

**TERAPLAST S.A.**

**SEPARATE FINANCIAL STATEMENTS**

**Prepared in accordance with the provisions of Order no. 1286/2012  
on the approval of the accounting regulations compliant with  
The International Financial Reporting Standards**

**31 DECEMBER 2014**

**TERAPLAST SA****Separate Financial Statements**

Prepared in accordance with the provisions of Order no. 1286/2012  
on the approval of the accounting regulations compliant with the  
International Financial Reporting Standards  
**31 December 2014**

---

<b>CONTENTS</b>	<b>PAGE</b>
Statement of comprehensive income	3
Statement of financial position	4
Statement of changes in equity	5
Cash flow statement	6 - 7
Notes to the separate financial statements	8 - 65

**TERAPLAST SA**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**31 December 2014**

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

	<u>Notes</u>	<u>Year ended as at 31 December 2013</u>	<u>Year ended as at 31 December 2014</u>
		RON	RON
Revenue	4	226,612,595	232,469,309
Other operating income	5	210,212	230,802
Changes in inventories of finished goods and work in progress	6	2,512,375	(505,390)
Raw materials and consumables used	7	(159,608,690)	(155,883,292)
Employee benefits expense	11	(23,228,611)	(23,781,068)
Provision expenses, adjustments for depreciation and amortization	10	(8,339,599)	(13,365,169)
Gains/ (Losses) from the outflow of tangible and intangible assets	8	62,909	(88,385)
Gains / (Losses) from the fair value measurement of investment property	9	(3,380,794)	(189,629)
Other operating expenses	13	(25,789,476)	(24,953,435)
Finance costs	12	(8,082,765)	(5,431,165)
Financial revenues	12	3,716,975	2,893,872
<b>Profit/(Loss) before tax</b>		<b>4,685,132</b>	<b>11,396,449</b>
Income tax (expense) / revenue	14	515,998	(1,981,997)
<b>Profit/(Loss) for the year</b>		<b>5,201,129</b>	<b>9,414,452</b>
<b>Number of shares</b>		<b>288,875,880</b>	<b>288,875,880</b>
<b>Result per share</b>	31	<b>0,0180</b>	<b>0.033</b>
<b>Other comprehensive income</b>			
Revaluation of tangible assets		(6,494,461)	-
Impact of deferred tax		1,039,198	-
		<b>(5,455,263)</b>	<b>-</b>
<b>Total comprehensive result</b>		<b>(254,133)</b>	<b>9,414,452</b>

The financial statements on pages 1 to 64 were approved by the Board of Administration and authorized for publishing according to the Administrator's decision on March 26th, 2015.

\_\_\_\_\_  
**Alexandru Stanean**  
 CEO

\_\_\_\_\_  
**Edit Orban**  
 CFO

**TERAPLAST SA**  
**STATEMENT OF FINANCIAL POSITION**  
**31 December 2014**

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

	<u>Notes</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
		RON	RON
<b>ASSETS</b>			
<b>Non-current assets</b>			
Tangible assets	15	105,591,677	100,641,902
Investment property	16	13,602,716	13,357,561
Intangible assets	17	912,956	636,771
Investments in subsidiaries and jointly controlled entities	18	9,199,408	9,199,408
Other financial investments	19	15,472	15,472
<b>Total non-current assets</b>		<b>129,321,701</b>	<b>123,851,114</b>
<b>Current assets</b>			
Inventories	20	32,717,144	33,656,618
Trade and other receivables	21	46,625,764	53,241,094
Prepayments		423,877	168,946
Cash and short term deposits	32	2,891,828	3,457,505
<b>Total current assets</b>		<b>82,658,613</b>	<b>90,524,163</b>
<b>Total assets</b>		<b>211,980,842</b>	<b>214,375,279</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
<b>Total equity, out of which:</b>		<b>58,980,060</b>	<b>58,980,060</b>
- Subscribed share capital	22	28,887,588	28,887,588
- Share capital adjustments	22	30,092,472	30,092,472
Share premium	22	42,245,118	42,245,118
Revaluation reserves		18,708,074	18,708,074
Legal reserves	23	3,561,377	4,101,240
Retained earnings	24	(9,453,943)	(579,354)
<b>Total equity</b>		<b>114,040,685</b>	<b>123,455,138</b>
<b>Long-term liabilities</b>			
Loans and finance lease liabilities	25	13,180,218	8,187,154
Liabilities for employee benefits	26	286,225	346,402
Deferred tax liabilities	14	3,456,182	3,482,135
<b>Total long-term liabilities</b>		<b>16,922,624</b>	<b>12,015,691</b>
<b>Current liabilities</b>			
Trade and other payables	28	39,772,597	39,127,164
Loans and finance lease liabilities	25	36,892,588	35,427,937
Other current financial liabilities		162,795	0
Income tax payable		33,137	357,498
Provisions	27	4,156,415	3,991,851
<b>Total current liabilities</b>		<b>81,017,532</b>	<b>78,904,450</b>
<b>Total liabilities</b>		<b>97,940,157</b>	<b>90,920,141</b>
<b>Total equity and liabilities</b>		<b>211,980,842</b>	<b>214,375,279</b>

