

## 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.  
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**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.  
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**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)*

	Year ended 31 December 2019	Year ended 31 December 2018
<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 22,817,571</b>	<b>12,015,802</b>
<b>Cash at the end of the financial year</b>	<b>30 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.

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**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.

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.

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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**

	Year ended 31 December 2019	Year ended 31 December 2018
	RON	RON
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>86,152,804</b>	<b>68,406,348</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**

	Year ended 31 December 2019	Year ended 31 December 2018
	RON	RON
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>96,921,507</b>	<b>75,010,673</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**

	<u>Land</u>	<u>Buildings</u>	<u>Plant and equipment and vehicles</u>	<u>Installations and furniture</u>	<u>Tangible assets in progress</u>	<u>Total</u>
	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>

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## **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.

	<u><b>31 December 2017</b></u>
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><b>105,081,832</b></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><b>105,787,398</b></u>
The net book value of the purchased assets	70,556,559
<b>Goodwill obtained at acquisition</b>	<u><b>35,230,839</b></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.

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**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.

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**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.

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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.

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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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**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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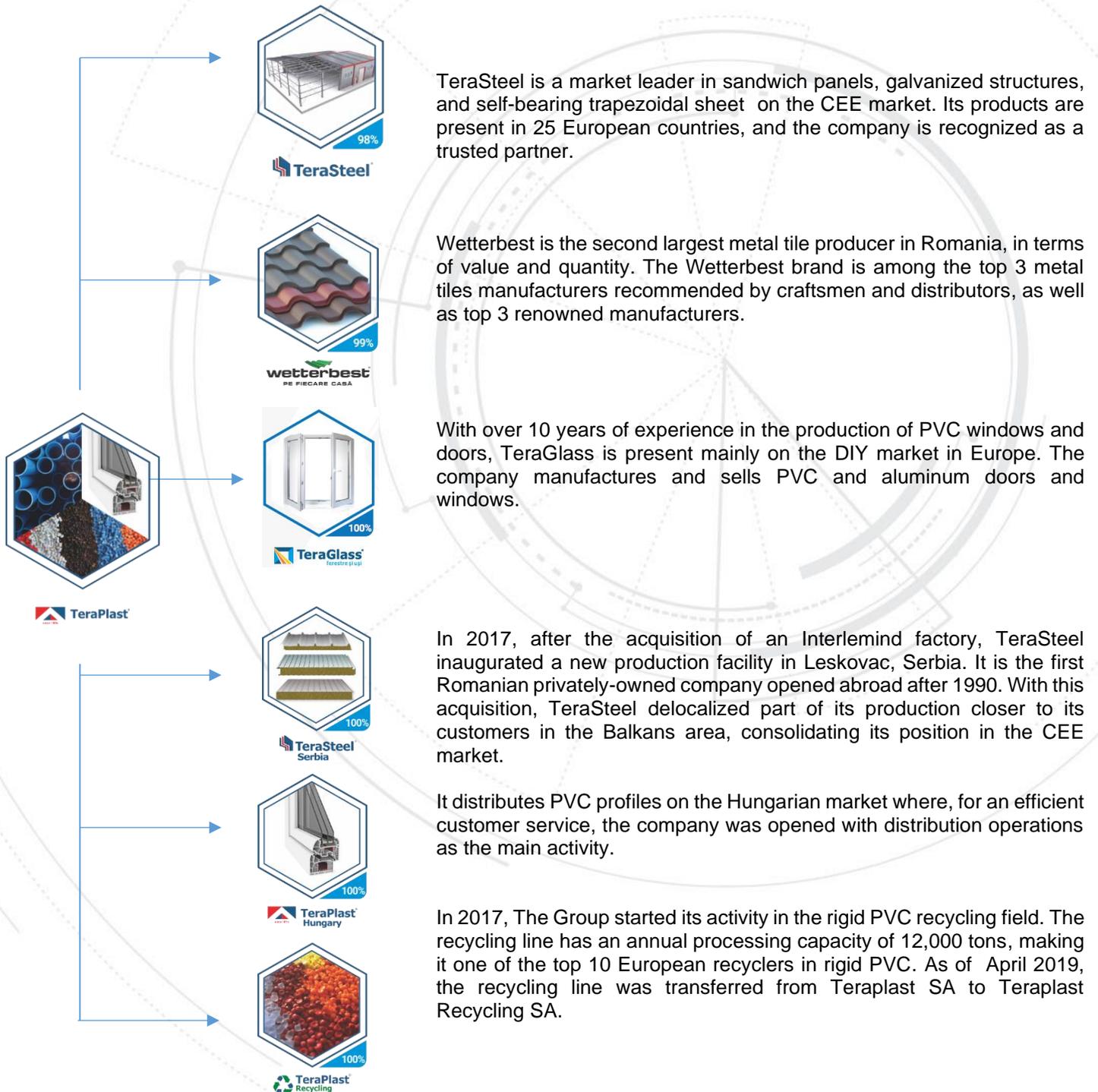
# 1. About TeraPlast Group

## 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 Bistruta 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 CO2 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
Net turnover	972,582	804,512
Operating result	54,947	34,722
Net profit	38,908	22,639

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 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

	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**