Ioana Birta has more than 10 years of experience within Big 4. She is a member of the ACCA (Association of Chartered Certified Accountants) and CAFR (Romanian Chamber of Financial Auditors).

## 7. Corporate Governance

Teraplast has implemented recommendations of the Corporate Governance Code of Bucharest Stock Exchange, setting out governance principles and structures mainly aimed at respecting shareholders' rights as well as at providing them fair treatment. In that sense, the Board of Directors elaborated a Regulation for Organization and Operation, consistent with the CGC principles, thus ensuring the company's transparency and sustainable development. The Regulation for Organization and Operation also sets out the roles corresponding to the Board of Directors, competences and responsibilities of the Board, so as to ensure observance of interests of all the company's shareholders, and not least, equal access of the shareholders, and also of potential investors to relevant information pertaining to the company.

### Governance structures

For continuation of the process of implementing the principles of the Code of Corporate Governance, the General Meeting of September 2019 elected a new Board of Directors made up of five directors, one of whom is independent from other significant shareholders. Enough members have been this way ensured as to guarantee the Board's efficiency to supervise, analyze and evaluate the efficiency of Teraplast's executive management, the Board's main goal as a collective body being to promote and observe the interests of the company's shareholders.

Another step of the implementation process is the essential amendment of the Company's Memorandum of Association, approved by the General Meeting of Shareholders of September 2019, at which time provisions of the Memorandum were made to match regulatory documents specific to the Romanian stock market and also recommendations and principles included in Code of Corporate Governance of Bucharest Stock Exchange.

Moreover, in compliance with CGC recommendations, strict rules have been set within the company on the internal movement and disclosure to third parties of confidential documents and privileged information, a special importance being granted to data and/or information that could influence the evolution of market price of securities issued by Teraplast. In this sense, specific confidentiality agreements were concluded, with the company management and executives as well as with employees who, based on their positions and/or responsibilities, have access to such confidential/privileged information.

**Director**  
**Alexandru Stănean**

**Chief Financial Officer**  
**Ioana Birta**

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders,  
Teraplast S.A.

### Report on the Audit of the Standalone Financial Statements

#### Opinion

1. We have audited the standalone financial statements of Teraplast S.A. (the Company), with registered office in Saratel, Șieu-Măgheruș, DN 15A km 45+500, Bistrița-Năsăud county, identified by the unique tax registration code 3094980, which comprise the statement of financial position as at December 31, 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, including a summary of significant accounting policies and notes to the financial statements.
2. The standalone financial statements as at December 31, 2019 are identified as follows:
  - Net assets/ Equity RON 219.958.543
  - Net profit for the financial year RON 9.669.152
3. In our opinion, the accompanying standalone financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU with subsequent amendments.

#### Basis for Opinion

4. We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and the Council (forth named The "Regulation") and Law 162/2017 ("the Law"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), in accordance with ethical requirements relevant for the audit of the financial statements in Romania including the Regulation and the Law 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

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

Key Audit Matter	How our audit addressed the key audit matter
<p><b>The treatment of the acquisition of Wetterbest SA – the restatement of the investment in subsidiary</b></p> <p>On November 2017 between Teraplast S.A. and Wetterbest S.A.'s minor shareholders (previously called "DEPACO S.R.L.") a bilateral sale-purchase promise was signed for the acquisition of 32% of the company's shares, for the amount of 10 million EUR.</p> <p>On January 2018, Teraplast S.A. obtained control over Wetterbest S.A. and became a major shareholder of the subsidiary.</p> <p>From an accounting perspective, on 31 December 2018, the company recorded this transaction in Teraplast S.A.'s individual financial statements as an increase in the value of the investment in the Wetterbest S.A. subsidiary at the fair value of the promise for the 32% of the shares from the previous shareholders, evaluated at 10 million EUR. In April 2019, the promise for sale-purchase was annulled, at the moment of the signing of the sale-purchase contract for 5 million EUR. The decrease is due to the negotiations which took place between the parties.</p> <p>At this moment, the Company reconsidered the classification of the sale-purchase promise in the financial statements as of 31 December 2018 and realized that it actually represents a forward contract. As a result, the Company restated the presentation of this financial instrument, from investments in subsidiaries to financial instruments, in the stand-alone financial statements. Considering the specificity of this type transaction and the associated risk, we identified this element of the financial statements as a key audit matter.</p> <p>This restatement is presented in Note 30 to the Company's financial statements.</p>	<p>Our audit procedures focused on the accounting of the sale-purchase promise as of December 31, 2018 and on the subsequent accounting treatment of this transaction, resulted from the transactions realized in the financial year 2019.</p> <p>Our audit procedures regarding the Wetterbest S.A. include, amongst other, the following:</p> <ul style="list-style-type: none"> <li>- We read the bilateral sale-purchase promise and the sale-purchase contract as well as other documents related to this acquisition in order to evaluate the Company's decisions as of December 31, 2018;</li> <li>- We involved our IFRS specialists in order to evaluate the compliance with the international accounting standards, among which: IFRS 3, IFRS 9, IFRS 19 and IAS 39;</li> <li>- We evaluated the necessity for restatement of the opening balances in order to correctly reflect the accounting treatment at 31 December 2018.</li> </ul>
<p><b>Recoverability of the investment in Wetterbest S.A.</b></p>	
<p>As presented in Note 17 to the financial statements, starting with 2018, the Company has control over Wetterbest S.A. (previously named "Depaco S.R.L."), an entity in which the Company recorded a change of the value of the investment. The accounting value of the investment cost at 31 December 2019 is 81 million RON, which represents 18% of total assets. The depreciation test over the accounting value of the investment in Wetterbest S.A. is significant for our audit because the evaluation process is complex, it needs significant estimates and judgement and it is based on hypotheses related to the future evolution of this subsidiary.</p>	<p>In order to address this key audit matter, we have performed the following audit procedures:</p> <ul style="list-style-type: none"> <li>- We evaluated the key estimates of the company used to determine the update rate, cash flows, increase rates, the return on sales and capital expenditure.</li> <li>- We evaluated the historical accuracy of the budgets and forecasts performed by management by comparing them with the real performances.</li> <li>- We evaluated the presentation related to the depreciation in the individual financial statements.</li> </ul>

## **Emphasis of Matter**

6. We draw attention to Note 30 to the stand-alone financial statements, which presents the fact that the corresponding figures for 2018 have been restated in order to correct misstatements. Our opinion is not modified with respect to this matter.

## **Other Matters**

7. The financial statements of Teraplast Company for the year ended December 31, 2018, were audited by another auditor who expressed an unmodified opinion on those statements on March 27, 2019.

## **Other information – Administrator’s Report**

8. The administrator is responsible for preparation and presentation of the other information. The other information comprises the Administrator’s report but does not include the separate financial statements and our auditors report thereon.

Our opinion on the financial statements does not cover the other information and, unless otherwise explicitly mentioned in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements for the year ended December, 31, 2019, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

With respect to the Administrator’s report, we read and report if this has been prepared, in all material respects, in accordance with the provisions of Ministry of Public Finance Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU with subsequent amendments.

On the sole basis of the procedures performed within the audit of the financial statements, in our opinion:

- a) the information included in the administrators’ report for the financial year for which the financial statements have been prepared are consistent, in all material respects, with these financial statements;
- b) the administrators’ report has been prepared, in all material respects, in accordance with the provisions of Ministry of Public Finance Order no. 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU.

Moreover, based on our knowledge and understanding concerning the Company and its environment gained during the audit on the standalone financial statements prepared as at December 31, 2019, we are required to report if we have identified a material misstatement of this Administrator’s report. We have nothing to report in this regard.

## **Responsibilities of Management and Those Charged with Governance for the Standalone Financial Statements**

9. Management is responsible for the preparation and fair presentation of the standalone financial statements in accordance with Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
10. In preparing the standalone financial statements, management is responsible for assessing the Company’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 Company or to cease operations, or has no realistic alternative but to do so.
11. Those charged with governance are responsible for overseeing the Company’s financial reporting process.

## Auditor's Responsibilities for the Audit of the Standalone Financial Statements

12. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 financial statements.
13. 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 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
  - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
14. 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.
15. 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.
16. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on Other Legal and Regulatory Requirements

17. We have been appointed by the General Assembly of Shareholders on September 2, 2019 to audit the financial statements of Teraplast S.A. for the financial year ended December 31, 2019. The uninterrupted total duration of our commitment was 1 year, covering the financial year ended December 31, 2019.

We confirm that:

- Our audit opinion is consistent with the additional report submitted to the Audit Committee of the Company that we issued the same date we issued and this report. Also, in conducting our audit, we have retained our independence from the audited entity.
- No non-audit services referred to in Article 5 (1) of EU Regulation No. 537/2014 were provided.

The engagement partner on the audit resulting in this independent auditor's report is Alina Ioana Mirea.

Alina Mirea, Audit Partner

*For signature, please refer to the original Romanian version.*

*Registered in the Electronic Public Register of Financial Auditors and Audit Firms under no. AF 1504*

On behalf of:

### **DELOITTE AUDIT SRL**

*Registered in the Electronic Public Register of Financial Auditors and Audit Firms under no. FA 25*

The Mark Building, 84-98 and 100-102 Calea Grivitei,  
8<sup>th</sup> Floor and 9<sup>th</sup> Floor, District 1  
Bucharest, Romania  
April 28, 2020

**TERAPLAST SA**

**SEPARATE FINANCIAL STATEMENTS**

**Prepared in accordance with  
Minister of Public Finance Order  
no. 2844/2016 approving the accounting regulations compliant with  
the International Financial Reporting Standards,  
as of and for the year ended  
31 DECEMBER 2019**

**TERAPLAST SA****Separate Financial Statements**

Prepared in accordance with Minister of Public Finance Order no. 2844/2016

approving the accounting regulations compliant with the International Financial Reporting Standards

**31 December 2019**

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**TERAPLAST SA**  
**SEPARATE STATEMENT OF COMPREHENSIVE INCOME**  
**for the financial years ended 31 December 2019**

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

Description	Note	Financial year	
		2019	2018
<b>Revenues total –out of which:</b>	<b>4</b>	<b>371,113,282</b>	<b>301,466,783</b>
Revenues from sale of finished products		324,107,838	263,858,865
Revenues from the sale of merchandise		46,574,399	36,382,958
Revenues from service rendering		431,045	1,224,960
Other operating income (including rent)	5	2,004,428	645,262
Changes in inventories of finished goods and work in progress		(469,965)	6,239,075
Raw materials, consumables used and merchandise	6	(258,372,802)	(219,046,622)
Employee benefit expenses	9	(39,154,707)	(30,530,294)
Expenses with impairment adjustments and amortization	8	(18,213,381)	(17,729,088)
Impairment of trade receivable, net	8	(734,803)	(190,517)
Impairment of trade inventory, net	8	1,627,842	(363,081)
Provisions, net	23, 24	(1,052,686)	(140,383)
Losses on disposal of tangible and intangible assets	7	(190,023)	(52,258)
Gains from sale of assets held for sale	16	15,034	185,891
Gains/(Losses) from the fair value measurement of investment properties	16	205,310	(90,224)
Loss at disposal of investment properties	16	(133,370)	-
Other expenses	11	(40,250,227)	(38,023,825)
<b>Operating result</b>		<b>16,178,346</b>	<b>2,370,720</b>
Interest expense, net	10	(5,784,967)	(5,211,894)
Other financial income/ (expense), net	10	118,005	(443,140)
Dividends received	10	88,742	32,888,859
<b>Profit before tax</b>		<b>10,600,126</b>	<b>29,604,545</b>
Income tax expense	12	(930,974)	429,884
<b>Profit for the year</b>		<b>9,669,152</b>	<b>30,034,429</b>
<b>Other comprehensive income</b>			
Other comprehensive income not reclassified to profit or loss in subsequent periods (net of tax)		-	-
Revaluation of fixed assets		-	(856,051)
Impact of deferred tax		-	136,968
<b>Other comprehensive income, net, not reclassified to profit or loss in subsequent periods</b>		<b>-</b>	<b>(719,083)</b>
<b>Total comprehensive income</b>		<b>9,669,152</b>	<b>29,315,346</b>
Average number of shares		1,114,838,813	868,046,555
<b>Basic and diluted net earnings per share</b>		<b>0,0263</b>	<b>0,0346</b>

The separate financial statements were approved by the Board of Directors and authorized for issue according to the Directors' Decision of 28 April 2020.

**Alexandru Stanean**  
CEO

**Ioana Birta**  
CFO

**TERAPLAST SA**  
**STATEMENT OF FINANCIAL POSITION**  
**for the financial years ended 31 December 2019**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

	Note	Financial year ended	
		31 December 2019	31 December 2018
<b>ASSETS</b>			
<b>Non-current assets</b>			<b>(Restated)*</b>
Property, plant and equipment	13	131,170,896	118,250,709
Investment properties	16	16,700,934	17,906,553
Intangible assets	14	903,442	1,232,493
Right of use of the leased assets	15	5,855,668	-
Investments in subsidiaries	17	111,834,865	79,331,275
Other equity investments	17	15,472	15,472
Long-term receivables	19	18,679,424	23,429,315
<b>Total non-current assets</b>		<b>285,160,702</b>	<b>240,165,817</b>
<b>Current assets</b>			
Inventories	18	54,409,831	65,849,277
Trade and other receivables	19	101,006,306	102,185,102
Prepayments		557,602	532,577
Tax on profit to be recovered		439,999	-
Cash and cash equivalents	28	5,669,112	9,774,157
<b>Total current assets</b>		<b>162,082,849</b>	<b>178,341,113</b>
Assets classified as held for sale	16	-	1,865,560
<b>Total assets</b>		<b>447,243,551</b>	<b>420,372,490</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	20	133,780,651	107,024,527
Share premium		27,384,726	27,384,726
Treasury shares	20	(139)	(1,472,925)
Revaluation reserves		13,671,771	13,671,772
Legal reserve		10,481,647	9,919,037
Retained earnings		34,639,887	52,555,218
<b>Total equity</b>		<b>219,958,543</b>	<b>209,082,355</b>
<b>Non-current liabilities</b>			
Loans from banks	21	57,682,317	67,218,258
Lease liabilities	22	3,960,439	764,442
Employee benefit liabilities	23	1,453,762	630,767
Investment subsidies – long-term portion		4,902,235	-
Deferred tax liabilities	12	3,402,166	2,471,192
<b>Total non-current liabilities</b>		<b>71,400,920</b>	<b>71,084,658</b>
<b>Current liabilities</b>			
Trade and other payables	25	71,318,498	80,572,300
Deferred income		-	8,926
Loans from banks	21	81,889,947	58,948,895
Lease liabilities	22	1,652,788	265,121
Investment subsidies - current portion		382,932	-
Provisions	24	639,925	410,234
<b>Total current liabilities</b>		<b>155,884,090</b>	<b>140,205,477</b>
<b>Total liabilities</b>		<b>227,285,009</b>	<b>211,290,135</b>
<b>Total equity and liabilities</b>		<b>447,243,552</b>	<b>420,372,490</b>

\*The comparative information have been restated as discussed in Note 30.

Alexandru Stanean  
CEO

Ioana Birta  
CFO

**TERAPLAST SA**  
**SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**for the financial years ended 31 December 2019**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

2019

	<u>Issued capital</u>	<u>Share premium</u>	<u>Treasury shares (Note 23)</u>	<u>Revaluation reserves</u>	<u>Legal reserve</u>	<u>Retained earnings</u>	<u>Total</u>
<b>Balance as at 1 January 2019</b>	<b><u>107,024,527</u></b>	<b><u>27,384,726</u></b>	<b><u>(1,472,925)</u></b>	<b><u>13,671,772</u></b>	<b><u>9,919,037</u></b>	<b><u>52,555,218</u></b>	<b><u>209,082,355</u></b>
Net result for the period	-	-	-	-	-	9,669,152	9,669,152
<b>Total comprehensive income</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>9,669,152</u></b>	<b><u>9,669,152</u></b>
Set up of legal reserve (Note 24)	-	-	-	-	562,610	(562,610)	-
Share capital increase from retained earnings (Note 23)	26,756,123	-	-	-	-	(26,756,123)	-
Dividends granted	-	-	-	-	-	-	-
Losses related to own shares sale	-	-	-	-	-	(265,750)	(265,750)
Own shares redemption (Note 23)	-	-	1,472,786	-	-	-	1,472,786
<b>Balance as at 31 December 2019</b>	<b><u>133,780,650</u></b>	<b><u>27,384,726</u></b>	<b><u>(139)</u></b>	<b><u>13,671,772</u></b>	<b><u>10,481,647</u></b>	<b><u>34,639,887</u></b>	<b><u>219,958,544</u></b>

As of 31 December 2018 and 31 December 2019, the revaluation reserves include amounts representing the unrealized revaluation surplus related to land and buildings.

TeraPlast did not grant dividends in 2019, not did it propose dividends in 2020, from the profit of 2019 (2018: dividends granted 10,069,404, the equivalent of a dividend of RON 0.0116 per share).

**Alexandru Stanean**  
CEO

**Ioana Birta**  
CFO

**TERAPLAST SA**  
**SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**for the financial years ended 31 December 2019**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

2018

	<u>Issued capital</u>	<u>Share premium</u>	<u>Treasury shares (Note 23)</u>	<u>Revaluation reserves</u>	<u>Legal reserve</u>	<u>Retained earnings</u>	<u>Total</u>
<b>Balance as at 1 January 2018</b>	<b><u>85,691,097</u></b>	<b><u>27,384,726</u></b>	<b><u>(663,396)</u></b>	<b><u>15,631,288</u></b>	<b><u>8,399,015</u></b>	<b><u>54,203,265</u></b>	<b><u>190,645,995</u></b>
Net result for the period	-	-	-	-	-	30,034,429	<b><u>30,034,429</u></b>
Other comprehensive income (Note 13, 15)	-	-	-	(719,083)	-	-	<b><u>(719,083)</u></b>
<b>Total comprehensive income</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>(719,083)</u></b>	<b><u>-</u></b>	<b><u>30,034,429</u></b>	<b><u>29,315,346</u></b>
Set up of legal reserve (Note 24)	-	-	-	-	1,520,022	(1,520,022)	-
Share capital increase from retained earnings (Note 23)	21,333,430	-	-	-	-	(21,333,430)	-
Dividends granted	-	-	-	-	-	(10,069,404)	<b><u>(10,069,404)</u></b>
Losses related to own shares sale	-	-	-	-	-	(53)	<b><u>(53)</u></b>
Own shares redemption (Note 23)	-	-	(809,529)	-	-	-	<b><u>(809,529)</u></b>
Realized revaluation reserve (Note 15)	-	-	-	(1,240,343)	-	1,240,343	-
<b>Balance as at 31 December 2018</b>	<b><u>107,024,527</u></b>	<b><u>27,384,726</u></b>	<b><u>(1,472,925)</u></b>	<b><u>13,671,772</u></b>	<b><u>9,919,037</u></b>	<b><u>52,555,218</u></b>	<b><u>209,082,355</u></b>

Alexandru Stanean  
CEO

Ioana Birta  
CFO

The accompanying notes from 1 la 35 are an integral part of these separate financial statements.  
English translation is for information purposes only. Romanian language text is the official text for submission.