The financial statements on pages 1 to 64 were approved by the Board of Administration and authorized for publishing according to the Administrator's decision on March 26th, 2015.

**Alexandru Stanean**  
CEO

**Edit Orban**  
CFO

**TERAPLAST SA**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**for the financial years ended 31 December 2013 and 31 December 2014**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

	<u>Subscribed share capital</u> RON	<u>Share capital adjustments</u> RON	<u>Share premium</u> RON	<u>Revaluation reserves</u> RON	<u>Legal reserves</u> RON	<u>Retained earnings</u> RON	<u>Total</u> RON
<b>Balance as of 1 January 2013</b>	<b>29,787,588</b>	<b>31,030,010</b>	<b>42,245,118</b>	<b>24,163,337</b>	<b>3,330,468</b>	<b>(16,296,66)</b>	<b>114,259,853</b>
Recognition of legal reserve	-	-	-	-	230,909	(230,909)	0
Reserves representing realized revaluation surplus	-	-	-	(6,494,461)	-	-	(6,494,461)
Cancelation of own shares redeemed	(900,000)	(937,538)	-	-	-	1,837,538	0
Correction of prior year errors	-	-	-	-	-	34,965	34,965
Deferred tax	-	-	-	1,039,198	-	0	1,039,198
Profit for the year	-	-	-	-	-	5,201,129	5,201,129
<b>Balance as of 31 December 2013</b>	<b>28,887,588</b>	<b>30,092,472</b>	<b>42,245,118</b>	<b>18,708,074</b>	<b>3,561,377</b>	<b>(9,453,943)</b>	<b>114,040,685</b>
	<u>Subscribed share capital</u> RON	<u>Share capital adjustments</u> RON	<u>Share premiums</u> RON	<u>Revaluation reserves</u> RON	<u>Legal reserves</u> RON	<u>Retained earnings</u> RON	<u>Total</u> RON
<b>Balance as of 1 January 2014</b>	<b>28,887,588</b>	<b>30,092,472</b>	<b>42,245,118</b>	<b>18,708,074</b>	<b>3,561,377</b>	<b>(9,453,943)</b>	<b>114,040,685</b>
Recognition of legal reserve	-	-	-	-	539,863	(539,863)	-
Reserves representing realized revaluation surplus	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	9,414,452	9,414,452
<b>Balance as of 31 December 2014</b>	<b>28,887,588</b>	<b>30,092,472</b>	<b>42,245,118</b>	<b>18,708,074</b>	<b>4,101,240</b>	<b>(579,354)</b>	<b>123,455,137</b>

The financial statements on pages 1 to 64 were approved by the Board of Administration and authorized for publishing according to the Administrator's decision on March 26<sup>th</sup>, 2015.

As of 31 December 2014, revaluation reserves include amounts representing the realized revaluation surplus related both to tangible assets and investment property until the date of their reclassification.