**TERAPLAST SA**  
**SEPARATE CASH FLOW STATEMENT**  
**for the financial years ended 31 December 2019**

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

	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities</b>		
Profit before tax	10,600,127	29,604,545
Interest expense	6,670,959	6,496,993
Interest income	(885,991)	(1,285,099)
Loss from the sale or disposal of fixed assets	308,359	52,258
Trade receivables impairment	734,803	190,517
Inventories impairment	(1,627,842)	363,081
Amortization and depreciation of long-term assets	17,174,798	17,179,141
Adjustment of the value for non-current assets	1,038,583	549,947
Provisions, net	229,691	(231,477)
Loss /(gains) from the measurement of investment property	(205,310)	90,224
Expense with the provisions for the retirement benefits obligations	822,995	371,860
Investment income	(88,742)	(32,888,859)
Adjustments related to liabilities concerning long-term financial investments	-	494,662
<b>Profit before adjustments to working capital</b>	<b>34,772,429</b>	<b>20,987,791</b>
<i>Movements in working capital</i>		
Increase in gross trade and other receivables (before impairment allowance)	(4,558,107)	(17,182,254)
(Increase) Decrease in gross inventories (before impairment allowance)	14,932,848	(6,396,165)
(Decrease)/increase of trade and other payables	(23,103,394)	19,079,667
Interest paid	(6,659,349)	(5,391,835)
Income tax paid	(439,999)	(50,781)
<b>Net cash generated by operating activities</b>	<b>14,944,428</b>	<b>11,046,423</b>
<b>Net cash generated from investment</b>		
Interest received	14,447	124
Dividends received	12,243,903	20,574,756
Payments for acquisition of tangible and intangible assets	(44,652,120)	(19,653,360)
Payments for financial assets, net of purchased cash	(4,867,560)	(7,215,405)
Receipts under State Aid	5,285,168	
Receipts from the sale of tangible assets	203,076	1,436,064
Redemption of own shares, net of option exercising	-	(809,529)
Losses related to SOP	(265,750)	-
<b>Net cash used in investment</b>	<b>(31,940,625)</b>	<b>(5,667,351)</b>
<b>Cash flows from financing activities</b>		
Receipts from loans	21,059,566	10,956,236
Loans (reimbursement)	(20,946,938)	(12,951,499)
Lease payments	(502,348)	(692,902)
Net drawings from credit line	13,280,875	12,587,741
Dividends paid	-	(10,069,404)
<b>Net cash generated from /(used in) finance activities</b>	<b>12,891,154</b>	<b>(169,827)</b>
<b>Net variation of cash</b>	<b>(4,105,045)</b>	<b>5,209,245</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>	<b>28 9,774,157</b>	<b>4,564,912</b>
<b>Cash and cash equivalents at the end of the financial year</b>	<b>28 5,669,112</b>	<b>9,774,157</b>
<b>Alexandru Stanean</b> CEO		<b>Ioana Birta</b> CFO

The accompanying notes from 1 la 35 are an integral part of these separate financial statements.  
English translation is for information purposes only. Romanian language text is the official text for submission.

**TERAPLAST SA**  
**SEPARATE CASH FLOW STATEMENT**  
**for the financial years ended 31 December 2019**

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

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**1. GENERAL INFORMATION**

Teraplast SA (the Company) is a joint-stock company established in 1992. The Company's head office is in the „Teraplast Industrial Park”, DN 15A (Reghin-Bistrita), km 45+500, Bistrita-Nasaud County, Romania.

The Company's main activities include the production of PVC pipes and profiles, plasticized and rigid granules, polypropylene pipes, fittings and the trading of cables, polyethylene pipes, steel parts.

Starting 2 July 2008, Teraplast is listed on the Bucharest Stock Exchange under the symbol TRP.

As at 31 December 2019, TeraPlast SA has the following subsidiaries:

- Terasteel Romania and Terasteel Serbia (manufacturers of sandwich panels and galvanized steel purlins),
- Wetterbest (manufacturer of metal tiles),
- Teraglass (manufacturer of PVC windows and doors),
- Teraplast Recycling (former Teraplast Logistic which, in June 2016 – September 2018, coordinated the logistic operations of the Company; as of October 2018, these operations were re-integrated with the parent) has been operating since April 2019 as a company specialised in recycling following the spin off of the recycling line from Teraplast,
- Teraplast Hungary (distributor),
- Politub (at December 31, 2017, the business of Politub was transferred to Teraplast, becoming the Polyethylene Division)

The Company, operates in five locations and eight factories: Sărățel (Bistrița-Năsăud), Bistrița (Bistrița Năsăud), Băicoi (Prahova), Podari (Dolj) and Leskovac (Serbia).

The Company is preparing consolidated financial statements for Teraplast SA starting with 2007. These financial statements are available on the company's website ([www.teraplast.ro](http://www.teraplast.ro)).

**TERAPLAST SA**  
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**for the financial years ended 31 December 2019**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

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## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **2.1. Statement of compliance**

The Company's financial statements 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").

### **2.2. Basis of accounting**

The financial statements have been prepared on a going concern basis, according to the historical cost convention, as modified below:

- adjusted to the effects of hyperinflation until 31 December 2003 for fixed assets, share capital and reserves,
- measurement at fair value of certain items of fixed assets and investment property, as presented in the Notes.

The accounting policies set out below have been applied consistently to all years presented in these financial statements, unless otherwise stated.

### **2.3. Going concern**

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

As of 31 December 2019, the Company's current assets exceed its current liabilities by RON 15,715,960 (2018: RON 41,291,763). In 2019, the Company recorded profit RON 9,669,152 (2018: RON 30,034,429) and cash flows from operating activities (before changes in working capital) RON 34,772,429 (2018: RON 20,987,791).

The Company relies on the financing banks, as also described in Note 25.

The budget prepared by the Company management and approved by the Board of Directors for 2020 indicates positive cash flows from operating activities, an increase in sales and profitability which contributes directly to improving liquidity and allows the Company to fulfill its contractual clauses with the financing banks. Company management believes that the support from banks is sufficient for the Company 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.

The rapid development of the COVID-19 virus and its social and economic impact in Romania and globally may result in assumptions and estimates requiring revisions which may lead to material adjustments to the carrying value of assets and liabilities within the next financial year. Please see Note 31 for the management assessment of the impact of COVID-19 over the activity of the Company.

**TERAPLAST SA**  
**SEPARATE CASH FLOW STATEMENT**  
**for the financial years ended 31 December 2019**

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

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## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **2.4. Standards, amendments and new interpretations of the 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 2019.

#### **Initial application of new amendments to the existing standards effective for the current reporting period**

The following new standards, amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **IFRS 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement – adopted by the EU on 13 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures – adopted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015 -2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the Company's financial statements, except for IFRS 16, as presented below.

#### **First time adoption of new or revised standards**

##### **Impact of initial application of IFRS 16 Leases**

In the current year, the Company has applied IFRS 16 Leases (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note 3. The impact of the adoption of IFRS 16 on the Company's financial statements is described below.

The Company adopted IFRS 16 initially on 1 January 2019, using the modified retrospective approach.

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

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4. Standards, amendments and new interpretations of the standards (continued)**

**(a) Impact of the new definition of a lease**

The Company elected to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Company did not therefore apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Company applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Company has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Company.

**(b) Impact on Lessee Accounting**

*(i) Former operating leases*

IFRS 16 changed how the Company accounted for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16 for the first time as at January 1, 2019, for all leases (except as noted below), the Company:

- a) Recognises right-of-use assets and lease liabilities in the separate financial statements, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16 C8(b)(ii).
- b) Recognises depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss;
- c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the statement of cash flows.

Lease incentives (e.g. rent free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight line basis.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'other expenses' in profit or loss.

The Company has used the following practical measures, when accounting for leases under IFRS 16:

- The Company has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Company relied on its assessment of whether leases are onerous applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review. As there was no onerous contract provision recognized at December 31, 2018 consequently no impairment allowance was recognized at January 1, 2019.
- The Company has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The Company has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.

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

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- The Company has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

**TERAPLAST SA**  
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**for the financial years ended 31 December 2019**

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

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4. Standards, amendments and new interpretations of the standards (continued)**

*(ii) Former finance leases*

For leases that were classified as finance leases applying IAS 17, the carrying amount of the leased assets and obligations under finance leases measured applying IAS 17 immediately before the date of initial application is reclassified to right-of-use assets and lease liabilities respectively without any adjustments, except in cases where the Company has elected to apply the low-value lease recognition exemption.

The right-of-use asset and the lease liability are accounted for applying IFRS 16 from 1 January 2019.

**(c) Impact on Lessor Accounting**

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. As of December 31, 2019 the Company had no significant financial leases where it acts as a lessor.

**(d) Financial impact of initial application of IFRS 16**

The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 January 2019 is 4.4%.

Finance lease liabilities recognised under IAS 17 at 31 December 2018 were of RON 1,029,563, presented under Lease liabilities in the SOFP.

Operating lease commitments 31 December 2018	6,444,879
Short-term leases and leases of low value	(608,245)
Impact of discounting the above amounts	(787,507)
Finance lease liabilities	1,029,563
<b>Lease liabilities as of 1 January 2019</b>	<b>6,078,690</b>

The Company has recognised RON 6,291,100 of right-of-use assets and RON 6,078,690 of lease liabilities upon transition to IFRS 16. Those right of use assets include previously recognised assets under finance lease that were transferred from PPE, in amount of RON 1,241,973. Those lease liabilities include previous finance lease liabilities, in amount of RON 1,029,563. Consequently, the new assets recognized on previous operating leases amount to RON 5,049,127.

The Company 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.

**Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective**

At the date of authorisation of these financial statements, the following amendments to the existing standards were issued by IASB and adopted by the EU and which are not yet effective:

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Material - adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** - Interest Rate Benchmark Reform - adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020),

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- **Amendments to References to the Conceptual Framework in IFRS Standards** adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

**TERAPLAST SA**  
**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2019**

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

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4. Standards, amendments and new interpretations of the standards (continued)**

**New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU**

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU as at the date of publication of financial statements (the effective dates stated below is for IFRS as issued by IASB):

- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 3 "Business Combinations"** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of 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),
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2022),
- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **Amendments to 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 and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).

The Company anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Company in the period of initial application.

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Company's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to **IAS 39: "Financial Instruments: Recognition and Measurement"** would not significantly impact the financial statements, if applied as at the balance sheet date.

## **2.5. Summary of accounting and valuation principles**

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

### **Cash**

Cash and cash equivalents include liquid assets and other equivalent values, comprising cash at bank, petty cash.

### **Revenue recognition**

#### **Revenues from contracts with customers**

Teraplast SA produces and sells PVC pipes and profiles, plasticized and rigid compounds, polypropylene and polyethylene pipes, fittings, and the trading of cables and, polyethylene pipes, steel parts.

Revenue is measured based on the consideration to which the Company is entitled in contracts with customers. The point of recognition arises when the Company satisfies a performance obligation by transferring control of a promised good or service that is distinct to the customer, which is at a point in time for finished goods and merchandise and over time for services provided.

Revenues from the sale of **goods and merchandise** are recognized at a certain point in time, when the products are delivered to the customers or readily available for the buyer. The payment terms are – in general – between 30 and 90 days from the date of issuing the invoice and delivering the goods. The contracts with the customers for sales of finished goods and merchandise imply one obligation: to deliver the goods at the agreed location (under the agreed incoterms). In rare cases, when the Company's distributors request, the Company enters into bill-and-hold arrangement, for which revenue is recognized when the goods are invoiced and the specific instructions from the clients to store the goods on their behalf for a certain period are received.

If the consideration promised in a contract includes a variable component, the Company 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.

The Company grants volume discounts to certain customers, depending on the objectives set through the contract, which decrease the amount owed by the customer. The Company 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 Company 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.

For certain products, the Company offers the warranties which are required by the law to protect the customers from the risk of acquiring malfunctioning products. The Company assessed that these do not represent a separate performance obligation and are accounted in accordance with IAS 37 (warranty provisions). Furthermore, a law that requires an entity to pay a compensation if its products cause damage or injuries does not represent a performance obligation for the Company either.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Assets and liabilities related to the contract**

When the Company 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 Company recognises the contract as an asset related to the contract, excluding any amounts presented as receivables.

Upon receiving an advance payment from a customer, the Company 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 Company fulfils its execution obligation.

### **Dividend and interest income**

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

The interest income presented on the face of the Statement of Comprehensive Income is similar to interest income and is included in finance income in the statement of profit or loss.

### **Lease**

#### **The Company as lessee**

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term. The Company leases warehouses and property that is used for show rooms and vehicles.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the fixed lease payments and the exercise price of purchase options, if the lessee is reasonably certain to exercise the options, in case of vehicles.

The lease liability is presented under the line "Lease liabilities" in the statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

• A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification. The Company did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and plus any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented as a separate line in the statement of financial position. The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

### **The Company as lessor**

The Company enters into lease agreements as a lessor with respect to some of its investment properties. Leases for which the Company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. As of December 31, 2019, the Company analyzed the terms of the leases where the Company is a lessor and concluded that all are operating leases, as the lease terms do not transfer substantially all the risks and rewards of ownership to the lessee.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. There was no such case for the year ended December 31, 2019.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

When a contract includes lease and non-lease components, the Group applies IFRS 15 to allocate the consideration under the contract to each component.

The Company rents some of its property to the subsidiary, TeraGlass under operating lease. Rent is of a fixed amount, at market price, as determined by an independent valuator.

### **Policies applicable prior to 1 January 2019**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*The Company as a lessee*

Assets held under finance leases are recognised as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

*The Company as a lessor*

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

**Foreign currency transactions**

The Company is operating in Romania and its functional currency is Romanian leu (RON).

For the preparation of the Company'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 those 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 the profit and loss statement.

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

	<b>31 December 2019</b>	<b>31 December 2018</b>
EUR 1	4.7793	4.6639
USD 1	4.2608	4.0736
CHF 1	4.4033	4.1404

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

**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.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

### **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 Company.

The Government grants the main condition of which is that the Company acquire, build or obtain otherwise long-term assets are recognized as deferred income in the statement of financial position and presented as 'investment subsidies'. The deferred income is amortized in the profit and loss statement systematically and reasonably over the useful life of the related assets or at the time the assets acquired from the subsidy are retired or disposed of.

### **Costs related to retirement rights and other long-term employee benefits**

Based on the collective labor contract, the Company is under the obligation to pay retirement benefits to its employees depending on their seniority within the Company, amounting to 2 - 3.5 salaries. The Company also grants jubilee bonuses as a fixed amount on work anniversaries.

The Company uses an external actuary to compute the value of the retirement benefits and jubilees related liability and reviews the value of this liability each year depending on the employees' seniority within the Company. The value of the retirement benefits and jubilees is recognized as a provision in the statement of financial position.

For defined benefit retirement benefit plans, the cost of providing benefits is determined as mentioned above, with actuarial valuations being carried out at the end of each annual reporting period.

Remeasurements comprising actuarial gains and losses, and the return on plan assets (excluding interest) are recognised immediately in the statement of financial position with a charge or credit to other comprehensive income in the period in which they occur. Remeasurements recognised in other comprehensive income are not reclassified. Past service cost is recognised in profit or loss when the plan amendment or curtailment occurs, or when the Company recognises related restructuring costs or termination benefits, if earlier. Gains or losses on settlement of a defined benefit plan are recognised when the settlement occurs. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset. Defined benefit costs are split into three categories:

- service costs, which includes current service cost, past service cost and gains and losses on curtailments and settlements;
- net interest expense or income; and
- remeasurements.

The retirement benefit obligation recognised in the statement of financial position represents the deficit or surplus in the Company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

The adjustments resulting from the annually review of the jubilee provisions are recognized in the profit and loss statement.

The retirement benefits provision is reversed in the profit and loss statement when the Company settles the obligation.

### **Short-term employee benefits**

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service. Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **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 Company'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 for deductible temporary differences as well as tax losses and credits carried forward 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 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 (and this is assumed as applicable for example in case of initial recognition of a lease contract by a lessee). In addition, a deferred tax liability is not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for temporary taxable differences associated with investments in subsidiaries, except for the cases in which the Company 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.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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 Company estimates, as of the balance sheet date, that it will recover or settle the carrying amount of its assets and liabilities.

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 Company intends to offset its deferred tax assets with its deferred tax liabilities on a net basis.

Current tax and deferred tax is recognized as income 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.

### **Tangible assets**

Tangible assets, except for 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 Company 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 revaluated 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 or administrative purposes is registered at historical cost, less impairment. The depreciation of these assets starts when the assets are ready to be used.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

Depreciation is registered so as to decrease the cost or revalued amount of the asset to its residual value other than the land 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.

For the year ended December 31, 2018, the assets held in finance lease were depreciated over the useful life, similarly to assets held or, if the lease period is shorter, during the respective lease contract. For the policy applicable starting with 1 January 2019, please see Lease policy, as presented above.

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 – 6
Installations and furniture	3 –
	1
	0

**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 Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

**Intangible assets**

Intangible assets purchased separately are reported at cost minus accumulated amortization/impairment losses. Intangible assets acquired as part of a business combination are capitalized at fair value as at the date of acquisition.

Following initial recognition, intangible assets, which have finite useful lives, are carried at cost or initial fair value less accumulated amortisation and accumulated 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, and adjusted as necessary, having as effect changes in future accounting estimates.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

	<u>Years</u>
Licenses	1 – 5

### **Impairment of tangible and intangible assets**

The Company 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 Company assesses the recoverable amount of the cash generating unit which the asset belongs to. Where a consistent distribution basis can be identified, the Company assets are also allocated to other separate cash generating units or to the smallest Company 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 time 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **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.

Raw materials are valued at the purchase price including transport, handling costs and net of trade discounts.

Work in progress, semi-finished goods and finished goods are carried at actual cost consisting of direct materials, direct labour and directly attributable production overheads and other costs incurred in bringing them to their existing location and condition using the standard cost method. Standard costs take into account normal levels of consumption of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions.

For the following classes of inventories, the average weighted cost method is used: the raw material for pipes / piping, merchandise, inventory items / small tools, packaging materials, consumables.

Impairment is reconized, where necessary, in all inventory categories for obsolete, slow moving and defective items.

### **Investments in subsidiaries**

Investments in subsidiaries represent shares owned in these entities.

These investments are initially recognized as purchase price and subsequently at purchase cost less accumulated impairment losses. TeraPlast continues to assess the interests held in subsidiaries and associates at cost minus any impairment losses according to IAS 27.

At each financial statements date, the Company assesses whether there are indications of impairment of the investments in subsidiaries. These indications refer to important changes that occurred in the economic environment in which the respective entities operate or to important changes in the evolution of the financial position or, respectively, of the financial performance of the entities in which the Company holds interests.

If there are any indications of impairment, the Company carries out an impairment test and it computes the value of the impairment losses as difference between the recoverable value and the net book value.

Except for the assets the value of which will be recovered through a sale transaction rather than by use, for all the impairment tests carried out, the recoverable value was based on the value of use. Its measurement requires different estimates and hypothesis, depending on the nature of the activity, such as the discount rates, the increase rates, the gross margins.