\_\_\_\_\_  
**Alexandru Stanean**  
 CEO

\_\_\_\_\_  
**Edit Orban**  
 CFO

**TERAPLAST SA**  
**CASH FLOW STATEMENT**  
**for the financial year ended 31 December 2014**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

	Notes	Year ended as at 31 December 2013 RON	Year ended as at 31 December 2014 RON
<b>Cash flows from operating activities</b>			
Profit before tax	14	4,685,131	11,396,449
Financial expenses	12	2,326,889	1,907,160
Financial revenues	12	(86,902)	(5,371)
Loss/(Gains) from the sale or disposal of fixed assets		(64,413)	91,120
(Gains)/Loss from the impairment of trade receivables		(308,764)	838,241
Adjustment of expenses with inventory impairment provisions		(477,331)	414,118
Amortization and depreciation of long-term assets		10,643,204	12,277,374
Adjustment of provision for risks and charges	10	(666,780)	(164,564)
(Gains)/Loss from the fair value measurement of investment property	9	3,380,794	189,629
Revenues from the provisions for the retirement benefits obligations	26	(44,094)	60,177
Investment revenues	12	(66,948)	(580,574)
Unrealized exchange rate differences		449,138	88,768
(Increases)/Decreases of financial instruments	12	(147,426)	-
<b>Profit before adjustments to working capital</b>		<b>19,622,497</b>	<b>26,512,528</b>
Movements in working capital			
(Increase)/Decrease of trade and other receivables		15,043,412	(7,188,229)
(Increase)/Decrease of inventories		(2,275,057)	(1,353,593)
(Decrease)/Increase of trade and other payables		(5,541,187)	(317,205)
<b>Cash generated by / (used in) operating activities</b>		<b>26,849,666</b>	<b>17,653,501</b>
Interest paid		(2,424,776)	(1,889,308)
Income tax paid		(346,051)	(1,631,683)
<b>Net cash flow generated by / (used in) operating activities</b>		<b>24,078,839</b>	<b>14,132,510</b>

The accompanying notes from 1 to 35 are an integral part of these financial statements.

**TERAPLAST SA**  
**CASH FLOW STATEMENT**  
**for the financial year ended 31 December 2014**

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

	Notes	Year ended as at 31 December 2013 RON	Year ended as at 31 December 2014 RON
<b>Net cash flow generated from / (used in) investment activities</b>			
Received interest		86,902	5,371
Payments related to acquisition of tangible and intangible assets		(9,212,412)	(5,070,050)
Receipts from the sale of tangible and intangible assets		380,091	179,206
Dividends received		66,948	580,574
<b>Net cash flow from investment activities</b>		<b>(8,678,471)</b>	<b>(4,304,900)</b>
<b>Net cash flow from finance activities</b>			
Net receipts / (reimbursements) from loans		(19,381,568)	(6,883,895)
Financial lease payments		(961,552)	(2,378,037)
<b>Net cash flow generated from / (used in) finance activities</b>		<b>(20,343,119)</b>	<b>(9,261,933)</b>
<b>Net variation of cash and cash equivalents</b>		<b>(4,942,752)</b>	<b>565,677</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>	<b>32</b>	<b>7,834,580</b>	<b>2,891,828</b>
<b>Cash and cash equivalents at the end of the financial year</b>	<b>32</b>	<b>2,891,828</b>	<b>3,457,505</b>

The financial statements on pages 1 to 64 were approved by the Board of Administration and authorized for publishing according to the Administrator's decision on March 26<sup>th</sup>, 2015.

\_\_\_\_\_  
**Alexandru Stanean**  
 CEO

\_\_\_\_\_  
**Edit Orban**  
 CFO

**TERAPLAST SA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2014**

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

---

## **1. GENERAL INFORMATION**

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

The Company's main activities include the production of PVC pipes and profiles, plasticized and rigid granules, heat insulated glass, windows and doors made of PVC and aluminum, polypropylene pipes, fittings and the trading of cables, polyethylene pipes, steel parts.

The Company, together with another business partner, holds a jointly controlled unit, Politub SA (Politub). 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.

In March 2007, the Company has become the major shareholder of Plastsistem SA (Plastsistem) through the purchase of 52.77% of the shares. As of 31 December 2014, Teraplast's holding in Plastsistem is of 78.71%. Plastsistem's main activity is the production of heat insulating panels with polyurethane foam for the construction of warehouses.