The impairment loss resulted from the impairment tests represents an expense of the current year and it is recognized in profit and loss.

### **Acquisition of activities from controlled entities**

When the Company acquires activities / lines of business from controlled entities, it records the assets and liabilities undertaken at the carrying amount in the Company financial statements, and the difference between the value of the net assets undertaken and the price agreed between the parties for the transfer is charged directly in Equity.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Share capital**

Common shares are classified in equity.

At the repurchase of the Company shares the paid amount will decrease equity belonging to the holders of the company's equity, through retained earnings, until they are cancelled 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 Company's equity.

### **Dividends**

Dividends related to ordinary shares are recognized as liability to the shareholders in the financial statements in the period in which they are approved by the Company shareholders. Interim dividends on ordinary shares are recognized when they are paid.

### **Provisions**

Provisions are recognized when the Company 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 Company 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.

### **Segment reporting**

The Company's accounting policy for identifying segments is based on internal management reporting information that is routinely reviewed by the Board of Directors and management. The measurement policies used for the segment reporting under IFRS 8 are the same as those used in the financial statements. Segment results that are reported to the directors and management include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The Company has determined that it has three operating segments: Installations (systems for sewage, water and gas), Joinery Profiles and Compounds.

The Company also does corporate centre activities for its subsidiaries.

Each segment includes similar products, with similar production processes, with similar distribution and supply channels.

Installations and Profiles are both produced through extrusion of plastic, but the sales channels and process is different. Installations for infrastructure projects are sold to contractors and installations for residential buildings are sold through a distribution network. Joinery profiles are sold to PVC windows and doors producers.

### **Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### **(a) Financial assets**

#### **Initial recognition and measurement**

The Company's financial assets include cash and cash equivalents, trade receivables and long-term investments.

A financial asset is classified as measured at amortized cost or fair value with any movement being reflected through other comprehensive income or through profit and loss.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section 2.5.2 Revenues from contracts with customers.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment by-investment basis.

### **Subsequent measurement**

For purposes of subsequent measurement, the Company's financial assets are classified in three categories:

- Financial assets at amortized cost (debt instruments). The Company's financial assets at amortized cost includes trade receivables and long term receivable.
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets at fair value through profit or loss

Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments).

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

Financial liabilities include finance lease liabilities, interest bearing bank loans, overdrafts and trade and other payables.

Two measurement categories continue to exist, fair value through the income statement and amortized cost. Financial liabilities held for trading are measured at fair value through the income statement, and all other financial liabilities are measured at amortized cost unless the fair value option is applied.

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. Distributions to the holders of financial instruments classified as equity are registered directly in equity. Financial instruments are offset when the Company 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.

### **Impairment of financial assets**

The Company recognises a loss allowance for expected credit losses on trade receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

For trade receivables, a simplified approach is adopted in which impairment losses are recognized based on lifetime expected credit losses at each reporting date. If there are loan insurances or guarantees for the outstanding 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 outstanding balance, while the amount remaining not covered will have the counterparty's probability of

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default. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Significant increase in credit risk

Clients' credit risk is updated constantly. In assessing the IFRS 9 allowance, the Company uses the risk of a default occurring on the financial instrument at the reporting date.

In making the credit risk assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing the credit risk deterioration of debtors:

- an actual or expected significant deterioration in the financial instrument's external (KeysFin and Coface) or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an evaluation of the main projects and clients of the debtor and the sources of financing those projects.

For trade receivables the Company is using the simplified model allowed by IFRS 9 which does not differentiate between Stage 1 and Stage 2. Credit losses are measured based on provision matrix.

A financial instrument is determined to have low credit risk if:

1. the financial instrument has a low risk of default;
2. the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and
3. adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Company considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

### Definition of default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a payment incident reported; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company).

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Any recoveries made to doubtful receivables are recognised in profit or loss, together with the reversal of the allowance.

### Write-off policy

The Company writes off a financial asset when bankruptcy was finalized, as at this point the VAT on these receivables can be recovered. Financial assets written off may no longer be subject to enforcement activities.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default is based on the risk rating of each client obtained from independent parties, adjusted, if the case with forward-looking information as described above.

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

The Company recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance accounts.

### **Derecognition of assets and liabilities**

The Company 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 Company derecognizes financial liabilities only if the Company's liabilities have been significantly modified, paid, cancelled or they have expired.

The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss. Similarly, the Company accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification is recognised in profit or loss as the modification gain or loss within other gains and losses.

### **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 i).

The fair value of the freehold land was determined based on the market comparable approach that reflects recent transaction prices for similar properties.

The fair value of the buildings was determined using the cost approach that reflects the cost to a market participant to construct assets of comparable utility and age, adjusted for obsolescence.

The fair value of the investment property was determined based on the market comparable approach that reflects recent transaction prices for similar properties.

There has been no change to the valuation technique during the year for none of the above mentioned classes of assets. There were no transfers between Level 1, Level 2 or Level 3 during the year.

For all of the above, the level in which fair value measurement is categorised is Level 2.

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.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

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, Company'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 Company's accounting policies.

Company'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 Company 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.

### **Use of estimates**

The preparation of the 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**

#### **Judgments**

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

#### **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 Company 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 Company for each cash generating unit for impairment measuring purposes was represented by its value in use.

The Company analyzed the internal and external sources of information and reached the conclusion that there are no indications concerning the impairment of assets, except for goodwill related to the roof tiles business. When reviewing for indicators of impairment, the Company considers, among other factors:

- The relationship between its market capitalization and its book value
- The operating performance, for which the Company used EBITDA as KPI, improved to 9,5% compared to 6,7% in the prior year, while revenue increased on all business lines, through organic growth
- Utilization of production capacity increased on all CGUs

As a result, the Company 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.

#### **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 Company based its assumptions and estimates on parameters available when the separate financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

#### **Revaluation of property, plant and equipment and investment properties**

The Company carries its investment properties at fair value, with changes in fair value being recognized in the statement of profit or loss.

The Company measures land and buildings at revalued amounts with changes in fair value being recognized in other comprehensive income.

Investment property 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. As of 31 December 2019, based on internal assessment and opinion of the external valuation expert, management concluded that the accounting value of land and buildings approximates their market value and therefore a revaluation was deemed unnecessary.

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**4. REVENUE AND OPERATING SEGMENTS**

An analysis of the Company revenues from contracts with customers is detailed below:

	<b>Year ended 31 December 2019</b>	<b>Year ended 31 December 2018</b>
Sales from own production	328,095,213	267,429,927
Income from sale of goods	46,574,399	36,382,958
Revenues from other activities	431,045	20,262
Rent income	-	1,204,698
Commercial discounts granted	(3,987,375)	(3,571,061)
<b>Total</b>	<b><u>371,113,282</u></b>	<b><u>301,466,783</u></b>

As of December 31, 2018 the Rent income has been presented in the Revenues line. As of December 31, 2019 the Rental income is presented in the Other operating income line – please see Note 5.

**Geographical analysis**

	<b>Year ended 31 December 2019</b>	<b>Year ended 31 December 2018</b>
Sales on the internal market (Romania)	344,669,663	276,503,435
Sales on the foreign market	26,443,619	24,963,348
<b>Total</b>	<b><u>371,113,282</u></b>	<b><u>301,466,783</u></b>

The information on the operational policy as reported to those responsible for the operating policy from the perspective of resource allocation and segment performance analysis is classified according to the type of products delivered. The reporting segments of the Company 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.

The product portfolio of the TeraPlast is structured on three business lines: **Installations, PVC joinery profiles and Compounds.**

On the construction materials market, the seasonality influences the monthly evolution of the sales. Therefore, the peak in our activity consists of approximately 6 months (May – October).

The Company's distribution policy targets specialised clients in the constructions sector through the following channels:

- Distributors and resellers (domestic and exports)
- Specialised networks (DIY stores – domestic and exports)
- Contractors and builders (infrastructure projects auctions)
- Producers (domestic and exports)

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#### **4. REVENUE AND OPERATING SEGMENTS (continued)**

##### **Installations**

The Installations business line includes the interior and exterior sewage systems, water & gas distribution systems, rain and wastewater management systems, telecommunications, electric networks, individual utilities branches.

TeraPlast is the leader of the PVC pipes market and the second player on the installations market in Romania.

From its local top-producer position the company has an advantage in contracting the infrastructure works in Romania compared to the foreign competitors.

According to the sustainable development strategy "Romania 2025", the total value of the investments needed for the rehabilitation of the public services of water and sewage infrastructure is EUR 12,5 billion, while the annual medium of the necessary investments is EUR 625 million. As for the population connected to the water and sewage systems, in 2017 in Romania only 50,8% of the residents were connected to a sewage system, while 49,4% were connected to sewage systems with treatment stations. EUR 11 billion were allotted for the Large Infrastructure Operational Program between 2014 and 2020.

So far, EUR 2,3 billion in payments and EUR 9,7 billion in signed contracts were used.

Taking this into consideration, an increase of the demand during the next 2 years, due to the execution phase of these projects.

##### **PVC joinery Profiles**

TeraPlast, through its PVC joinery profiles business line, offers systems with 4, 6 and 7 insulating chambers. The PVC joinery profiles portfolio are constantly improved to meet the domestic and international clients' needs.

The joinery profiles business line serves over 200 clients, producers of insulated openings. On the domestic market, the best-seller is the 4 insulating chambers system, while on the international markets the demand targets the 6 and 7 insulating chambers systems.

##### **Compounds**

With an over 34% market share, TeraPlast is the leader of the compounds market in Romania and the main supplier of PVC compounds for the cable industry in Romania. The compounds portfolio includes flexible and rigid compounds with appliance in the extrusion and injection manufacturing industry.

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**4. REVENUE AND OPERATING SEGMENTS (continued)**

The reporting segments of the Company are aggregated according to the main types of activities and are presented below:

Year ended 31 December 2019	Installations	Joinery profiles	Compounds	Non- allocated amounts	Total
<b>Total revenues</b>	<b>250,896,980</b>	<b>55,991,364</b>	<b>64,224,938</b>	-	<b>371,113,282</b>
Sales, general and administrative expenses	(238,363,143)	(58,092,397)	(58,479,396)	-	(354,934,936)
<b>Operating result</b>	<b>12,533,837</b>	<b>(2,101,033)</b>	<b>5,745,542</b>	-	<b>16,178,346</b>
Financial result	(3,756,330)	(917,753)	(904,137)	-	(5,578,220)
<b>Profit before tax</b>	<b>8,777,506</b>	<b>(3,018,786)</b>	<b>4,841,405</b>	-	<b>10,600,126</b>
<b>Operating assets</b>	<b>194,720,182</b>	<b>49,895,510</b>	<b>51,224,979</b>	<b>151,402,881</b>	<b>447,243,551</b>
Non-current assets	89,283,547	21,572,403	22,901,871	151,402,881	285,160,702
Current assets	105,436,635	28,323,107	28,323,107	-	162,082,849
<b>Operating liabilities</b>	<b>103,916,901</b>	<b>25,208,697</b>	<b>24,163,750</b>	<b>73,995,661</b>	<b>227,285,009</b>
Long-term liabilities	17,617,586	2,116,154	3,776,023	47,891,156	71,400,920
Current liabilities	86,299,315	23,092,543	20,387,726	26,104,505	155,884,090
Fixed assets additions	31,134,953	4,206,018	7,783,519	-	44,962,764

Year ended 31 December 2018	Installations	Joinery profiles	Compounds	Non- allocated amounts	Total
<b>Total revenues</b>	<b>185,686,076</b>	<b>52,554,144</b>	<b>63,226,562</b>	-	<b>301,466,783</b>
Sales, general and administrative expenses	(187,773,645)	(53,820,465)	(57,501,953)	-	(299,096,063)
<b>Operating result</b>	<b>(2,087,569)</b>	<b>(1,266,321)</b>	<b>5,724,609</b>	-	<b>2,370,720</b>
Financial result	(1,733,703)	(876,027)	(674,584)	32,888,859	29,604,545
<b>(Loss)/ Profit before tax</b>	<b>(3,821,272)</b>	<b>(2,142,348)</b>	<b>5,050,025</b>	<b>32,888,859</b>	<b>31,975,265</b>
<b>Operating assets</b>	<b>193,684,601</b>	<b>66,217,200</b>	<b>19,389,230</b>	<b>171,078,469</b>	<b>469,695,771</b>
Non-current assets	70,258,447	34,066,794	15,155,042	169,212,909	288,693,192
Current assets	123,426,155	32,150,406	23,560,459	-	179,137,019
Non-current assets	-	-	-	1,865,560	1,865,560
<b>Operating liabilities</b>	<b>103,791,342</b>	<b>31,028,762</b>	<b>19,389,230</b>	<b>106,404,081</b>	<b>260,613,415</b>
Long-term liabilities	13,847,674	8,369,876	2,581,214	96,103,835	120,902,599
Current liabilities	89,943,668	22,658,886	16,808,015	10,300,246	139,710,815

The non-allocated non-current assets relate to investment properties, investments in subsidiaries and other financial assets, which include the long-term portion of the loan granted by Teraplast to Terasteel Serbia. The non-allocated current assets relate to the short-term portion of the loan granted by Teraplast to Terasteel Serbia and the short-term loan granted by Teraplast to Teraplast Hungaria Kft. The non-allocated liabilities relate to the bank loans contracted by Teraplast for the shareholdings in Wetterbest and Politub and the financing of Terasteel Doo.

The unallocated finance income of RON 32,888,859 is the income from dividends.

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**5. OTHER OPERATING INCOME**

**The Group as a lessor**

**Disclosure required by IFRS 16**

Operating leases, in which the Company is the lessor, relate to investment property owned by the Company with lease terms of between 1 to 7 years, with one year extension option. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

The unguaranteed residual values do not represent a significant risk for the Company, as they relate to property which is located in a location with a constant value over the last years. The Company did not identify any indications that this situation will change.

Property rental income earned during the year 2019 was 1,582,696 RON.

Maturity analysis of operating lease receipts:	<b>Year ended 31 December 2019</b>	
<b>Rental income:</b>	<b>Year ended 31 December 2019</b>	<b>RON</b>
Operating lease rental income	1,582,696	1,238,403
Year 1		
Year 2	1,582,696	1,212,595
Year 3		1,212,595
Year 4		-
Year 5		1,212,595
Year 6 and onwards		972,815
<b>Total</b>	<b>6,981,695</b>	<b>6,981,695</b>

**Disclosure required by IAS 17**

As set out in Note 5, property rental income earned during the year 2018 was 1,204,698 RON.

All of the properties held have committed tenants for the next 7 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

At the reporting date, the Group had contracted with tenants for the following future minimum lease receipts:

	<b>Year ended 31 December 2018</b>
Within one year	820,765
In the second to fifth years inclusive	3,182,320
After five years	683,931

As at 31.12.2018, the rental contracts with Teraplast Logistics and Terasteel SA, amounting to RON528,018, had been finalized.

**6. RAW MATERIALS, CONSUMABLES USED AND MERCHANDISE**

	<b>Year ended 31 December 2019</b>	<b>Year ended 31 December 2018</b>
Raw material expenses	(207,214,699)	(176,017,728)

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Consumable expenses	(14,208,183)	(12,375,129)
Commodity expenses	(35,976,523)	(29,748,013)
Consumed packaging	(973,397)	(905,752)
<b>Total</b>	<b><u>(258,372,802)</u></b>	<b><u>(219,046,622)</u></b>

**7. GAINS AND LOSSES FROM THE DERECOGNITION OF ASSETS**

	<b>Year ended 31 December 2019</b>	<b>Year ended 31 December 2018</b>
Income from the sale of assets	25,177,077	1,436,064
Net book value of derecognized assets (Note 15)	<u>(25,367,100)</u>	<u>(1,488,322)</u>
<b>Total</b>	<b><u>(190,023)</u></b>	<b><u>(52,258)</u></b>

In 2019, TeraPlast SA transferred the equipment used for production of recycled PVC to its subsidiary, TeraPlast Recycling. The assets were sold at the fair value determined by an independent valuator.

**8. IMPAIRMENT AND AMORTIZATION**

	<b>Year ended 31 December 2019</b>	<b>Year ended 31 December 2018</b>
<b>Receivables impairment</b>		
Receivables charged to expenses (IFRS 9)	782,233	590,814
Expenses with allowance for doubtful debts (IFRS 9)	823,657	731,246
Income from impairment reversal (IFRS 9)	<u>(871,087)</u>	<u>(1,131,542)</u>
<b>Net adjustments for doubtful debts</b>	<b><u>734,803</u></b>	<b><u>190,517</u></b>
<b>Allowance for inventories</b>		
Inventory impairment expenses (IAS 36)	3,855,111	4,462,779
Income from inventory impairment reversal (IAS 36)	<u>(5,482,953)</u>	<u>(4,099,699)</u>
<b>Net adjustments for inventory impairment</b>	<b><u>(1,627,842)</u></b>	<b><u>363,081</u></b>

Expenses with non-current assets impairment (IAS 36)	(1,038,583)	(549,947)
Amortization and depreciation expenses (Notes 12 and 13) (IAS 36)	<u>(17,174,798)</u>	<u>(17,179,141)</u>
<b>Net adjustments for non-current assets impairment</b>	<b><u>(18,213,381)</u></b>	<b><u>(17,729,088)</u></b>

**Impairment of non-current assets**

The Company sets up impairment allowances for equipment that will no longer be used because it is damaged or obsolete. When this equipment is scrapped, recycled or sold, the impairment allowance is reversed.

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Most of the allowance refers equipment that is part of the extrusion production lines for joinery profiles and installations. Given the nature of the production process of these 2 segments, some parts become damaged before the end of their economic useful life.

**Inventory impairment**

Allowance are set up for inventory that was not used or sold during the last 12 months, finished goods for which the demand is decreasing, that are damaged or have quality issues. The cost of finished goods on stock as at quarter end is also compared to the expected selling price and an allowance is set up, if necessary, to adjust the cost to the lower net realizable value.

The net reversal is because the Company obtained a value higher than expected for the finished goods that remained on stock from product Company that were discontinued in prior 2017 – 2018, namely window seals, PVC decoration elements and PVC rainwater system elements.

**9. EMPLOYEE BENEFIT EXPENSES AND REMUNERATION OF THE BOARD OF DIRECTORS**

	<b>Year ended 31 December 2019</b>	<b>Year ended 31 December 2018</b>
	<b>RON</b>	<b>RON</b>
Wages	(35,986,056)	(28,089,279)
Contributions to the public social security fund	(873,166)	(629,996)
Social aid within the limit of 5% of the salary fund	(552,185)	(369,079)
Meal tickets	<u>(1,743,300)</u>	<u>(1,441,940)</u>
<b>Total, as presented on line "Employee benefit expenses"</b>	<b><u>(39,154,707)</u></b>	<b><u>(30,530,294)</u></b>

In 2019, the employees and managers of the Company that were awarded free shares of TeraPlast SA, were transferred the property of these shares. As a result, treasury shares of 1,472,925 lei were derecognized.

The cost of the shares was expensed in 2017 and 2018 under Wages, as these were the periods in which the respective employees were granted the bonus in shares.

**Remuneration of the Board of Directors**

The Chairman and the Members of the Board have a monthly gross salary of RON 8,443. The total remuneration in 2019 and 2018 was of RON 506,580 per year.

They do not receive any other benefits.

**10. FINANCIAL COSTS AND INCOME**

<b>Year ended 31 December</b>	<b>Year ended 31 December</b>
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	<u>2019</u>	<u>2018</u>
<b>Financial costs</b>		
Interest expense	(6,670,959)	(6,496,993)
Expenses with exchange rate differences	(1,432,142)	(1,115,946)
Other financial expenses	(27,477)	(494,662)
<b>Total</b>	<b><u>(8,130,578)</u></b>	<b><u>(8,107,601)</u></b>

Other financial expenses represent the discounting, by applying a specific index, of the liability Teraplast committed to pay to the minor shareholders of Wetterbest within the bilateral Promise in November 2017. As disclosed in Note 30, the underlying liability was restated. No restatement performed on P&L.

	<u>Year ended 31 December 2019</u>	<u>Year ended 31 December 2018</u>
<b>Financial Income</b>		
Interest Income	885,991	1,285,099
Income from exchange rate differences	1,576,865	1,115,366
Dividend income	88,742	32,888,859
Other	760	52,101
<b>Total</b>	<b><u>2,552,358</u></b>	<b><u>35,341,426</u></b>
<b>Financial result</b>	<b><u>(5,578,220)</u></b>	<b><u>27,233,825</u></b>

Dividend income include dividends received from Terasteel amounting to RON nil (2018: RON 32,813,658) and from CERTIND in amount RON 88,742 (2018: RON 75,200).

Out of the dividends received from TeraSteel in 2018, the receipt of RON 12,243,903 was in 2019.

**11. OTHER OPERATING EXPENSES**

	<u>Year ended 31 December 2019</u>	<u>Year ended 31 December 2018</u>
Transport costs	15,232,874	13,173,735
Expenses with utilities	10,435,290	8,040,177
Expenses with third party services	7,034,397	8,422,523
Expenses with compensations, fines and penalties	8,663	1,788
Entertainment, promotion and advertising expenses	1,448,384	1,635,253
Expenses with other taxes and duties	1,015,353	1,163,105
Repair expenses	1,916,566	1,399,238
Travelling expenses	683,470	437,198
Rent expenses	352,421	1,303,513
Mail and telecommunication expenses	340,013	331,447
Insurance premium expenses	1,128,856	1,023,790
Expenses with sponsorship, donations	215,585	386,052
Other general expenses	438,355	706,006
<b>Total</b>	<b><u>40,250,227</u></b>	<b><u>38,023,825</u></b>

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**12. INCOME TAX**

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

	<b>2019</b>	<b>2018</b>
<b>Profit before tax</b>	<b>10,600,126</b>	<b>29,604,544</b>
Income tax calculated (16%)	1,696,020	4,736,727
Deduction for dividends income not taxable	(14,199)	(5,262,217)
Non-deductible expenses	45,059	95,606
Credit from tax loss used	(795,906)	-
<b>Total income tax</b>	<b>930,974</b>	<b>(429,884)</b>
<b>Deferred income tax – expense/ (benefit)</b>	<b>930,974</b>	<b>(429,884)</b>

**The components of the net deferred tax liabilities**

<b>2019</b>	<b>Opening balance</b>	<b>Recorded in the income statement</b>	<b>Closing balance</b>	
Tangible and intangible assets and investment properties	(3,059,036 )	518,211	(2,540,825 )	
Reserve from Politub business transfer	(464,453)		(464,453)	
Fiscal loss	795,906	(1,583,043)	(787,137)	
<b>Deferred tax liabilities recognized</b>	<b>(2,727,583 )</b>	<b>(1,064,832)</b>	<b>(3,792,415 )</b>	
Employee benefit liabilities	100,923	131,679	232,602	
Trade and similar payables	155,468	2,179	157,647	
<b>Deferred tax assets recognized</b>	<b>256,391</b>	<b>133,858</b>	<b>390,249</b>	
<b>Net liabilities with deferred tax recognized</b>	<b>(2,471,192 )</b>	<b>(930,974)</b>	<b>(3,402,166 )</b>	
<b>2018</b>	<b>Opening balance</b>	<b>Recorded in the income statement</b>	<b>Registered in other comprehensive income</b>	<b>Closing balance</b>
Tangible and intangible assets and investment properties	(2,931,357 )	(127,679)	136,968	(3,059,036 )
Reserve from Politub business transfer	(464,453)			(464,453)
<b>Deferred tax liabilities recognized</b>	<b>(3,395,810 )</b>	<b>(127,679)</b>	<b>136,968</b>	<b>(3,523,489 )</b>
Investments in subsidiaries	392,000	(392,000)		0
Employee benefit liabilities	41,425	59,498		100,923
Trade and similar payables	61,309	94,159		155,468
Fiscal loss		795,906		795,906
<b>Deferred tax assets recognized</b>	<b>494,734</b>	<b>557,563</b>		<b>1,052,297</b>
<b>Net liabilities with deferred tax recognized</b>	<b>(2,901,076 )</b>	<b>429,884</b>	<b>136,968</b>	<b>(2,471,192 )</b>

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**13. PROPERTY AND EQUIPMENT**

	Land	Buildings	Tools and equipment	Installations and furniture	Tangible assets in progress	Total
<b>COST</b>						
<b>Balance as at 1 January 2019</b>	<b>6,939,873</b>	<b>52,912,333</b>	<b>171,593,584</b>	<b>1,366,339</b>	<b>8,636,490</b>	<b>241,448,889</b>
Increases	319,356	-	3,355,370	-	41,288,038	44,962,764
Out of which:						
Increases from the internal production of non-current assets	-	-	-	-	1,549,229	<b>1,549,229</b>
Transfers in/from non-current assets in progress	-	4,165,154	38,215,070	394,668	(42,440,560)	<b>334,332</b>
Transfers IFRS 16 right of use	-	-	(2,834,253)	-	-	<b>(2,834,253)</b>
Transfers to Teraplast Recycling	-	(671,502)	(12,879,463)	(23,247)	(1,938,629)	<b>(15,512,841)</b>
Disposals and other decreases	-	-	(1,336,521)	(11,604)	-	<b>(1,348,124)</b>
<b>Balance as at 31 December 2019</b>	<b>7,259,229</b>	<b>56,405,984</b>	<b>196,114,586</b>	<b>1,726,156</b>	<b>5,545,340</b>	<b>267,051,295</b>
<b>ACCUMULATED DEPRECIATION</b>						
<b>Balance as at 1 January 2019</b>	<b>691</b>	<b>4,322,421</b>	<b>116,735,866</b>	<b>947,951</b>	<b>1,191,250</b>	<b>123,198,180</b>
Depreciation recorded during the year (Note 9)	346	2,455,022	12,569,318	128,703	-	<b>15,153,388</b>
Transfers to Teraplast Recycling	-	(35,058)	(1,829,447)	(3,632)	-	<b>(1,868,137)</b>
Transfers IFRS 16 right of use	-	-	(559,764)	-	-	<b>(559,764)</b>
Disposals and other decreases	-	-	(814,621)	(11,410)	-	<b>(826,031)</b>
Impairment (Note 9)	-	(31,997)	750,307	-	63,926	<b>782,235</b>
<b>Balance as at 31 December 2019</b>	<b>1,037</b>	<b>6,710,916</b>	<b>126,851,659</b>	<b>1,061,611</b>	<b>1,255,176</b>	<b>135,880,399</b>
<b>Net carrying amount as at 1 January 2019</b>	<b>6,939,181</b>	<b>48,589,911</b>	<b>54,857,988</b>	<b>418,388</b>	<b>7,445,240</b>	<b>118,250,709</b>
<b>Net carrying amount as at 31 December 2019</b>	<b>7,258,192</b>	<b>49,695,068</b>	<b>69,262,927</b>	<b>664,545</b>	<b>4,290,164</b>	<b>131,170,896</b>

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**13. PROPERTY, PLANT AND EQUIPMENT (continued)**

	Land	Buildings	Tools and equipment	Installations and furniture	Tangible assets in progress	Total
<b>COST</b>						
<b>Balance as at 1 January 2018</b>	<b>8,599,553</b>	<b>54,778,961</b>	<b>173,486,479</b>	<b>1,387,372</b>	<b>4,506,536</b>	<b>242,758,902</b>
Increases	-	-	987,529	-	13,935,314	<b>14,922,842</b>
<i>Out of which: Increases from the internal production of non-current assets</i>	-	-	-	-	1,018,220	<b>1,018,220</b>
Transfers in/from non-current assets in progress	-	770,670	8,896,598	127,408	(9,805,360)	<b>(10,684)</b>
Transfers in/from other fixed assets classes	-	-	-	-	-	-
Transfers from inventory items	-	-	49,884	-	-	<b>49,884</b>
Valuation decrease prior to the classification as assets held for sale, with an impact in reserves	(522,189)	(333,862)	-	-	-	<b>(856,051)</b>
Transfers from investment property (Note 16)	599,425	622,201	-	-	-	<b>1,221,626</b>
Transfers to assets held for sale (Note 17)	(1,137,491)	(826,853)	-	-	-	<b>(1,964,344)</b>
Disposals and other decreases (Note 8)	(599,425)	(2,098,785)	(11,826,635)	(148,441)	-	<b>(14,673,286)</b>
<b>Balance as at 31 December 2018</b>	<b>6,940,401</b>	<b>52,912,333</b>	<b>171,593,584</b>	<b>1,366,339</b>	<b>8,636,490</b>	<b>241,448,889</b>
<b>ACCUMULATED DEPRECIATION</b>						
<b>Balance as at 1 January 2018</b>	<b>346</b>	<b>3,426,060</b>	<b>113,881,489</b>	<b>918,273</b>	<b>964,893</b>	<b>119,191,062</b>
Depreciation recorded during the year (Note 9)	346	2,589,887	13,966,780	134,022	-	<b>16,691,035</b>
Transfers from inventory items	-	-	49,884	-	-	<b>49,884</b>
Disposals and other decreases (Note 8)	-	(1,441,218)	(11,639,401)	(104,344)	-	<b>(13,184,964)</b>
Impairment (Note 9)	-	(153,253)	477,114	-	226,357	<b>549,947</b>
<b>Balance as at 31 December 2018</b>	<b>691</b>	<b>4,322,421</b>	<b>116,735,866</b>	<b>947,951</b>	<b>1,191,250</b>	<b>123,198,180</b>
<b>Net carrying amount as at 1 January 2018</b>	<b>8,599,208</b>	<b>51,352,901</b>	<b>59,604,989</b>	<b>469,099</b>	<b>3,541,643</b>	<b>123,567,840</b>
<b>Net carrying amount as at 31 December 2018</b>	<b>6,939,181</b>	<b>48,589,911</b>	<b>54,857,988</b>	<b>418,388</b>	<b>7,445,240</b>	<b>118,250,709</b>

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**13. PROPERTY, PLANT AND EQUIPMENT (continued)**

As at 31 December 2019, the Company had pledged in favor of financial institutions non-current assets and investment properties with a net carrying amount RON 77,420,197 (31 December 2018: RON 56,463,119).

The land and buildings were revalued as at 31 December 2016. The Company 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 2018 and 2019, the management analyzed, with the assistance of an authorizer 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 Company land and buildings.

Land and buildings were revalued as of 31 December 2016. Company management has determined that they are only one class of assets for fair value revaluation purposes according to IFRS 13. This analysis took into account the associated characteristics and risks of the revalued properties.

Presentation of the historical cost values that would have been recorded in connection with these assets, in the event that they would have been recognized had the assets been carried under the cost model, is not possible due to technical limitations of the accounting system. The company considers that the costs that would be incurred with obtaining this information exceed the expected benefits to users of the financial statements. Thus, the presentation of the historical cost values is not presented.

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**14. INTANGIBLE ASSETS**

	<b>Licenses</b>	<b>Intangible assets in progress</b>	<b>Total</b>
<b>Cost</b>			
<b>Balance as at 1 January 2019</b>	<b>5,296,256</b>	<b>290,507</b>	<b>5,586,762</b>
Increases, out of which	217,138	597,954	815,092
Transfers	391,800	(726,132)	(334,332)
Disposals and other decreases	-	-	-
<b>Balance as at 31 December 2019</b>	<b>5,905,194</b>	<b>162,328</b>	<b>6,067,523</b>
<b>Accumulated amortization</b>			
<b>Balance as at 1 January 2019</b>	<b>4,354,270</b>	-	<b>4,354,270</b>
Amortization expense	553,464	-	553,464
Impairment expense	256,347	-	256,347
<b>Balance as at 31 December 2019</b>	<b>5,164,081</b>	-	<b>5,164,081</b>
<b>Net carrying amount as at 1 January 2019</b>	<b>941,986</b>	<b>290,507</b>	<b>1,232,493</b>
<b>Net carrying amount as at 31 December 2019</b>	<b>741,114</b>	<b>162,328</b>	<b>903,442</b>

	<b>Licenses</b>	<b>Intangible assets in progress</b>	<b>Total</b>
<b>Cost</b>			
<b>Balance as at 1 January 2018</b>	<b>4,979,745</b>	-	<b>4,979,745</b>
Increases	296,431	309,134	605,566
Transfers	29,312	(18,628)	10,684
Disposals and other decreases	(9,232)	-	(9,232)
<b>Balance as at 31 December 2018</b>	<b>5,296,256</b>	<b>290,507</b>	<b>5,586,762</b>
<b>Accumulated amortization</b>			
<b>Balance as at 1 January 2018</b>	<b>3,875,339</b>	-	<b>3,875,339</b>
Amortization expense	488,106	-	340,623
Decreases	(9,232)	-	(9,232)
Corrections	56	-	56
<b>Balance as at 31 December 2018</b>	<b>4,354,270</b>	-	<b>4,354,270</b>
<b>Net carrying amount as at 1 January 2018</b>	<b>1,104,406</b>	-	<b>1,104,406</b>
<b>Net carrying amount as at 31 December 2018</b>	<b>941,986</b>	<b>290,507</b>	<b>1,232,493</b>

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**15. RIGHT OF USE ASSETS**

The Company has right of use assets from rented buildings, warehouses and showrooms. The Company finances through lease agreements vehicles.

The total cash outflow for leases amount to 352,421 RON (for low value assets and short term contracts as presented below) and 1,206,100 RON representing payment of lease liabilities.

Please see maturity analysis of lease liabilities in note 27.

	Buildings	Vehicles from previous finance leases	Total
<b>Cost</b>			
Balance as of 1 January 2019	5,049,127	2,014,851	7,063,978
Additions		1,684,455	1,684,455
Transfer to equipment on exercise of the purchase option		(865,053)	
<b>Balance as of 31 December 2019</b>	<b>5,049,127</b>	<b>2,834,253</b>	<b>7,883,380</b>
<b>Accumulated depreciation</b>			
Balance as of 1 January 2019	-	772,878	772,878
Depreciation expense	1,467,947	416,810	1,884,757
Depreciation of equipment transferred to PPE		(629,923)	(629,923)
<b>Balance as of 31 December 2019</b>	<b>1,467,947</b>	<b>559,765</b>	<b>2,027,711</b>
<b>Carrying amount 01 January 2019</b>	<b>5,049,127</b>	<b>1,241,973</b>	<b>6,291,100</b>
<b>Carrying amount 31 December 2019</b>	<b>3,581,180</b>	<b>2,274,488</b>	<b>5,855,668</b>

The amount recognized to profit and loss in respect of the right of use assets were:

	Buildings	Equipment	Total
Depreciation expense	1,467,947	416,810	<b>1,884,757</b>
Interest expense on lease liabilities	173,099	-	<b>173,099</b>

In 2019, the Company expensed the lease for low value assets and short term contracts:

<b>Rent expense</b>	<b><u>352,421</u></b>
short-term	307,482
low value	44,939

## 16. INVESTMENT PROPERTIES AND ASSETS HELD FOR SALE

### Investment properties

The Company holds assets which were classified to investment property, as follows:

- The Company owns 36 thousand sqm of land in Bistrita for appreciation, classified as investment property. The production facility of TeraPlast was on this land, before the company relocated in the TeraPlast Industrial Park.
- As of 31 December 2018, the Company owned land and buildings (previously used as warehouses), in Constanta. The final destination of land and buildings would be as held for appreciation followed by subsequent sale. In July 2019, the property was sold, registering a net loss of RON 133 thousand.
- Starting 31 March 2015, the buildings and land located in Bistrita, which are rented to Teraglass Bistrita SRL, are classified as investment properties.

The Company carries its investment properties at fair value, with changes in fair value being recognized in the statement of profit or loss. Investment properties were revalued as at 31 December 2019 by an external independent valuator. The valuation method used was the market comparison.

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Opening balance at 1 January</b>	<b>17,906,553</b>	<b>19,218,403</b>
Reductions	(1,410,929)	(1,221,626)
Net loss from valuation of investment properties at fair value	205,310	(90,224)
<b>Closing balance at 31 December</b>	<b>16,700,934</b>	<b>17,906,553</b>

In July 2019, the warehouse in Constanta was sold, generating a reduction of the Company's investment property by RON 1,411 thousand. The warehouse was classified as Investment property because it was vacated and kept for value appreciation.

### Assets held for sales

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Opening balance as of 1 January</b>	<b>1,865,560</b>	<b>653,215</b>
Inflows by transfer from tangible assets	-	1,865,560
Outflows by sale	(1,865,560)	653,215
<b>Closing balance as of 31 December</b>	<b>-</b>	<b>1,865,560</b>

In 2017, the Company reclassified its warehouse in Galati (land and building) with a net book value of RON 653,215 from tangible assets into assets held for sale and it was measured at the reclassification date at the lowest of its net book value and the fair value minus the costs generated by the sale. The warehouse was sold in 2018, generating a profit of RON 185,891.

In 2018, the Company reclassified its warehouse in Otopeni (land and buildings) to assets held for sale; they were valued at the date of reclassification at the lower of net book value and fair value less costs to sell, namely RON 1,865,560. The warehouse was sold in January 2019, generating a profit of RON 15,034.

The profit from the sale of these assets is classified in the Income Statement under "Gains from the disposal of assets held for sale"

The sale of these warehouses were the result of the Company's strategy to divest from noncore assets. The warehouses were used to service Installations clients

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**17. SUBSIDIARIES AND OTHER EQUITY INVESTMENTS**

As at 31 December 2019 and 31 December 2018, the Company holds the following investments:

<b>Subsidiary</b>	<b>Country</b>	<b>Investment share</b>	<b>31 December 2019</b>	<b>Investment share</b>	<b>31 December 2018</b>
		<b>%</b>	<b>RON</b>	<b>%</b>	<b>RON</b>
Terasteel S.A. Bistrita	Romania	97.95	10,960,083	97.95	10,960,083
Teraglass Bistrita SRL	Romania	100	50,000	100	50,000
Politub SA	Romania	99.99	11,677,250	99.99	11,677,250
Teraplast Recycling SA (former TRP Logistic SRL)	Romania	99	89,100	99	990
Teraplast Hungaria KFT	Hungary	100	43,167	100	43,167
Wetterbest SA (former Depaco SRL)	Romania	99	80,822,897	67	56,554,457
Terasteel DOO Serbia	Serbia	100	8,192,369	100	45,271
		-	<b>111,834,865</b>	-	<b>79,331,275</b>

During 2017, Teraplast has concluded a contract with the shareholders of Wetterbest SA to purchase 67% of its capital shares. Following the approval from the Competition Council for the sole control over Wetterbest, in January 2018, the 67% shareholding in Wetterbest was recorded with the Trade Register.