The Company holds another subsidiary, Teraglass Bistrita SRL which was established in 2011 and it operated for a few months, having as scope of business the production and trading of windows, though the transfer of the windows division activity within Teraplast SA. In August 2011, Teraplast SA has reintegrated in its activity the production and trading of windows, as the activity of Teraglass Bistrita SRL has ceased.

The Company is preparing consolidated financial statements for Teraplast SA starting with 2007. These financial statements are available on the company's website ([www.teraplast.ro](http://www.teraplast.ro)).

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **2.1 Statement of compliance**

The Company's separate financial statements have been prepared in accordance with the provisions of Order no. 1286/2012 on the approval of 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 supplemented. These provisions are compliant with the provisions of the International Financial Reporting Standards adopted by the European Union („EU IFRS”), except for the provisions of IAS 21 *The effects of changes in foreign exchange rates* concerning the functional currency.

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

### **2.2 Basis of accounting**

The financial statements have been prepared on a going concern basis, according to the historical cost convention adjusted to the effects of hyperinflation until 31 December 2003 for tangible and intangible assets, share capital and reserves, except for certain items of tangible assets and investment property, as presented in the notes. The financial statements are prepared based on the statutory accounting evidence kept in accordance with Order no. 1286/2012 (as aligned with the EU IFRS principles). The main accounting policies are presented below.



## **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 in the foreseeable future, as well. In order to assess the applicability of this assumption, management analyzes the forecasts concerning future cash inflows.

As of 31 December 2014, the Company's current assets exceed its current liabilities by RON 11,619,713 (as of 31 December 2013, current assets had exceeded current liabilities by RON 1,641,081). At the same date, the Company has registered positive comprehensive income of RON 9,414,452 (2013: negative comprehensive income of RON 254,133).

As detailed in Note 29a), the Company's degree of indebtedness is of 25% (31 December 2013: 29%), which indicates a moderate dependence of the Company on financing banks, as also described in Note 25.

The budget prepared by the Company management and approved by the Board of Administration for 2015 indicates positive cash flows from operating activities, an increase in sales and profitability which contributes directly to improving liquidity and allows the Company to fulfill its contractual clauses with the financing banks. Complying with the financial indicators in the contracts with the financing banks depends on the operating result of the Company and on liquidity. Consequently, if the set forecasts are not met because of different factors, including of an economic and political nature, these financial indicators might not be achieved. Company management believes that the support from banks is sufficient for the Company to continue its activity under normal conditions, on a going concern basis.

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.

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

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

#### **A) Changes of accounting policies and presentations**

#### **A) Changes in accounting policy and disclosures**

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 2014:

- **IAS 28 Investments in Associates and Joint Ventures (Revised)**
- **IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities**
- **IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements**
- **IFRS 11 Joint Arrangements**
- **IFRS 12 Disclosures of Interests in Other Entities**
- **IAS 36 Impairment of Assets (Amended) – Recoverable Amount Disclosures for Non-Financial Assets**
- **IFRIC Interpretation 21: Levies**

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Company, its impact is described below:

- **IAS 28 Investments in Associates and Joint Ventures (Revised)**  
As a consequence of the new IFRS 11 Joint arrangements and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. Such change has impact only upon the consolidated financial statements of the Group of which the Company is part of.
- **IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities**  
These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. There is no impact upon the financial statements of the Company.
- **IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements**  
IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. There is no impact upon the financial statements of the Company.
- **IFRS 11 Joint Arrangements**  
IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. Such change has impact only upon the consolidated financial statements of the Group of which the Company is part of.
- **IFRS 12 Disclosures of Interests in Other Entities**  
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity’s interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The new disclosures required are presented in consolidated financial statements of the Group in Note 16, as IFRS 12 does not have impact upon the separate financial statements.

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

- **IAS 36 Impairment of Assets (Amended) – Recoverable Amount Disclosures for Non-Financial Assets**

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. Such amendments do not have impact upon the disclosures done by the Company in the current financial statements

- **IFRIC Interpretation 21: Levies**

The Interpretations Committee was asked to consider how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements. This Interpretation is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. There is no impact upon the financial statements of the Company.

### **B) Standards issued but not yet effective and not early adopted]**

- **IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortization**

The amendment is effective for annual periods beginning on or after 1 January 2016. This amendment clarifies the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendment has not yet been endorsed by the EU. Management is still assessing the potential impact upon the Company's financial position and current result.

- **IFRS 9 Financial Instruments – Classification and measurement**

The standard is applied for annual periods beginning on or after 1 January 2018 with early adoption permitted. The final phase of IFRS 9 reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The standard has not yet been endorsed by the EU. Management is still assessing the potential impact upon the Company's financial position and current result.

- **IFRS 15 Revenue from Contracts with Customers**

The standard is effective for annual periods beginning on or after 1 January 2017. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The standard has not been yet endorsed by the EU. Management is in progress with the analysis of the contracts in place concluded with its customers in order to determine the impact upon the financial position and current result of the Company.

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

- **IAS 27 Separate Financial Statements (amended)**

The amendment is effective from 1 January 2016. This amendment will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and will help some jurisdictions move to IFRS for separate financial statements, reducing compliance costs without reducing the information available to investors. This amendment has not yet been endorsed by the EU. Such amendment has impact only upon the consolidated financial statements of the Group of which the Company is part of and the management is assessing the impact upon the financial position and current result of the Group.

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

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments will be effective from annual periods commencing on or after 1 January 2016. The amendments have not yet been endorsed by the EU. Such amendment has impact only upon the consolidated financial statements of the Group of which the Company is part of and the management is assessing the impact upon the financial position and current result of the Group.

- **The IASB has issued the Annual Improvements to IFRSs 2010 – 2012 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 February 2015. The amendments detailed below have impact only upon the disclosures from the financial statements and have no impact upon the financial position and current result of the Company.

- **IFRS 2 Share-based Payment:** This improvement amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').
- **IFRS 3 Business combinations:** This improvement clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments.
- **IFRS 8 Operating Segments:** This improvement requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.
- **IFRS 13 Fair Value Measurement:** This improvement in the Basis of Conclusion of IFRS 13 clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.
- **IAS 16 Property Plant & Equipment:** The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.
- **IAS 24 Related Party Disclosures:** The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.
- **IAS 38 Intangible Assets:** The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

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

- The **IASB has issued the Annual Improvements to IFRSs 2011 – 2013 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2015. The amendments detailed below have impact only upon the disclosures from the financial statements and have no impact upon the financial position and current result of the Company.
  - **IFRS 3 Business Combinations:** This improvement clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
  - **IFRS 13 Fair Value Measurement:** This improvement clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation.
  - **IAS 40 Investment Properties:** This improvement clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property requires the separate application of both standards independently of each other.
- The **IASB has issued the Annual Improvements to IFRSs 2012 – 2014 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016. These annual improvements have not yet been endorsed by the EU. The amendments detailed below have impact only upon the disclosures from the financial statements and have no impact upon the financial position and current result of the Company.
  - **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:** The amendment clarifies that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
  - **IFRS 7 Financial Instruments: Disclosures:** The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. Also, the amendment clarifies that the IFRS 7 disclosures relating to the offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.
  - **IAS 19 Employee Benefits:** The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
  - **IAS 34 Interim Financial Reporting:** The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.
- **IAS 1: Disclosure Initiative (Amendment)**

The amendments to IAS 1 *Presentation of Financial Statements* further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. The narrow-focus amendments to IAS clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments. These amendments have not yet been endorsed by the EU. The amendments detailed below have impact only upon the disclosures from the financial statements and have no impact upon the financial position and current result of the Company.

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

### **2.5. Cash and cash equivalents**

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

### **2.6. Revenue recognition**

Revenue is measured at the fair value of the consideration received or to be received, net of VAT. Revenue is decreased with the value of returns, trade discounts and of other similar costs.