Also during 2017, Teraplast has concluded a sale-purchase promise with the minority shareholders of Wetterbest, for the rest of their investment up to 99% of the company. The transaction is be carried out within 4 years at most, for a price correlated with Wetterbest's results in the following years.

As described in Note 30, of 31 December 2018, the Company recognized, under the "Investments in subsidiaries and jointly controlled entities" balance sheet item the equivalent value of the capital shares it is entitled to according to the Promise concluded in 2017 and in the "Long-term liabilities" balance sheet item the discounted value of the liability the Company undertook to pay according to this long-term agreement.

As at 31 December 2019, comparatives were restated to reflect the 67% shareholding in Wetterbest, as registered in the Companies Register in Romania. For details please see Note 30 – Prior period error

In 2019, the Company acquired and registered the additional 32% shareholding

*Other long-term equity investments*

Details concerning other equity investments of Teraplast SA are the following:

<b>Investment description</b>	<b>Country</b>	<b>Share-part</b>	<b>31 December 2019</b>	<b>Share-part</b>	<b>31 December 2018</b>
		<b>%</b>	<b>RON</b>	<b>%</b>	<b>RON</b>
CERTIND SA	Romania	7.50	14,400	7.5	14,400
Sustainable development partnership	Romania	7.14	1,000	7.14	1,000
Tera Tools SRL	Romania	24	72	24	72
		-	<b>15,472</b>	-	<b>15,472</b>

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

The Company has undertaken no obligation and has made no payment on behalf of the entities in which it holds securities as investments in associates.

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**18. INVENTORIES**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Finished goods	25,598,154	33,944,576
Raw materials	20,290,416	19,563,702
Commodities	7,992,078	8,365,253
Consumables	2,318,696	2,323,890
Inventory items	115,007	86,253
Semi-finished goods	1,163,078	2,561,593
Residual products	457,159	894,626
Goods to be purchased	52,337	3,539,791
Packaging	1,239,320	1,013,849
<b>Inventories – gross value</b>	<b><u>59,226,244</u></b>	<b><u>72,293,532</u></b>
Value adjustments on raw materials and materials	(1,645,056)	(1,557,006)
Value adjustments for finished products	(2,201,295)	(4,022,478)
Value adjustments for commodities	(970,062)	(864,771)
<b>Total</b>	<b><u>54,409,831</u></b>	<b><u>65,849,277</u></b>

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 provided for in full.

The Company's inventories are pledged in favour of financing banks. As of December 31, 2019 the total closing balance is pledged.

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**19. TRADE AND OTHER RECEIVABLES**

	<b>31 December 2019</b>	<b>liquidity term</b>	
		<b>below 1 year</b>	<b>above 1 year</b>
Trade receivables	91,840,023	91,840,023	-
Advances paid to suppliers of non-current assets	2,197,258	2,197,258	-
Advances paid to suppliers of inventories and services	528,730	528,730	-
Loans granted to subsidiaries (Note 27)	25,192,587	9,415,683	15,776,904
Other receivables from affiliates (Note 27)	10,647,683	7,745,162	2,902,521
Other receivables	943,471	943,471	-
Adjustments for trade and other receivables impairment	(11,664,022)	(11,664,022)	-
<b>Total</b>	<b>119,685,730</b>	<b>101,006,306</b>	<b>18,679,424</b>

	<b>31 December 2018</b>	<b>liquidity term</b>	
		<b>below 1 year</b>	<b>above 1 year</b>
Trade receivables	77,308,377	77,308,377	-
Advances paid to suppliers of non-current assets	6,306,541	6,306,541	-
Advances paid to suppliers of inventories and services	738,596	738,596	-
Loans granted to subsidiaries (Note 27)	31,983,744	11,162,418	20,820,982
Other receivables from affiliates (Note 27)	18,888,061	16,855,058	2,033,003
Other receivables	1,700,549	1,125,219	575,330
Adjustments for trade and other receivables impairment	(11,711,451)	(11,711,451)	-
<b>Total</b>	<b>125,614,417</b>	<b>102,185,102</b>	<b>23,429,315</b>

When determining the recoverability of a receivable, the Company 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 and they are not related to each other.

An allowance for impairment is recorded for the full amount of trade receivables overdue for more than 90 days.

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default is based on the risk rating of each client obtained from independent parties, adjusted, if the case with forward-looking information as described above.

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

The Company's receivables are pledged in full in favour of the financing banks.

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**20. SHARE CAPITAL AND RESERVES**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Share capital called-up and paid in full	133,780,651	107,024,527
<b>Total</b>	<b>133,780,651</b>	<b>107,024,527</b>

As at 31 December 2019, the value of the share capital called-up and paid up of the Company included 1,337,806,508 (2018: 1,070,245,274) authorized shares, issued and paid in full, at a value RON 0.1 and having a total nominal value of RON 1,337,806,508 (2018: RON 107,024,527). Common shares bear a vote each and give the right to dividends.

On September 18, 2019, the Financial Supervisory Authority issued Certificate for registration of securities, corresponding to the increase of share capital approved by the amount of RON 26,756,123.40, through the issuance of 267,561,234 new shares, at a nominal value of RON 0.1 /share.

On 12 December 2018, the Financial Supervisory Authority has issued the Security Registration Certificate related to the share capital increase 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.

**Shareholding structure**

	<b>31 December 2019</b>		<b>31 December 2018</b>	
	<b>Number of shares</b>	<b>% ownership</b>	<b>Number of shares</b>	<b>% ownership</b>
Goia Dorel	626,496,322	46.83	501,197,059	46.83
Viciu Emanoil	33,677,814	2.52	39,447,752	3.69
Marley Magyarorszag (Gemencplast Szekszard)	106,073,412	7.93	84,858,730	7.93
KJK BALKAN HOLDING S.a.r.l.	134,413,359	10.05	107,530,688	10.05
KJK Fund II Sicav-SIF	-	-	-	-
FONDUL DE PENSII ADMINISTRAT PRIVAT NN/NN PENSII S.A.F.P.A.P. S.A.	89,131,396	6.66	71,305,117	6.66
FD DE PENS ADMIN PRIV AZT VIITORUL TAU/ALLIANZ PP	57,218,659	4.28	-	-
LCS IMOBILIAR SA	48,274,105	3.61	38,619,285	3.61
Other natural persons and legal entities	242,521,441	18.12	227,286,643	21.24
<b>Total</b>	<b>1,337,806,508</b>	<b>100</b>	<b>1,070,245,274</b>	<b>100</b>

**Treasury shares**

As of 31 December 2018, the Company had RON 1,480,308 worth of treasury shares for a stock compensation plan.

In December 2017, Terasteel registered a provision amounting to RON 920,000.

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.

On September 27, 2019, the Central Depository registered in the Shareholders' Registry of Teraplast SA the transfer of shares to its own employees, as laid down in the program begun in September 2017.

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**21. LOANS FROM BANKS**

Bank loans as of 31 December 2019 and, respectively, 31 December 2018 are the following:

<u>Financing bank</u>	<u>Financing type</u>	<u>Date granted</u>	<u>Balance as of 31 December 2018</u>	<u>Balance as of 31 December 2019</u>	<u>Short-term as of 31 December 2019</u>	<u>Long-term as of 31 December 2019</u>	<u>Period</u>
Transilvania Bank	Working capital	07.06.2017	28,059,730	37,244,594	37,244,594	-	12 MONTHS
Transilvania Bank	Investments	20.04.2017	15,035,639	12,266,144	2,725,810	9,540,334	84 MONTHS
Transilvania Bank	Investments	07.06.2017	28,200,000	23,500,000	4,700,000	18,800,000	84 MONTHS
Transilvania Bank	Investments	19.07.2017	14,411,254	11,747,950	2,610,656	9,137,295	84 MONTHS
Transilvania Bank	Investments	24.07.2017	3,824,857	2,723,529	1,089,412	1,634,118	60 MONTHS
Transilvania Bank	Investments	31.07.2017	8,345,754	5,942,682	2,377,073	3,565,609	60 MONTHS
Transilvania Bank	Investments	07.11.2017	7,820,000	4,500,000	1,500,000	3,000,000	60 MONTHS
Transilvania Bank	Investments	04.04.2018	6,230,303	5,172,953	1,034,591	4,138,362	72 MONTHS
Raiffeisen Bank	Working capital	01.07.2017	14,239,615	18,504,243	18,504,243	6,871,016	12 MONTHS
Transilvania Bank	Investments	07.03.2019	-	8,834,164	1,963,148	995,583	60 MONTHS
Transilvania Bank	Investments	05.12.2019	-	1,194,700	199,117	-	60 MONTHS
Transilvania Bank	Investments	18.03.2019	-	7,941,303	7,941,303	-	12 MONTHS
<b>TOTAL</b>			<b>126,167,153</b>	<b>139,572,262</b>	<b>81,889,947</b>	<b>57,682,317</b>	

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## **22. LEASE LIABILITIES**

### **Lease contracts – accounting treatment according to IAS 17**

#### **Finance leases**

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

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

	<b>Present value of minimum lease payments</b>
	<b>31 December 2018</b>
<b>Amounts payable under finance leases:</b>	
Amounts payable in one year	309,143
More than one year but less than five years	829,902
<b>Total lease liabilities</b>	<b>1,139,045</b>
Less: future financial charges	109,483
Present value of lease obligations	1,029,562

As of 31 December 2018, the present value of financial lease liabilities was in amount of RON 1,029,562. The finance lease liabilities are for vehicles.

#### **Operating leases**

Total operating lease commitments as of 31 December 2018 were of RON 6,444,879.

Lease contracts – accounting treatment according  
to IFRS 16 Maturity analysis of lease liabilities  
as of 31 December 2019:

Year 1	1,880,792
Year 2	1,624,662
Year 3	1,563,393
Year 4	825,645
Year 5	218,314
Onwards	5,150
<b>Total</b>	<b>6,117,955</b>
Non-current	4,237,163
Current	1,880,792

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**23. EMPLOYEE BENEFIT LIABILITIES**

The Company has established a benefit plan according to which the employees are entitled to receive retirement benefits according to the seniority within the Company 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 interest rate curve of the RON interest, without adjustments, as provided by EIOPA in December 2019. Future salary increases are estimated on the long term at 1,1% in the first year, 1,4% in the second year, 1,6% in the third year and, at 1,37% for the remainder.

The latest actuarial valuations were performed on 31 December 2019 by Mr. Silviu Matei, 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 2019, the Company set up a long term liability amounting to RON 822,995 (2018: RON 371,860) related to the rights to compensate employees, based on the actuarial calculation, for the amounts granted to the employees on retirement; these amounts are provided under the collective labor agreement. The expense is included in SOCI under "Provisions, net".

<b>Employee benefits</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
Opening balance	630,767	258,907
(Decreases) / increases	822,995	371,860
<b>Closing balance</b>	<b>1,453,762</b>	<b>630,767</b>

The liability is included in the SOFP under "Employee benefit liabilities".

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**24. PROVISIONS**

	<b>1 January 2019</b>	<b>Movements</b>		<b>Provision in addition</b>	<b>31 December 2019</b>
		<b>Reversal of provision not used</b>	<b>Reversal of provision used</b>		
Provisions for environmental expenses	395,354	(168,719)	-	14,978	241,613
Provisions for litigation	-	-	-	-	-
Other provisions	14,880	-	-	383,432	398,312
<b>Closing balance</b>	<b>410,234</b>	<b>(168,719)</b>		<b>398,410</b>	<b>639,925</b>

	<b>1 January 2018</b>	<b>Movements</b>		<b>Provision in addition</b>	<b>31 December 2018</b>
		<b>Reversal of provision not used</b>	<b>Reversal of provision used</b>		
Provisions for environmental expenses	359,867	-	-	35,487	395,354
Provisions for litigation	10,000	(10,000)	-	-	-
Other provisions	271,844	(256,964)	-	-	14,880
<b>Closing balance</b>	<b>641,711</b>	<b>(266,964)</b>		<b>35,487</b>	<b>410,234</b>

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

**25. TRADE AND SIMILAR LIABILITIES**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Trade payables	40,689,579	49,646,145
Trade notes payable	178,452	237,279
Liabilities from the purchase of long-term assets	(620,079)	1,429,820
Contractual liabilities	881,553	697,527
Other payables	30,188,992	28,561,529
<b>Total</b>	<b>71,318,498</b>	<b>80,572,300</b>

Contractual liabilities reflect the Company's obligation to transfer goods or services to a customer from whom it received the equivalent value of the goods/services or from whom the amount receivable is due.

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**25. TRADE AND SIMILAR LIABILITIES (continued)**

<b>Other payables</b>	<b>31 December 2017</b>	<b>31 December 2018</b>
Salary-related payables to employees and social security payables	4,696,067	3,906,484
VAT payable	5,507,069	743,890
Unclaimed employee rights	87,706	87,706
Sundry creditors	19,343,536	23,428,089
Dividends	382,695	235,149
Commercial guarantees received	104,707	106,579
Other taxes payable	67,213	53,632
<b>Total</b>	<b><u>30,188,993</u></b>	<b><u>28,561,529</u></b>

The net increase of approximately RON 2 million in Other payables at year end 2019 results mainly from the increase with RON 4,8 million in VAT payable for the sale of assets to Teraplast Recycling, and on the other hand from the decrease with RON 2,4 million in Sundry creditor due to payments performed to the former minority shareholders of Wetterbest.

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## 26. FINANCIAL INSTRUMENTS

In the normal course of business, the Company has exposure to a variety of financial risks, including foreign currency risk, interest rate risk, liquidity risk and credit risk, market risk, geographic risk, but also operating risks and legal risks. The Company's focus is to understand these risks and to put in place policies that minimise the economic impact of an adverse event on the Company's performance. Meetings are held on a regular basis to review the result of the risk assessment, approve recommended risk management strategies and monitor the effectiveness of such policies.

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.

The Company measures trade receivable and other financial assets at amortized cost.

Financial assets	At amortized cost 31 December 2019	At amortized cost 31 December 2018
<b>Non-current</b>		
Long term receivable	18,679,424	23,429,315
Other financial instruments measured at amortized cost	15,472	15,472
<b>Current</b>		
Trade receivable	101,006,306	102,185,102
Cash	5,669,112	9,774,157
Prepayment	557,602	532,577

### (a) Capital risks management

The Company manages its capital to ensure that the entities within the Company 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 Company 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 Company. Equity includes the share capital, reserves and retained earnings.

Managing the Company'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 Company 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 Company 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 balance sheet plus the net debt.

**26. FINANCIAL INSTRUMENTS (continued)**

The gearing ratio as at 31 December 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Total loans	145,185,491	127,196,715
Cash	(5,669,112)	(9,774,157)
Net debt	139,516,379	117,422,558
<b>Total equities</b>	<b><u>219,491,113</u></b>	<b><u>209,082,355</u></b>
<b>Total equity and net debt</b>	<b><u>359,007,492</u></b>	<b><u>326,999,575</u></b>
<b>Gearing ratio</b>	<b><u>38.9%</u></b>	<b><u>36%</u></b>

**(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.

**(c) Objectives of the financial risk management**

The treasury department of the Company provides services needed for the activity, coordinates the access to the national financial market, monitors and manages the financial risks related to the Company 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 Company activities expose it primarily to the financial risks related to the fluctuation of the exchange rates (see (d) below) and of the interest rate (see [f] below).

The Company management continuously monitors its exposure to risks. However, the use of this approach does not protect the Company 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 Company exposure to the market risks or to how the Company manages and measures its risks.

**(e) Foreign currency risk management**

There are two types of foreign currency risk to which the Company is exposed, namely transaction risk and translation risk. The objective of the Company's foreign currency risk management strategy is to manage and control market risk exposures within acceptable parameters.

## 26. FINANCIAL INSTRUMENTS (continued)

### Transaction risk

This arises because operating units have input costs or sales in currencies other than their functional currencies. In addition, where operating entities carry monetary assets and liabilities at year end denominated other than in their functional currency, their translation at the year-end rates of exchange into their functional currency will give rise to foreign currency gains and losses. The exposures to the exchange rate are managed according to the approved policies.

The Company is mainly exposed to the EUR-RON exchange rate.

Currency	EUR	HUF	USD	RON	TOTAL
Trade receivable - RON equivalent	6,848,579	295,940	218,079	93,643,707	101,006,306
Trade and other payable - RON equivalent	27,193,714			44,124,783	71,318,498

The table below details the Company 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 Company 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.

### Sensitivity analysis for primary currency risk

	31 December 2019		31 December 2018	
	RON	RON	RON	RON
Profit or (loss)	1,246,852	(1,246,852)	3,976,917	(3,976,917)

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

**26. FINANCIAL INSTRUMENTS (continued)**

**(f) Interest rate risk management**

The interest-bearing assets of the Company, the revenues, and the cash flows from operating activities are exposed to the fluctuations of market interest rates. The Company's interest rate risk relates to its bank loans. The loans with variable interest rate, expose the Company to the cash flow interest rate risk due to fluctuation of ROBOR for the other loans with variable interest rate.

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

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

As at 31 December 2019 and, respectively 31 December 2018, in the case of a CU 100pb 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.

**Sensitivity analysis for interest rate risk**

	<b>31 December 2019</b>		<b>31 December 2018</b>	
	<b>RON</b>	<b>RON</b>	<b>RON</b>	<b>RON</b>
Profit or (loss)	823,562	(823,562)	1,270,397	(1,270,397)

**(g) Other price risks**

The Company 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 Company does not actively trade these investments.

## **26. FINANCIAL INSTRUMENTS (continued)**

### **(h) Credit risk management**

Credit risk encompasses the risk of financial loss to the Company of counterparty default in relation to any of its financial assets.

The Company has adopted a policy of performing transactions with trustworthy parties, parties that have been assessed in respect of the credit quality, taking into account its financial position, past experience and other factors, and additionally, obtaining guarantees or advance payments, if applicable, as a means of decreasing the financial losses caused by breaches of contracts. The Company exposure and the credit ratings of third parties to contracts are monitored by the management.

Company's maximum exposure to credit risk is represented by the carrying value of each financial asset: The credit risk relates to the risk that a counterparty will not meet its obligations causing financial losses to the Company.

Trade receivables are from 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 Company 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 Company, beyond the provisions already recorded.

The Company considers the exposure to the credit risk in relation to a counterparty or a Company of similar counterparties by analyzing the receivables individually and making impairment adjustments. The Company had more than four thousand clients in 2019, with the highest exposure on one client not exceeding 3%.

### **(i) Liquidity risk management**

The Company 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. Each Company company prepares annual and short term cash flows (weekly, monthly and quarterly). Financing needs for working capital are determined and contracted based on the budgeted cash flows. Investments projects are approved only with a concrete financing plan.