#### **Sale of goods**

Revenue from the sale of goods is recognized when the following conditions are met:

- The Company has substantially transferred to the buyer all risks and benefits related to the property right over the goods;
- The Company does not have any managerial involvement usually associated to the property right, nor actual control over the sold goods;
- The amount of revenues can be reliably measured;
- It is likely for the economic benefits associated to the transactions to inflow to the entity and the costs registered or to be registered concerning the transaction can be measured reliably;

#### **Revenues from the sale of services and other revenues**

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

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

#### **Dividend and interest revenues**

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

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

### **2.7. Lease**

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

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

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

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

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

### **2.8. Foreign currency transactions**

The Company is operating in Romania and its functional currency is Romanian leu (RON).

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

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

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

	<u>31 December 2013</u>	<u>31 December 2014</u>
<b>EUR 1</b>	4.4847	4.4821
<b>USD 1</b>	3.2551	3.6868
<b>CHF 1</b>	3.6546	3.7273

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

### **2.9. 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. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Revenues from temporary investments of loans, until such loans are used for investments in long-term assets, are deducted from the costs related to long-term loans eligible for capitalization.

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

### **2.11. Costs related to retirement rights**

Based on the collective labor contract, the Company is under the obligation to pay retirement benefits to its employees depending on their seniority within the Company, in average, two salaries. The Company has registered loss for such payments and reviews the value of this liability each year depending on the employees' seniority within the Company.

### **2.12. Employees' contribution**

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

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

### **2.13. Taxation**

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

#### **Current tax**

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

#### **Deferred tax**

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

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

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

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

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

#### **Current tax and deferred tax related to the period**

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



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

### **2.14. Tangible assets**

Tangible assets, less land and buildings, are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Company depreciates them separately based on their specific useful lives. Likewise, when a major inspection 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 particular 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 prospectively, if appropriate.

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

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

Depreciation is registered so as to decrease the cost 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.

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

Loss or gains from the sale or retirement of a tangible asset are calculated as difference between disposal income and the net carrying value of the asset and they are recognized in other expenses.

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:

Buildings	20 – 50 years
Plant and equipment	3 – 15 years
Vehicles under finance lease	5 – 6 years
Installations and furniture	3 – 10 years

### **2.15. Non-current assets (or disposal groups) held for sale**

Non-current assets (or disposal groups) are classified as assets held for sale when the carrying amount is going to be recovered mainly by sale and the sale is considered likely. These are registered at the lowest between the carrying amount and the fair value cost to sell, if the carrying amount is going to be recovered mainly by sale and not by their continued use, and if the sale is considered very likely.

These are classified as current assets if the sale is likely to happen within 12 months from the date of the separate statement of financial position.

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

### **2.16. 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 valuer 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.

The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

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

### **12. 17. Intangible assets**

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

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

Licenses	1 – 5 years
----------	-------------

### **2.18. Impairment of tangible and intangible assets**

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If there is such an indication, the recoverable amount of the asset is estimated to determine the size of the impairment loss. When it is impossible to assess the recoverable amount of an individual asset, the Company assesses the recoverable amount of the cash generating unit which the asset belongs to. Where a consistent distribution basis can be identified, the company's 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.

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

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

If the recoverable value of an asset (or of a cash generating unit) is estimated as being lower than its carrying amount, the carrying amount of the asset (of the cash generating unit) is reduced to the recoverable value. An impairment loss is recognized immediately in profit and loss.

If a depreciation 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.

### **2.19. 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 an appropriate portion of fixed and variable indirect costs are allocated to inventories held through the method most appropriate for the respective class of inventories, the majority being assessed based on the weighted average cost. Finished products, semi-finished goods and production in progress are measured at actual cost. For the following classes of inventories, the average weighted cost method is used: the raw material for pipes/piping, merchandise, inventory items/small tools, packaging materials, consumables.

### **2.20 Investments ins subsidiaries and jointly controlled entities**

Investments ins subsidiaries and jointly controlled entities represent shares owned in this entities.

A jointly controlled entity is a entity of whose shareholders are having jointly control upon and have rights to the entities net assets based on the ownership percentage.

These investments are initially recognized as purchase price and subsequently at purchase cost less accumulated impairment losses.

### **2.20. Share capital**

Common shares are classified in equities.

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

### **2.21. Dividends**

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

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

### **2.22. Provisions**

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

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

### **2.23. Segment reporting**

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

### **2.24. Financial assets and liabilities**

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

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

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

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

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

### **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated at initial recognition as being at fair value through profit or loss. Financial assets are classified as held for trading if they are obtained for the purpose of sale or repurchase within the closest deadline. Derivatives, including separate derivatives, are also classified as held for trading if they are not designated as effective hedge instruments according to IAS 39. Financial assets at fair value through profit or loss are accounted for at fair value in the statement of financial position and the amendments of fair value are recognized in financial income or finance costs in current result.

Financial assets designated at initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria are met according to IAS 39.

### **Available for sale financial assets**

Shares held in an unquoted capital instrument are classified as held for sale and they are registered at fair value in other comprehensive income. Gains and losses from changes in fair value are recognized directly in equity, in investment revaluation reserves, except for impairment losses, interest computed using the effective interest rate method and gains and losses from monetary asset foreign exchange rates, which are recognized directly in profit and loss. If the investment is sold or it is found that it is depreciated, gains or losses cumulated previously recognized in the investment revaluation reserve are included in the profit and loss statement for the period.

Dividends from available for sale capital instruments are recognized in profit and loss when the Company's right to receive them is established.

### **Impairment of financial assets**

Financial assets are measured for impairment at each reporting date.

Financial assets are impaired when there is objective proof that one or several events occurring after initial recognition have had an impact on the future cash flow related to the investment.

For available for sale shares, a significant or prolonged decline of the fair value of the property value below its cost is considered an objective proof of impairment.

Certain categories of financial assets, such as clients, assets measured as not impaired individually, are measured subsequently for impairment on a collective basis. Objective proof concerning the impairment of a portfolio of receivables may include the Company's past experience concerning collective payments, an increase of payments postponed beyond the credit period, as well as visible changes of the national and local economic conditions correlated with payment incidents concerning receivables.

The carrying amount of the financial asset is decreased by the depreciation loss, directly for all financial assets, except for trade receivables, case in which the carrying amount is reduced by using an impairment adjustment account. If a receivable is considered non-recoverable, it is eliminated and deducted from the adjustment for impairment. Subsequent recoveries of the amounts eliminated previously are credited in the adjustment for impairment account. The changes of the carrying amount in the adjustment for impairment account are recognized in provision expenses, adjustments for impairment and depreciation.

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

### **Derecognition of assets and liabilities**

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

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

### **2.25. 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).

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 principal or the most advantageous market must be accessible by the Company.

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

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

The Company 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 Board of Directors. Selection criteria include market knowledge, reputation, independence and professional standards, if they are specified.

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

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

Company's management, in conjunction with the Company'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 fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

### **2.26. Use of estimates**

The preparation of the financial statements requires the performance of estimates and judgments by the management, which affects the reported amounts of assets and liabilities and the presentation of potential assets and liabilities at the balance sheet date, as well as the reported amounts of revenues and expenses during the reporting period. Actual results may be different from these estimates. The estimates and judgments on which these are based are reviewed permanently. The reviews of the accounting estimates are recognized during the period in which the estimate is reviewed, if this review affects only the respective period or during the review period and during future periods, if the review affects both the current period and the future periods.



### **3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

#### **3.1. Judgments**

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

##### **Investment properties**

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

- The Company holds a piece of land and a building (previously used as head office), located in Str. Romana, Bistrita. In January 2012, the management decided that the final destination of the land is to be held in held for long-term capital appreciation which is subsequently materialized through sale. As a result, the land was classified in January 2012 as an investment property.
- In December 2012 the assets previously transferred to SC Teracota Bistrita SRL have been taken back. The management decided that the final purpose of the respective is to be held in held for long-term capital appreciation which is subsequently materialized through sale. As a result, the land was classified in December 2012 as an investment property, being valued at fair value as of this date.
- The Company holds land and buildings (previously used as regional warehouses) in Oradea, Constanta and Bucharest. In 2013, the management decided that the final destination of the land is to be held in held for long-term capital appreciation which is subsequently materialized through sale. As a result, the land and buildings were classified in 2013 as investment properties, being measured at fair value as at 31 December 2013.