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**26. FINANCIAL INSTRUMENTS (continued)**

**(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 Company to the credit risk related to the existing receivables.

Financial liabilities are at their carrying amount which is an approximation to their fair value, due to the fact that the liabilities are at variable interest rates and there are no material initial fees and charges amortized over time.

**Tables on liquidity and interest rate risks**

The tables below detail the dates remaining until the maturity of the Company'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 Company to be requested to pay. The table includes both the interest and the cash flows related to the capital.

	less than 1 month	1-3 months	3 months - 1 year	1-3 years	3-5 years	more than 5 years	TOTAL
<b>Non-interest bearing</b>							
Trade payables and other liabilities	(19,328,612)	(24,948,553)	(8,006,931)	(9,517,200)	0	0	(61,801,297)
<b>Interest-bearing instruments</b>							
Short and long-term loans	(63,729,399)	(2,770,563)	(15,872,804)	(35,648,709)	(23,312,247)	(204,267)	(141,537,989)
Future interest on loans	(304,080)	(1,129,054)	(3,984,850)	(3,501,947)	(873,850)	(4,007)	(9,797,788)
<b>Non-interest bearing</b>							
Cash	5,668,548						5,668,548
Receivable	62,695,830	34,629,968	2,760,087	891,762	20,784	7,874	101,006,305
Net cash outflow	(14,997,713)	5,781,798	(25,104,498)	(47,776,095)	(24,165,313)	(200,400)	(106,462,221)

Within the net cash outflows presented for less than a month the Company has presented the credit lines, which are, by nature, short term. However, the credit lines are daily revolving and have been renewed from year to year. The Company is under no constrain regarding the repayment of the credit lines within a month, and is confident that they will be continued to be used. Thus, the Company is confident that it will remain solvent and to pay their liabilities

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within term. RON 50 million out of it refers to credit lines and excluding these the position is RON 35 million.

**26. FINANCIAL INSTRUMENTS (continued)**

**(j) Fair value of financial instruments**

<b>2018</b>	<b>Below 1 month</b>	<b>1-3 months</b>	<b>3 months to 1 year</b>	<b>1-3 years</b>	<b>3 - 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Non-interest bearing</b>							
Trade payables and other liabilities	(25,168,669 )	(30,844,540)	(24,061,511)	(49,022,037)	-	-	<b>(129,099,676)</b>
<b>Interest-bearing instruments</b>							
Short and long-term loans	(48,036)	(2,427,158)	(56,577,780)	(47,757,747)	(19,543,459)	-	<b>(127,196,715)</b>
Future interest	(354,430)	(1,009,405)	(2,604,516)	(5,788,127)	(987,280)	-	<b>(10,743,760)</b>
<b>Non-interest bearing</b>							
Cash and cash equivalents	9,774,157	-	-	-	-	-	<b>9,774,157</b>
Receivables	48,111,080	34,967,837	19,106,186	-	-	-	<b>102,185,102</b>
Net cash outflow	32,314,102	686,734	(64,137,621)	(102,567,911)	(20,530,739)	-	<b>(55,080,892)</b>

## **27. RELATED-PARTY TRANSACTIONS**

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

### **31 December 2019**

#### **Subsidiaries**

Teraglass Bistrita SRL  
Terasteel SA  
Politub SA  
Teraplast Recycling (former Teraplast Logistic SRL)  
Teraplast Hungaria Kft  
Wetterbest SA (former Wetterbest)  
Terasteel Doo Serbia

#### **Related entities (shareholding/joint decision-maker)**

ACI Cluj SA Romania  
AGROLEGUMICOLA DRAGU SRL Romania  
Ditovis Impex SRL Romania  
Eurohold AD Bulgaria  
FERMA POMICOLA DRAGU SRL Romania  
Hermes 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 PIZZERIE SRL  
Parc SA  
PARCSERV SRL  
RSL Capital Advisors SRL  
Sphera Franchise Company SA  
Dedal As s.r.l.  
Rematinvest s.r.l.  
Remat Salaj s.a.  
Remat s.a. Satu Mare  
Remat Alba s.a.  
Recomet s.r.l.  
Paziv s.r.l.  
Anda Imobiliare s.r.l.

### **31 December 2018**

#### **Subsidiaries**

Teraglass Bistrita SRL  
Terasteel SA  
Politub SA  
Teraplast Recycling (former Teraplast Logistic SRL)  
Teraplast Hungaria Kft  
Wetterbest SA (former Depaco SRL)  
Terasteel Doo Serbia

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**27. RELATED-PARTY TRANSACTIONS (continued)**

**Related entities (shareholding/joint decision-maker)**

ACI Cluj SA Romania  
 AGROLEGUMICOLA DRAGU SRL Romania  
 Cetus Capital SRL Romania  
 Ditovis Impex SRL Romania  
 Eurohold AD Bulgaria  
 FERMA POMICOLA DRAGU SRL Romania  
 Hermes 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 PIZZERIE SRL  
 Parc SA  
 PARCSERV SRL  
 RSL Capital Advisors SRL  
 Sphera Franchise Company SA

<b>Transactions and balances with other related parties</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
Sales of goods and services	868,860	22,084
Purchases of goods and services	150,467	136,033
Debit balances	123,625	20,900
Credit balances	137	15,572
<b>Transactions and balances with subsidiaries</b>	<b>31 December 2019 RON</b>	<b>31 December 2018 RON</b>
Sales of goods and services	12,964,877	9,984,905
Re-invoice	3,242,475	994,347
Purchases of goods and services	23,315,019	18,264,011
Purchases of fixed assets	217,440	339,322
Debit balances current activity	11,735,517	3,425,634
Debit balances from the insulation joinery line	2,822,668	3,742,170
Debit balances – polyethylene pipes business line transfer	901,988	2,901,988
Debit balances related to dividends receivable	-	12,243,903
Debtor balance from sale assets to Teraplast Recycling	6,843,175	-
Credit balances current activity	3,834,659	262,973
Credit balances from the polyethylene pipes business line transfer	263,895	22,888,013
Affiliates borrowing balance	25,192,587	31,983,744

During 2019 and 2018, the Company did not have transactions with key management personnel or shareholders.

## 27. RELATED-PARTY TRANSACTIONS (continued)

### Loans granted to affiliates

During 2019, loan contracts granted by the Company to the below subsidiaries were in force:

- a) Terasteel Doo: a loan of EUR 6.25 million, the due date being December 2024; during 2019 EUR 1.7 million were incorporated in the share capital of Terasteel Doo. The remaining amount was fully reimbursed in April 2020
- b) Teraplast Hungaria: loan amounting to EUR 0.2 million, due on 21 February 2019, date at which its term was extended for another year.

## 28. NOTES TO THE CASH FLOW STATEMENT

### Cash

For cash flow statement purposes, the cash include cash on hand and in current bank accounts. The carrying amount of these assets is approximately equal to their fair value.

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:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Cash in bank	5,536,014	9,680,354
Cash on hand	69,745	54,307
Cash equivalents	63,353	39,496
<b>Total cash and cash equivalents</b>	<b><u>5,669,112</u></b>	<b><u>9,774,157</u></b>

The Company's cash and cash equivalents are pledged in favor of the financing banks.

### Non-cash transactions

The tangible assets financed through new leases as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
	<u>RON</u>	<u>RON</u>
Forklifts	1,305,365	874,662
Vehicles	379,090	367,310
<b>Total</b>	<b><u>1,684,455</u></b>	<b><u>1,241,972</u></b>

The liability to fixed assets suppliers of RON 620,079 as of 31 December 2019 (31 December 2018: RON 1,426,902) relates to additions acquired on payment terms of 30 to 60 days, still outstanding at year end.

### Changes in liabilities arising from financing activities

The total net amount of cash used from long term investment loans and overdraft was of RON 13,393,502 in 2019 (2018: RON 10,592,478). The new debt, adjusted with the net amount of dividends paid or received, represents the movement on the Bank Loans lines from the SOFP.

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**29. COMMITMENTS AND CONTINGENT LIABILITIES**

The Company signed a contract with Banca Transilvania for multi-currency bank letter of guarantee with multiple use, extended for 24 months from August 8, 2019. The value of the ceiling is RON 1,750,000, letters of credit amounting to RON 100.000 are issued.

At December 31, 2019, tangible assets and investment property with a net book value of RON 77,420,197 (December 31, 2018: 56,463,119 RON) are collateral for loans and credit lines. For banks loans, the Company has guaranteed with all the present and future money available, with all the present and future commodity stocks and goods and has assigned the present and future debt rights, as well as the related accessories coming from the present and future contracts with its customers which are assigned debtors. Also, the Company assigned the rights resulting from the insurance policies issued for real estate and movable goods brought as guarantee.

The Company has ongoing leases for which the capital rate is included in the short or long term debt, as applicable.

In 2017, the Company granted to Banca Transilvania a guarantee for joint liability with Terasteel SA for the repayment of loans in amount of RON 31,168,950 (December 31, 2018: RON 47,846,249), which Terasteel has contracted from Banca Transilvania

At December 31, 2019, the Company has unused credit facilities of RON 17,190,916 (December 31, 2018: RON 18,794,869).

## **29. COMMITMENTS AND CONTINGENT LIABILITIES (continued)**

The company signed in November 2018 a financing agreement for an investment project of RON 28,987 thousand, under the State aid scheme for stimulating investments with major impact on the economy, 50% of the value of the project being financed by State aid. The project of Teraplast SA aims to offer a new product in the field of compounds and the equipment of a line that will allow to expand the production capacity of polypropylene systems.

On March 7, 2019, the Company contracted a loan amounting to RON 14,493,278 from Banca Transilvania in order to support the investments it undertook within the State aid scheme to stimulate investments with major impact on the economy, for which Teraplast SA has received the financing agreement in November 2018.

Until the date of these financial statements, the Company has submitted three requests for reimbursement (in June, August and September 2019) and received, until December 31, 2019, the amount of RON 5.42 million.

In 2018, Teraplast SA and EON Energie Romania signed an agreement worth EUR 1.9 million. Based on such partnership, E.ON will mount solar energy 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 a value of EUR 4 million.

### **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 Company is likely to be occasionally subject to such controls for breaches or alleged breaches of the new and existing laws and regulations. Although the Company 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 Company. The Romanian tax system is under continuous development, being subject to constant interpretations and changes, sometimes retrospectively applied. The statute of limitation for tax liabilities is 5 years.

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

### **Environmental matters**

The main activity of the Company has inherent effects on the environment. The environmental effects of the Company activities are monitored by the local authorities and by the management. 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 Company 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. This may be significant for the Company financial position and/or operations.

### **30. PRIOR PERIOD ERROR**

#### **The acquisition of the additional investment in Wetterbest**

##### **Accounting of the transaction as of 31 December 2018**

On 1 March 2017, Teraplast signed a contract with the shareholders of Wetterbest for the acquisition of 50% of its shares. The transaction was finalized after its approval by the Teraplast SA General Shareholders Meeting and receiving the approval from the Romanian Competition Council in January 2018, as mentioned below.

Also in 2017, the Company has concluded agreements for the purchase of an additional investment of 17% din Wetterbest. TeraPlast took control of Wetterbest in January 2018, after obtaining the favorable approval of the Competition Council and registering the 67% investment with the Trade Register.

Additionally, in 2017, Teraplast has concluded a sale-purchase promise with the minority shareholders of Wetterbest, for the rest of their investment up to 100% of the company (i.e. 32% of shares). The nature of the sell-purchase promise contract was similar to a forward (or a combination of a call and a put option) – it created an obligation for the future purchase of the shares of another entity.

The transaction was to be carried out within 4 years at most, for a price correlated with Wetterbest's results in the following years.

As of 31 December 2017, this forward was not reflected in the Company's balance sheet, because its exercising is also conditioned by the approval by the Competition Council for sole control.

In 2018, the Company recognized under "Long-term liabilities" balance sheet item the fair value of the purchase price agreed with the promissory-sellers and under the "Investments in subsidiaries and jointly controlled entities" balance sheet item the equivalent value of the capital shares.

Therefore, as of 31 December 2018 the Company recognized under Investments in subsidiaries and jointly controlled entities the fair of the consideration of 99% shareholding:

The consideration transferred in exchange for the 50% investment	39,163,540
The consideration transferred in exchange for the 17% investment	17,456,625
The consideration transferred in exchange for the 32% investment	48,527,375
<b>The fair value of the total consideration of 99%</b>	<b><u>105,081,832</u></b>

**30. PRIOR PERIOD ERROR (continued)**  
**The acquisition of the additional investment in Wetterbest**

**Accounting of the transaction as of 1 January 2019**

During 2019, management has reassessed accounting treatment for the forward and has corrected the accounting treatment for this financial instrument, in accordance with the provisions of IFRS 9. Following IFRS 9, the forward shall be measured at fair value through profit or loss and not at the gross liability. Consequently, the Company had to restate the comparative figures for 2018.

As per management's valuation, the equity value of Wetterbest as of 31 December 2019 is of RON 91,916,940 and based on this valuation, it determined the fair value of the sell-purchase promise contract:

32% of equity value	29,413,421
Consideration for 32%	48,527,375
Fair value of the contract on initial recognition	(19,113,954)

However, a loss on initial recognition was not expensed further from the amount of RON 494,662, based on the provisions of IFRS 7.28, as the fair value of the contract is neither evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) nor based on a valuation technique that uses only data from observable markets.

In April 2019 the share purchase agreement for 32% was concluded for RON 24,258,340, as a result of negotiations between parties. At the date of the SPA the promise was terminated. Moreover, as of 31 December 2018, the parties were in negotiations for concluding the share transfer at a lower price.

As the final price of the 32% shareholding is lower than the assessed equity value, recognition of a loss is no longer applicable.

The impact of the correction of this error is a restatement of the comparatives:

	<b>31 December 2018 Restated</b>	<b>31 December 2018 Reported</b>	<b>Difference Restated vs Reported</b>
Investments in subsidiaries and jointly controlled entities	79,331,275	127,858,650	(48,527,375)
Other long term liabilities	-	49,022,037	(49,022,037)

The amount of RON 494,662 was expensed in the P&L of 2018 as day 1 loss.

The estimation of the equity value of of RON 91,916,940 as of 31 December 2019 was based on determining the value in use by estimating the present value of the future cash flows generated by Wetterbest. 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 forecast for 2020 and the following 5 years. The cash flows reflect past experience, the estimated evolution of the roof tiles market in Romania and development of competitors in more mature roof tile markets. The forecasted results are EBITDA and EBIT margins similar to the results of 2019.

Working capital is forecasted to decrease at an average of 11% - 12% as a result of inventory optimization.

The terminal value was set based on the cash flows forecast for 2025, using a perpetuity increase rate of 2.5% (2018: 2,5%).

The discount rate used was of 12.3%, 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

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based on the specific circumstances of the subsidiaries and it results from its weighted average cost of capital.

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### **31. BUSINESS IMPACT OF THE CORONAVIRUS OUTBREAK**

The rapid development of the COVID-19 virus and its social and economic impact in Romania and globally may result in assumptions and estimates requiring revisions which may lead to material adjustments to the carrying value of assets and liabilities within the next financial year. At this stage, management is not able to reliably estimate the impact as events are unfolding day-by-day.

In the context of the COVID-19 virus situation, the Company management constantly analyzes and evaluates the appearance of potential external risks that could disrupt the Company's activity and has prepared various reaction scenarios for a potential impact, for each of the companies within the Company. At the current moment, all the Company manufacturing units are operating within expected parameters.

Starting end of March, there were decreases in the demand of roof tiles, joinery profiles and PVC windows and doors of up to 25% compared to the average of the prior year's corresponding figures.

Sales of installations, sandwich panels and compounds remain within the budgeted levels.

Cost cutting and operational efficiency measures were implemented in the businesses in which the activity was reduced:

- contracts with suppliers were renegotiated;
- personnel costs were reduced by a temporary cut in managements' salaries of 25% - 50%, reduced work schedule for a number of employees in line with the reduction of the work load, technical temporary unemployment for the personnel working on sectors where production was reduced as a result of decreased demand.

Additional risks identified at this time are the continuity of the supply with raw materials and personnel availability. The Company is in permanent contact with its main suppliers, and is constantly receiving the same message, namely that their production is in operation and that there are no reasons for concern. As an additional assurance, the Company has alternative suppliers for all raw materials, in order to be sure that it will not experience any supply shortages.

Strict sanitary measures are in place to ensure safety of the Company's personnel. Also, part of the Company's staff is working from home, by rotation.

Moreover, the Company is in permanent contact with its customers in and outside of Romania and has no indication according to which, on the very short term (the first quarter of 2020), the demand for TeraPlast Company products could be significantly affected. All the Company companies have Business Continuity Plans, which have been updated in order to address the current situation. Furthermore, an Analysis Committee was created in order to monitor the developments and implement new measures, if required. The Committee members are representatives of the Board of Directors and the top management of the Company.

The daily agenda of the Analysis Committee includes monitoring potential issues related to staff safety, sales and sales orders backlog and forecast, availability of raw materials, the business developments of the Company's clients and potential negative impact on timely collection of receivable. Daily monitoring also has the objective of ensuring that appropriate measures are planned for all scenarios, that adverse effects are identified immediately and the required scenario is executed effectively.

The longer-term impact may also affect trading volumes, cash flows, and profitability. Nevertheless, at the date of these financial statements the companies within TeraPlast Company continue to meet their obligations as they fall due and therefore continue to apply the going concern basis of preparation.

## **32. SUBSEQUENT EVENTS**

### **Changes in participations in subsidiaries**

In January 2020, the Company has concluded a sale-purchase agreement for the remaining 1% minority interest in Wetterbest for the price of RON 955,960.

In September 2019, the Company has concluded a sale-purchase agreement with the minority shareholder of Cortina WTB SRL, for the remaining participation of 49%. The transaction was concluded for RON 2,397,223 and was approved by the Competition Council in January 2020. Thus, at the date of the present financial statements, Cortina WTB SRL was consolidated considering 49% minority interest.

**Alexandru Stanean**  
CEO

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**Ioana Birta**  
CFO

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**Declaration of the Management**

We confirm to the best of our knowledge that the preliminary and unaudited financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Company as required by the applicable accounting standards and that the Financial Statements of the TeraPlast Company give a true and fair view of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that the Company faces.

April 28, 2020  
The Executive Board

**Alexandru Stanean**  
CEO

**Ioana Birta**  
CFO

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## **The Board of Directors report on the stand alone financial statements of Teraplast SA for 2019**

**Headquarters:** Saratel village, Sieu-Magherus commune, DN 15A, km 45 + 500, Bistrita-Nasaud county

**Sole registration number at the Trade Register Office:**3094980

**Trade Register No:**J06/735/1992

**Regulated market on which the issued shares are traded:** Bucharest Stock Exchange

**Subscribed and paid share capital:** RON 133.780.650,80

**Main features of securities issued by the trading company:** 1.337.806.508 nominative shares with a nominal value of RON 0.1/share

The Board of Directors of Teraplast SA, appointed by the General Meeting of Shareholders, has drawn up for fiscal year 2019 this report on the balance sheet, profit and loss statement, statement of changes in shareholders' equity, cash flow statement and accounting policy, as well as explanatory notes included in the 2019 individual financial statements.

These financial statements are submitted along with the Audit Report and this Directors Report and refer to:

<b>Equity</b>	<b>RON 219,959 thousands</b>
<b>Turnover</b>	<b>RON 371,113 thousands</b>
<b>Net result – profit</b>	<b>RON 9,669 thousand</b>

Our company is submitting financial statements in accordance with Ordinance no. 2844/2016 for the approval of accounting Regulations compliant with the International Financial Reporting Standards, applicable to trading companies whose securities are admitted to trading on a regulated market, with any subsequent amendments and clarifications.

The Company's financial statements have been audited by the independent auditor Deloitte Romania, who issued an unqualified opinion.

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## About TeraPlast

The history of TeraPlast started in 1896, with the ceramic tile production workshop in Bistrita. Today, in over 12 decades, the TeraPlast Company is one of the world's leading manufacturers of building materials. These achievements are the natural result of more than a century of continuous development and innovation, all done for one objective: providing efficient solutions for people and the environment.

As of 2 July 2008, TeraPlast SA – has been listed on the Bucharest Stock Exchange under the symbol TRP. TeraPlast shares are covered by BET-BK, BET-XT, BET-XT-TR si BET-Plus index range.

Today, TeraPlast is operating in TeraPlast Industrial Park, with an area of over 200,000 square meters.

The product portfolio of TeraPlast SA is structured on three business lines:

- PVC, polyethylene and polypropylene installations
- PVC joinery Profiles
- Plasticized and rigid granules

Starting 2019, the company started its activity in the recycling section of rigid PVC waste. The department has an annual processing capacity of 12,000 tons.

## Installations

The Installations business line includes external sewage systems, internal sewage, water and gas transport and distribution, rainwater and domestic water management, telecommunication, electrical networks, individual utilities connections.

TeraPlast is the leader of the PVC pipe market and the second player on the Romanian market.

According to the sustainable development strategy "Romania 2025", the total investment needs for the rehabilitation of the public water supply and sewerage infrastructure are 12.5 billion euros, and the annual average of the required investments is 625 million euros per year. As regards the connection of the population to water and sewage, in 2017 in Romania, 50.8% of the resident population is connected to the sewage systems, while the percentage of connection to the resident population of the sewage systems provided with sewage treatment plants is 49.4%.

For 2014-2020, € 11 billion was earmarked under the POEM. Of this amount, payments totaled 2.3 billion euros to date and contracts worth 9.7 billion euros were signed. In this context, demand is expected to increase over the next 2 years as a result of reaching the execution stage of these projects.

TeraPlast constantly invests in developing the solutions it offers. This implies obtaining systems with functionalities that meet the needs of the clients, but also responsible development - one of the main directions of the Society in this area. In 2019, Politub PE-100RC launched the latest generation polyethylene, which provides a lifetime of up to 100 years, ease of installation and superior properties.

The Company also envisages investments in product categories that do not address the infrastructure market within the development strategy. For example, under the state aid scheme, TeraPlast is investing in a new technique for the production of polypropylene sewer pipes. These are a superior quality alternative to PVC pipes and, following the investment, the company will offer multilayer polypropylene pipes for indoor sewerage.





### ***Joinery profiles***

The joinery profiles business line serves over 200 clients producing thermal insulating joinery. On the domestic market, the best-selling system is the 4-room, while for export the demand is predominant for 6 and 7-room systems.

Starting 2019, TeraPlast offers a new range of joinery profiles with a new co-extruded gasket that offers superior thermal and sound insulation as well as new glaze variants for the existing range of systems.

### ***Compounds***

With a market share of more than 34%, TeraPlast is the leader in the granular market in Romania and the main supplier of PVC granules for the cable industry in Romania. The portfolio includes plasticized granules and rigid granules, with applications in the extrusion and injection industry.

The state aid project through which TeraPlast SA invests a total of EUR 6.2 million also targets this line of business. As a result of the investment, the company will bring an innovation on the Romanian grain market - halogen-free, fire resistant granules (HFFR).



## Financial investments

As at 31 December 2019 and 31 December 2018, the Company holds the following investments:

Subsidiary	Country	Investment share %	31 December		31 December	
			2019 RON	Investment share %	2018 RON	
Terasteel S.A. Bistrita	Romania	97.95	10,960,083	97.95	10,960,083	
Teraglass Bistrita SRL	Romania	100	50,000	100	50,000	
Politub SA	Romania	99.99	11,677,250	99.99	11,677,250	
Teraplast Recycling SA (former TRP Logistic SRL)	Romania	99	89,100	99	990	
Teraplast Hungaria KFT	Hungary	100	43,167	100	43,167	
Wetterbest SA (former Depaco SRL)	Romania	99	80,822,897	67	56,554,457	
Terasteel DOO Serbia	Serbia	100	8,192,369	100	45,271	
		-	<b>111,834,865</b>	-	<b>79,331,275</b>	

During 2017, Teraplast has concluded a contract with the shareholders of Wetterbest SA (former Wetterbest) to purchase 67% of its capital shares. Following the approval from the Competition Council for the sole control over Wetterbest, in January 2018, the 67% shareholding in Wetterbest was recorded with the Trade Register.

Also during 2017, Teraplast has concluded a sale-purchase promise with the minority shareholders of Wetterbest, for the rest of their investment up to 99% of the company. The transaction is to be carried out within 4 years at most, for a price correlated with Wetterbest's results in the following years.

As described in Note 30, of 31 December 2018, the Company recognized, under the "Investments in subsidiaries and jointly controlled entities" balance sheet item the equivalent value of the capital shares it is entitled to according to the Promise concluded in 2017 and in the "Long-term liabilities" balance sheet item the discounted value of the liability the Company undertook to pay according to this long-term agreement.

As at 31 December 2019, comparatives were restated to reflect the 67% shareholding in Wetterbest, as registered in the Companies Register in Romania.

In 2019, the Company acquired and registered the additional 32% shareholding

## Company's results

The reporting segments of the Company are aggregated according to the main types of activities and are presented below:

Year ended 31 December 2019	Installations	Joinery profiles	Compounds	Non- allocated amounts	Total
<b>Total revenues</b>	<b>250,896,980</b>	<b>55,991,364</b>	<b>64,224,938</b>	-	<b>371,113,282</b>
Sales, general and administrative expenses	(238,363,143)	(58,092,397)	(58,479,396)	-	(354,934,936)
<b>Operating result</b>	<b>12,533,837</b>	<b>(2,101,033)</b>	<b>5,745,542</b>	-	<b>16,178,346</b>
Financial result	(3,756,330)	(917,753)	(904,137)	-	(5,578,220)
<b>Profit before tax</b>	<b>8,777,506</b>	<b>(3,018,786)</b>	<b>4,841,405</b>	-	<b>10,600,126</b>
<b>Operating assets</b>	<b>194,720,182</b>	<b>49,895,510</b>	<b>51,224,979</b>	<b>151,402,881</b>	<b>447,243,551</b>
Non-current assets	89,283,547	21,572,403	22,901,871	151,402,881	285,160,702
Current assets	105,436,635	28,323,107	28,323,107	-	162,082,849
<b>Operating liabilities</b>	<b>103,916,901</b>	<b>25,208,697</b>	<b>24,163,750</b>	<b>73,995,661</b>	<b>227,285,009</b>
Long-term liabilities	17,617,586	2,116,154	3,776,023	47,891,156	71,400,920
Current liabilities	86,299,315	23,092,543	20,387,726	26,104,505	155,884,090
Fixed assets additions	31,134,953	4,206,018	7,783,519	-	44,962,764
Year ended 31 December 2018	Installations	Joinery profiles	Compounds	Non- allocated amounts	Total
<b>Total revenues</b>	<b>185,686,076</b>	<b>52,554,144</b>	<b>63,226,562</b>	-	<b>301,466,783</b>
Sales, general and administrative expenses	(187,773,645)	(53,820,465)	(57,501,953)	-	(299,096,063)
<b>Operating result</b>	<b>(2,087,569)</b>	<b>(1,266,321)</b>	<b>5,724,609</b>	-	<b>2,370,720</b>
Financial result	(1,733,703)	(876,027)	(674,584)	32,888,859	29,604,545
<b>(Loss)/ Profit before tax</b>	<b>(3,821,272)</b>	<b>(2,142,348)</b>	<b>5,050,025</b>	<b>32,888,859</b>	<b>31,975,265</b>
<b>Operating assets</b>	<b>193,684,601</b>	<b>66,217,200</b>	<b>19,389,230</b>	<b>171,078,469</b>	<b>469,695,771</b>
Non-current assets	70,258,447	34,066,794	15,155,042	169,212,909	288,693,192
Current assets	123,426,155	32,150,406	23,560,459	-	179,137,019
Non-current assets	-	-	-	1,865,560	1,865,560
<b>Operating liabilities</b>	<b>103,791,342</b>	<b>31,028,762</b>	<b>19,389,230</b>	<b>106,404,081</b>	<b>260,613,415</b>
Long-term liabilities	13,847,674	8,369,876	2,581,214	96,103,835	120,902,599
Current liabilities	89,943,668	22,658,886	16,808,015	10,300,246	139,710,815

The non-allocated non-current assets relate to investment properties, investments in subsidiaries and other financial assets, which include the long-term portion of the loan granted by TeraPlast to Terasteel Serbia. The non-allocated current assets relate to the short-term portion of the loan granted by TeraPlast to Terasteel Serbia and the short-term loan granted by TeraPlast to TeraPlast Hungaria Kft. The non-allocated liabilities relate to the bank loans contracted by TeraPlast for the shareholdings in Wetterbest and Politub and the financing of Terasteel Doo.

The unallocated finance income of RON 32,888,859 is the income from dividends.

## The Company's production capacity

The **PVC plant** has a processing capacity of 50 thousand tons / year.

- 4 dosing / mixing plants, 100% automatic;
- 6 PVC pipe extrusion lines for indoor and outdoor sewers as well as for water supply;
- 14 PVC profile extrusion lines;
- 4 granulators for the production of plasticized granules (especially for the production of electric cables) and rigid (for the production of fittings or other injected parts);



The **Polyolefine Factory** has a production capacity of 2,500 tons / year of extruded, injected and rotoformed polyethylene, polypropylene and PVC products, for internal sewage, external sewerage (fireplaces and some fittings), water supply (bins), liquid storage (tanks) as well as water treatment solutions (septic tanks, purification micro-plants) and comprises:

- 7 injection machines for the production of PP and PVC fittings
- 1 line of polypropylene pipe;
- 1 rotoforming machine;

The **Polyethylene pipe factory**, with a production capacity of 12,000 t / y, produces high density polyethylene pipes for transmission and distribution networks of water, natural gas, but also for telecommunication, sewerage or irrigation, as well as polyethylene pipes of medium and high density with structured walls.

- 5 lines of pressure pipe extrusion for water and gas feeds;
- 1 line for corrugated pipe production for sewerage and cable protection.

In November 2017, the Company set up a complex PVC recycling facility both post-industrial and post-consumer with an automatic sorting cycle, grinding washing and color separation of recycled materials with a processing capacity of over 10,000 tons / year , thus entering the top 10 rigid PVC recyclers at European level.

## The Company's employees

During 2019, the employees' structure was as follows:

	2019	2018
Directors	2	2
Managers	16	15
Administrative staff	112	104
Production staff	349	280
<b>Total</b>	<b>479</b>	<b>401</b>

According to the applicable collective agreement, Company's minimum pay rates are above the national minimum wage. Teraplast Company aims to hire and retain the best professionals in the labor market, so as to continuously improve operations and create added value.

The HR strategy is integrated into the business strategy and aims to respond to the requirements of business objectives through actions on human resources field such as organization, recruitment and selection, performance, and development. In this respect, the Company has specific internal procedures for each of these stages.

Guidelines for policy implementation are:

- recruiting and employing staff based on competencies;
- quick integration of new employees;
- developing adequate training and improvement programs with the objectives of each organization in the Company;
- developing incentive plans designed to encourage efficient achievements with reduced costs;
- elaboration of non-financial stimulation systems;
- development of career programs and succession plans;
- the standardization of human resources policies at the TeraPlast Company level.



We aim to provide a trained and motivated workforce that contributes, by continually improving individual and team performance, to achieving the goals of the Company companies. We know that each member of the team is important and can bring added value to the Company, which is why we are trying to always have the right person in the right place.

Our values are: quality, seriousness, performance. These values have been embedded in our organizational culture and have been incorporated into the ongoing improvements of Company companies.

## **The Company's employees (continued)**

The human resources policy focuses on the following directions:

- ensuring the needed trained personnel in the context of competition resulting from the free movement of labor within the European Community area and achieving a balanced distribution of human resources at Company level;
- increasing the level of professional competence of the employees;
- Strengthening its own system of promoting staff with potential for performance;
- Anticipating fluctuations in staff shortages or surpluses;
- covering the operational needs of the organization through the efficient use of human resources;
- observance of the financial forecasts, respectively the sizing of the human resources at the level of the need established in the organizational chart;

The Company's responsibility towards employees means ensuring a safe and healthy work environment, offering professional and personal development opportunities, and establishing a permanent dialogue to monitor their satisfaction and expectations.

Each employee has the responsibility to maintain a safe and healthy job for all employees, following health and safety regulations and practices in work and by reporting accidents, injuries, and equipment, practices and unsafe conditions.

The main strategic directions for Occupational Health and Safety Management that TeraPlast aims and is committed to accomplish are: to continually prevent and reduce the risks of injury and occupational disease, to create the conditions necessary for the continuous improvement of the occupational health and safety performance and the involvement of all in achieving the proposed objectives.

## **Effective solutions for people and the environment**

Responsibility towards the environment and the community in which we operate is an important part of the principles we guide our activity after. We are constantly allocating resources to identify and minimize the negative impact that our work can have on the environment and we are actively involved in the community.

Effective management of the impact that our work has on the environment means:

- Waste monitoring, recycling and keeping the percentage of waste / ton of finished product below 1%
- Maintaining under control the consumption of electricity, water and natural gas
- Monitoring environmental factors

TeraPlast has implemented and certified, at each company level, the Quality-Environment-Health and Occupational Safety Integrated Management System according to ISO 9001: 2015, ISO 14001: 2015 and OHSAS 18001: 2007.

The materialization of this responsible attitude towards sustainability is translated by the TeraPlast rigid PVC recycling unit, which has an annual processing capacity of 12,000 tons, which places us on the 1st place in Romania and in the top 10 in Europe.

Community involvement means supporting initiatives in sport, social and education areas, both locally and nationally.

## Risk management

In the normal course of business, the Company has exposure to a variety of financial risks, including foreign currency risk, interest rate risk, liquidity risk and credit risk, market risk, geographic risk, but also operating risks and legal risks. The Company's focus is to understand these risks and to put in place policies that minimise the economic impact of an adverse event on the Company's performance. Meetings are held on a regular basis to review the result of the risk assessment, approve recommended risk management strategies and monitor the effectiveness of such policies.

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.

The Company measures trade receivable and other financial assets at amortized cost.

Financial assets	At amortized cost 31 December 2019	At amortized cost 31 December 2018
<b>Non-current</b>		
Long term receivable	18,679,424	23,429,315
Other financial instruments measured at amortized cost	15,472	15,472
<b>Current</b>		
Trade receivable	101,006,306	102,185,102
Cash	5,669,112	9,774,157
Prepayment	557,602	532,577

### (a) Capital risks management

The Company manages its capital to ensure that the entities within the Company 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 Company 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 Company. Equity includes the share capital, reserves and retained earnings.

Managing the Company'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 Company 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 Company 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 balance sheet plus the net debt.

## Risk management (continued)

The gearing ratio as at 31 December 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Total loans	145,185,491	127,196,715
Cash	(5,669,112)	(9,774,157)
Net debt	139,516,379	117,422,558
<b>Total equities</b>	<b><u>219,491,113</u></b>	<b><u>209,082,355</u></b>
<b>Total equity and net debt</b>	<b><u>359,007,492</u></b>	<b><u>326,999,575</u></b>
<b>Gearing ratio</b>	<b><u>38.9%</u></b>	<b><u>36%</u></b>

### (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.

### (c) Objectives of the financial risk management

The treasury department of the Company provides services needed for the activity, coordinates the access to the national financial market, monitors and manages the financial risks related to the Company 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 Company activities expose it primarily to the financial risks related to the fluctuation of the exchange rates (see (d) below) and of the interest rate (see [f] below).

The Company management continuously monitors its exposure to risks. However, the use of this approach does not protect the Company 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 Company exposure to the market risks or to how the Company manages and measures its risks.

### (e) Foreign currency risk management

There are two types of foreign currency risk to which the Company is exposed, namely transaction risk and translation risk. The objective of the Company's foreign currency risk management strategy is to manage and control market risk exposures within acceptable parameters.

## Risk management (continued)

### Transaction risk

This arises because operating units have input costs or sales in currencies other than their functional currencies. In addition, where operating entities carry monetary assets and liabilities at year end denominated other than in their functional currency, their translation at the year-end rates of exchange into their functional currency will give rise to foreign currency gains and losses. The exposures to the exchange rate are managed according to the approved policies.

The Company is mainly exposed to the EUR-RON exchange rate.

Currency	EUR	HUF	USD	RON	TOTAL
Trade receivable - RON equivalent	6,848,579	295,940	218,079	93,643,707	101,006,306
Trade and other payable - RON equivalent	27,193,714			44,124,783	71,318,498

The table below details the Company 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 Company 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.

### Sensitivity analysis for primary currency risk

	31 December 2019		31 December 2018	
	RON	RON	RON	RON
Profit or (loss)	1,246,852	(1,246,852)	3,976,917	(3,976,917)

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

## Risk management (continued)

### (f) Interest rate risk management

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

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

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

As at 31 December 2019 and, respectively, 31 December 2018, in the case of a 1% 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.

	<u>31 December 2019</u>		<u>31 December 2018</u>	
Profit or (loss)	823,562	(823,562)	1,270,397	(1,270,397)

### Translation risk

This exists due to the fact that the Company has operations whose functional currency is not the RON, the Company's presentational currency. Changes in the exchange rate between the reporting currencies of these operations and the RON, have an impact on the Company's reported result. For 2019, the impact of changing currency rates versus RON compared to the average 2018 rates was negative RON 0.4m (2018: nil).

### (g) Other price risks

The Company 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 Company does not actively trade these investments.

## **Risk management (continued)**

### **(h) Credit risk management**

Credit risk encompasses the risk of financial loss to the Company of counterparty default in relation to any of its financial assets.

The Company has adopted a policy of performing transactions with trustworthy parties, parties that have been assessed in respect of the credit quality, taking into account its financial position, past experience and other factors, and additionally, obtaining guarantees or advance payments, if applicable, as a means of decreasing the financial losses caused by breaches of contracts. The Company exposure and the credit ratings of third parties to contracts are monitored by the management.

Company's maximum exposure to credit risk is represented by the carrying value of each financial asset: The credit risk relates to the risk that a counterparty will not meet its obligations causing financial losses to the Company.

Trade receivables are from 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 Company 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 Company, beyond the provisions already recorded.

The Company considers the exposure to the credit risk in relation to a counterparty or a Company of similar counterparties by analyzing the receivables individually and making impairment adjustments. The Company had more than four thousand clients in 2019, with the highest exposure on one client not exceeding 3%.

### **(i) Liquidity risk management**

The Company 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. Each Company company prepares annual and short term cash flows (weekly, monthly and quarterly). Financing needs for working capital are determined and contracted based on the budgeted cash flows. Investments projects are approved only with a concrete financing plan.

## Risk management (continued)

### (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 Company to the credit risk related to the existing receivables.

Financial liabilities are at their carrying amount which is an approximation to their fair value, due to the fact that the liabilities are at variable interest rates and there are no material initial fees and charges amortized over time.

### Tables on liquidity and interest rate risks

The tables below detail the dates remaining until the maturity of the Company'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 Company to be requested to pay. The table includes both the interest and the cash flows related to the capital.

	less than 1 month	1-3 months	3 months - 1 year	1-3 years	3-5 years	more than 5 years	TOTAL
<b>Non-interest bearing</b>							
Trade payables and other liabilities	(19,328,612)	(24,948,553)	(8,006,931)	(9,517,200)	0	0	(61,801,297)
<b>Interest-bearing instruments</b>							
Short and long-term loans	(63,729,399)	(2,770,563)	(15,872,804)	(35,648,709)	(23,312,247)	(204,267)	(141,537,989)
Future interest on loans	(304,080)	(1,129,054)	(3,984,850)	(3,501,947)	(873,850)	(4,007)	(9,797,788)
<b>Non-interest bearing</b>							
Cash	5,668,548						5,668,548
Receivable	62,695,830	34,629,968	2,760,087	891,762	20,784	7,874	101,006,305
Net cash outflow	(14,997,713)	5,781,798	(25,104,498)	(47,776,095)	(24,165,313)	(200,400)	(106,462,221)

Within the net cash outflows presented for less than a month the Company has presented the credit lines, which are, by nature, short term. However, the credit lines are daily revolving and have been renewed from year to year. The Company is under no constrain regarding the repayment of the credit lines

within a month, and is confident that they will be continued to be used. Thus, the Company is confident that it will remain solvent and to pay their liabilities within term. RON 50 million out of it refers to credit lines and excluding these the position is RON 35 million.

## Risk management (continued)

### (j) Fair value of financial instruments

2018	Below 1 month	1-3 months	3 months to 1 year	1-3 years	3 - 5 years	Over 5 years	Total
<b>Non-interest bearing</b>							
Trade payables and other liabilities	(25,168,669)	(30,844,540)	(24,061,511)	(49,022,037)	-	-	<b>(129,099,676)</b>
<b>Interest-bearing instruments</b>							
Short and long-term loans	(48,036)	(2,427,158)	(56,577,780)	(47,757,747)	(19,543,459)	-	<b>(127,196,715)</b>
Future interest	(354,430)	(1,009,405)	(2,604,516)	(5,788,127)	(987,280)	-	<b>(10,743,760)</b>
<b>Non-interest bearing</b>							
Cash and cash equivalents	9,774,157	-	-	-	-	-	<b>9,774,157</b>
Receivables	48,111,080	34,967,837	19,106,186	-	-	-	<b>102,185,102</b>
Net cash outflow	32,314,102	686,734	(64,137,621)	(102,567,911)	(20,530,739)	-	<b>(55,080,892)</b>

## The budget for 2020

The likely evolution of the enterprise is included in the **Revenues and Expenses Budget for 2020**:

- Turnover: RON 453 million
- EBITDA: RON 51 million

The full Budget presentation can be seen at the following link:  
<https://www.teraplast.ro/wp-content/uploads/2020/04/2020-Budget-TeraPlast-Group-ENG.pdf>

### Potential factors of influence on 2020 budget

Considering the events related to the Coronavirus outbreak worldwide at the beginning of 2020, the TeraPlast Group and its companies had a proactive attitude regarding the management of the potential risks.

The crisis led to European states, including Romania, declaring the state of emergency, and implementing various levels of lockdown.

At TeraPlast Group level, progressive and firm measures were taken in order to ensure the employees' and partners' health and security. The set of measures aim to all areas of activity, are monitored, and reviewed as needed by the Analysis Commission of the Group, regularly.

In order to ensure a fair and equal information of the stakeholders, the Group reports, in line with the regulations in place, any event that exceeds the materiality threshold and could, to some extent, influence the Group's business evolution.

Considering that

the first impact of Covid-19 was first visible in Europe and Romania at the beginning of March, the current situation is changing rapidly and has a high level of uncertainty,

At the time of this report, the TeraPlast Group management team considers it can not provide a firm prognosis of the Covronavirus pandemic impact on the Group businesses.

**10 potential action scenarios were set up** depending on the possible evolution of the current crisis. These scenarios imply the following parameters:

- The potential negative influences on the revenue due to both the pandemic evolution and a potential economic crisis following it, including a total activity suspension simulation in case the authorities would impose so
- Cash flow impact due to potential clients' defaults
- The ability of managing the debt service
- Fixed costs adjustment to minimize the impact on profitability in the demand drop scenarios
- Monitoring of the cost structure to secure a sustainable long-term performance

### **Measures already in place**

- Heightened hygiene measures in order to protect our employees' health and security at work. Highly digital close collaboration among employees and with third parties. Special procedures on production sites.
- Personnel costs were temporarily reduced in areas where the production and demand declined. For a part of the white-collar personnel the working schedule was reduced.
- Temporary income reduction in management by 25%-50%
- Renegotiated contracts with the suppliers. Alternative suppliers were identified in order to ensure the raw materials availability.
- The raw materials and finished goods stocks were diminished in order to decrease the working capital need
- The rent contracts were renegotiated for at least 3 months
- Tightened credit procedures in order to minimize credit risk
- Cash conservation policies in place

New measures are being planned and implemented.

## **Non-financial statement**

According to the legal regulation on the disclosure of non-financial information, the Company prepares and publishes a distinctive sustainability report which includes information required by the non-financial statement and which describes our initiatives regarding sustainability. The Teraplast sustainability report for 2019 will be published by 30 June 2019.

## ***Environmental policy***

We are aware of the impact that our activity and products can have on the environment. One of our goals is to mitigate the negative impact and prevent situations that can affect the environment and society. As a result, we constantly allocate resources to identify and minimize them, and we are actively involved in sustainable development.

## ***Integrated management system***

Teraplast has implemented the ISO 14001 Environmental Management System as a component of an integrated quality-environment-occupational health and safety management system. The environmental management system has been certified for the first time in Teraplast in 2009. The activities regulated by this system are maintained and continually improved, being systematically verified by internal audit and also by the certification body. Action programs are based on internal, external audits and management reviews.

## ***Rigorous implementation of Environmental Policy***

In order to fulfill the Policy, the commitment undertaken and the achievement of the environmental objectives and targets, management programs (annual or long-term) are established, which include general and specific objectives, deadlines and means of accomplishment, responsibilities and authorities designated for the relevant functions.

In order to achieve the objectives and targets, Environmental Management Plans are established and the Environmental Officer monitors the stage of their implementation during the year, according to their evolution.

When preparing Management Programs, consideration is given to introducing new technologies and to the views of stakeholders. These programs are periodically analyzed by the responsible factors to determine the stage of their implementation or are monitored directly by the Environmental Manager and brought to the attention of top management. In the case of projects and / or developments (changes in product design, introduction of new working conditions), management programs are tailored to suit the situation and actions are set up to ensure management involvement. Changes resulting from the implementation of these projects / developments, as well as the new requirements of the applicable legal and regulatory norms, are documented so as to ensure the continued operation of the management system.



### ***Sustainable Development***

Teraplast is actively involved in the development of sustainable systems, and within the Research and Development Center, research activities are performed annually to improve the existing products and to obtain new products. Research projects in 2017 were focused on product development aiming at obtaining higher physical and mechanical properties than existing ones and cost efficiency with raw materials. Thus, polystyrene multi-layer pipes with micronized recycled PVC were obtained from various applications. The impact of using this micronized recycled PVC is a major one, both for the environment, through its reuse in the production process and substitution of virgin PVC as well as cost optimization. Recycled PVC obtained in the form of granules was tested on the co-extruded layer of the joinery profiles.

The results obtained were positive, superior to the substituted dry-blend in which the base raw material is virgin PVC. The research department studies recycled PVC in various compositions in order to identify new applications. Suppliers of raw materials are also assessed from the point of view of complying with environmental requirements. We avoid the use of hazardous chemicals in the activities and in the supply chain. All hazardous chemicals used in the activities are carefully monitored, accompanied by the Safety Data Sheet and their requirements are transposed into internal measures (allocation of special spaces, storage / handling, use, training, etc.).

### ***Pollution prevention and control***

To prevent soil contamination, all pools are properly sealed. At the same time, both the interior surfaces where the productive activities are carried out as well as part of the exterior surfaces such as the surface of the transport paths are completely concreted. The uncovered surface is partially formed of green areas. Loading and unloading of material takes place in designated areas, protected against leakage through liquid leakage or dust dispersion. In stores there are adequate quantities of absorbents suitable for controlling any accidental spillage.

Technological water is recycled to over 80% and waste water is passed through the sewage treatment plant. Wastewater quality indicators are determined quarterly.

Dangerous chemical substances and preparations are purchased in compliance with applicable legislation and only together with the safety data sheet that allows for taking all measures for environmental protection, occupational health and safety. The storage of the various dangerous chemicals and preparations is made taking into account the compatibility of the substances. The management of these substances is carried out by trained persons who know the measures to be taken in case of emergency situations.

## **Waste management**

In the Company companies, recoverable waste (plastic waste, metal waste, paper packaging waste, cardboard, plastic packaging, wood packaging, etc.) and non-valuable waste (industrial waste, contaminated metal packaging and household waste) are generated.

The implemented environmental management system makes it necessary to minimize the quantities of waste resulting from production processes where possible. The resulting waste in the company is collected selectively and used/disposed of by authorized economic operators.

Hazardous waste sent off-site for disposal is transported only by authorized economic operators, in compliance with the legal provisions in force. Waste is transported only from the site of activity to the disposal site without adversely affecting the environment.

Waste is packaged and labeled in accordance with the laws and regulations in force for mandatory inscriptions. During collection, recovery or disposal, all waste is temporarily stored in specially designed areas and places, properly protected against dispersion in the environment. Waste is clearly labeled and separated accordingly.

The management of all categories of waste is carried out in strict compliance with the legal provisions. Waste is collected and stored temporarily by types and categories without being mixed. These are stored separately, inert and non-hazardous waste separately from the hazardous one.

### **Non-financial statement (continued)**

The recovery of recyclable industrial waste is carried out in compliance with the provisions of Law 211/2011 and other legal provisions in force.

Reaching recycling and collection targets is done individually through contracts with authorized recycling / collection companies.

## **Combating corruption and bribery**

Internal compliance programs in this area focus on the following directions:

- anticompetitive practices;
- economic sanctions and embargoes;
- the fight against corruption;
- gift policies;
- conflicts of interests.

**Conflicts of interests** may arise when personal interests conflict with the ability to exercise one's duties properly and efficiently. To the extent possible, relationships or activities that may affect or appear to affect the ability to make objective and fair decisions when doing business on behalf of the Company are avoided.

**Sanctions and embargoes** restrict transactions with certain countries, individuals and legal entities. These restrictions need to be known and analyzed before starting any transaction.

When integrating any new employee, according to the New Employee's Guide, it is clear what the Company companies are asking for the expected behaviors with respect to the issues listed above. Our employees have clearly defined limitations on the acceptance of gifts, services and benefits of any kind coming from suppliers or customers in order to facilitate commercial transactions with any of the Company's companies. They are authorized to accept or offer gifts and invitations that are appropriate in the circumstances, subject to the limitations, approvals and registration requirements defined in our internal rules. No money or equivalent gift may be offered or received.

In our business relationships with public and state institutions, our employees do not solicit or accept gifts, services, favors, invitations or any other personal benefits that may affect their impartiality in the exercise the function held. No gifts or other free gifts are given to government officials or state organ representatives, except for small-value promotional items customized with the Company's logo.

### **Responsible procurement policy**

Procurement activity is critical to the Company's competitiveness and its ability to innovate. The main objective of the procurement activity is the complete material assurance both in terms of quantity and quality, at the time, in conditions of maximum safety and with minimal cost of material resources necessary for the development of productive activities within the Company. At the same time, the activity involves proactive management of supply chain risks in order to minimize their potential impact.

The purchasing policy within Company companies is an integral part of the overall objective of the Company, to meet customer requirements, to manage production processes efficiently and to meet the requirements of the integrated management system.

An essential role in continuously improving the quality of our products and working standards lies with our suppliers who are carefully selected for the production process.

Supplier relationships are trusted, committed to their own products, and are pursuing the development of long-term partnerships. We are constantly evaluating suppliers and applying an internal qualification and acceptance system.

Company suppliers will comply with and observe local, national and international environmental regulations. They are required to hold all the environmental permits and authorizations required to conduct the business. Suppliers will systematically manage environmental impacts, including: energy, water, waste, chemicals and air pollution.

### **Responsible procurement policy (continued)**

Suppliers will comply with all applicable anti-corruption laws and regulations, and will have a zero tolerance policy for any form of bribery, corruption, and misappropriation. They must carry out all transactions in a transparent manner and accurately reflect them in accounting records and books.

Selecting and accepting suppliers is based on both assessing their ability to deliver products according to our requirements, as well as: quality / price ratio, certified management systems, payment options, availability on delivery, complaint handling. The evaluation process also involves auditing and visiting suppliers in terms of compliance with environmental, occupational health and safety requirements, and social responsibility.

Teraplast believes that establishing strong partnerships with suppliers ensures a positive outcome for both parties.

The Company's procurement policy is linked to the quality standards (SR EN ISO 9001), the environment (SR EN ISO 14001) and Occupational Health and Safety (SR OHSAS 18001), but it also contains specific requirements based on the Company's Code of Conduct.

This ensures the general conditions for:

- the quality of the products and services purchased
- product safety / chemicals management
- protecting the environment
- the code of conduct in the procurement activity

Supplier selection and evaluation follow their capacity for innovation, continuous improvement of processes and adaptation of environmental codes.

The procurement policy applies to all suppliers of raw materials, materials and services in the Company.

The list of approved vendors includes all procurement providers and we have ensured that they comply with legal and regulatory requirements both in Europe and in the areas in which they operate, with regard to: forced labor, child exploitation, discrimination, the environment, bribery and corruption, unfair competition, etc. Suppliers are visited before they start a collaboration, and periodically are re-evaluated to determine whether they can still meet the set requirements.

## Company Management

### *Director`s presentation*

Teraplast is managed in a unitary system by a Board of Directors composed of five members appointed by the General Meeting of Shareholders by secret vote. The length of service of the Directors is one year and the Directors can be reappointed. At the date of this Report the structure of the Board of Directors is as follows:

#### **DOREL GOIA**

- Position: Chairman of the Board
- Background area: entrepreneurship
- First elected on the Board of Directors: 2008
- Activity: ACI Cluj SA; Parc SA; Hermes SA

#### **LIVIU CIUPE**

- Position: Independent Non-executive Director
- Background area: industrial
- First elected on the Board of Directors: 2019
- Activity: Rematinvest Group

#### **RĂZVAN LEFTER (RSL Capital Advisors SRL)**

- Position: Non-executive Director
- Background area: economy
- First elected on the Board of Directors: 2014
- Activity: RSL Capital Advisors, Conpet Ploiesti (Board of Directors), Mundus Services AD Bulgaria (Board of Directors)

#### **MAGDA PALFI**

- Position: Non-executive Director
- Background area: Banking
- First elected on the Board of Directors: 2008
- Activity: Raiffeisen Bank (Regional Corporate Director– Cluj Corporate Center), TeraSteel SA (Board of Directors)

#### **ALEXANDRU STÂNEAN**

- Position: **Executive Director**
- Background area: Business Administration
- First elected on the Board of Directors: 2007
- Activity: TeraPlast SA (Chief Executive Officer)

Members of the Board of Directors are elected at the General Meeting of Shareholders on the basis of shareholders' voting in accordance with legal requirements. Therefore, there are no agreements or understandings to report in this document.

### **Members of the executive team**

Teraplast's executive management is appointed by the Board of Directors, and at the date of this report it is delegated to the CEO and the CFO. The CEO and CFO manage the everyday activity of the company.

The executive team is comprised of:

#### **Alexandru Stănean – Chief Executive Officer**

Year of Birth: 1982

In office: July 2018 – present

Alexandru Stănean joined the TeraPlast Team in 2007, occupying, over time, different positions within the TeraPlast Group, such as Deputy General Manager, Director of Operations, in charge of external development. In 2008, he was part of the team responsible for TeraPlast's IPO. Currently, Mr. Stănean is Chief Executive Officer of TeraPlast, in his second term.

#### **Ioana Birta – Chief Financial Officer**

Year of birth: 1983

In office: June 2017 – present

Ioana Birta has more than 10 years of experience within Big 4. She is a member of the ACCA (Association of Chartered Certified Accountants) and CAFR (Romanian Chamber of Financial Auditors).

## **Corporate Governance**

Teraplast has implemented recommendations of the Corporate Governance Code of Bucharest Stock Exchange, setting out governance principles and structures mainly aimed at respecting shareholders' rights as well as at providing them fair treatment. In that sense, the Board of Directors elaborated a Regulation for Organisation and Operation, consistent with the CGC principles, thus ensuring the company's transparency and sustainable development. The Regulation for Organisation and Operation also sets out the roles corresponding to the Board of Directors, competences and responsibilities of the Board, so as to ensure observance of interests of all the company's shareholders, and not least, equal access of the shareholders, and also of potential investors to relevant information pertaining to the company.

### **Governance structures**

For continuation of the process of implementing the principles of the Code of Corporate Governance, the General Meeting of October 2014 approved the election of a new Board of Directors made up of five directors, one of whom is independent from other significant shareholders. Enough members have been this way ensured as to guarantee the Board's efficiency to supervise, analyze and evaluate the efficiency of Teraplast's executive management, the Board's main goal as a collective body being to promote and observe the interests of the company's shareholders.

Another step of the implementation process is the essential amendment of the Company's Memorandum of Association, endorsed by the General Meeting of Shareholders of September 2008, at which time provisions of the Memorandum were made to match regulatory documents specific to the Romanian stock market and also recommendations and principles included in Code of Corporate Governance of Bucharest Stock Exchange. One of the most important updates of the company's Charter is the amendment of chapter VI – Managers – pursuant to which the premises of a fundamental change of the company management are created, thus enabling the Board of Directors to delegate managing competencies not just to a sole manager, but to a larger number of directors, one of them being appointed general manager.

Moreover, in compliance with CGC recommendations, strict rules have been set within the company on the internal movement and disclosure to third parties of confidential documents and privileged information, a special importance being granted to data and/or information that could influence the evolution of market price of securities issued by Teraplast. In this sense starting 2008, specific confidentiality agreements were concluded, with the company management and executives as well as with employees who, based on their positions and/or responsibilities, have access to such confidential/privileged information.

**Director**  
**Alexandru Stanean**

**Chief Financial Officer**  
**Ioana Birta**



[www.teraplast.ro](http://www.teraplast.ro)