For more details on these assets and their classification, see Note 9 and Note 16.

#### **3.2. Estimates and assumptions**

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

##### **Revaluation of property, plant and equipment and investment properties**

The Company carries its investment property at fair value, with changes in fair value being recognized in the statement of profit or loss. In addition, it measures land and buildings at revalued amounts with changes in fair value being recognized in other comprehensive income. The Group engaged independent valuation specialists to assess fair value as at 31 January 2013 for land, buildings and investment property and as at 31 December 2014 only for investment property. Investment properties (land and buildings) and land and buildings (recorded as non-current assets) were valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

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

#### **Impairment of intangible and tangible assets**

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

In the current economic environment, the Company analyzed the internal and external sources of information and reached the conclusion that there are indications concerning the impairment of assets. The Company considers the relationship between its market capitalization and its book value, among other factors, when reviewing for indicators of impairment. As a result, the Company decided to estimate the recoverable amount of tangible assets, under IAS 36. This exercise resulted in no need to record a provision for assets impairment.

The impairment testing performed by the Company is based on the determination of the value in use considering the present value of the future discounted cash flow. The cash flows have been determined based on the budget for 2015 and of the forecasts for the following four years. The terminal value was determined based on the cash flows forecasted for 2019.

The cash generating units identified are:

- The cash generating unit Pipes and fittings for internal and external sewage ("Pipes and fittings");
- The cash generating unit Granules;
- The cash generating unit Joinery Profiles;
- The cash generating unit PVC windows and doors.

The pre-tax discount rate applied for cash flow projections was determined at the level of each cash generating unit, ranging from 8.39% and 12.10% (2013: between 9.43% and 11.95%) The discount rates represent the current market assessment of the risks specific to each cash generating unit, taking into consideration the time value of money and individual risks of the underlying assets. The discount rate calculation is based on the specific circumstances of the Company and its operating segments and is derived from its weighted average cost of capital.

The impairment analysis testing has involved the following underlying assumptions and estimates: prices, costs, gross margin and sold volumes.

For the selling prices and the costs related to the operating activity, increases higher than the estimated inflation level for each year have been taken into consideration. When estimating the volumes on the forecast period, scenarios featuring different increase rhythms in volumes were considered, taking into account past experience and future plans of the management.

The average increase rates of the Company were as follows:

- For the cash generating unit Pipes and fittings, the management estimates that the turnover will increase in the following five years by an annual 7.92% rate above the 2014 level;
- For the cash generating unit Granules, the management has estimated an cumulated increase of 4.5% for the following five years;
- For the cash generating unit PVC windows and doors, the management estimates that the sales will increase by an average 14.77% rate in the following five years. This increase is higher than the industry average and the management estimates this evolution based on the fact that the cash generating unit has concluded contracts at the end of 2014 with new customers operating on international markets that are expected to generate an increase in sales of 18% compared to 2014. Also, the Company has initiated a program for the expansion of its distribution network on the Italian market by using dealers.

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

- The cash generating unit Joinery Profiles has an estimated accumulated increase rate of the turnover for the projection period of 9.54%. This increase is higher than the industry average and the management considers that this increase will also be supported by the PVC windows and doors development.

For 2015, the Company continues to estimate an increase from 2014 due to the actions taken and projects performed for increasing its market share.

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

The gross margin used for in the impairment test is based on the average values obtained in the last year of activity, as well as the efficiency and optimization measures implemented for the production in 2014, which have resulted in an improvement of the results of this year and will have long and medium-term effects.

The Company management considers that the sensitivity analysis of the main assumptions used for the impairment testing would not show indication of impairment for the identified cash generating units.

#### **Pension benefits**

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various actuarial assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The discount rate is 2.53%, which is the average rate on the interest rate curve provided by "Bloomberg" for the first five years and 3.47%, which is the average rate on the interest rate curve provided by "Bloomberg" for the following years, considering the possibility to switch between RON and EUR.

The mortality rate is based on mortality tables provided by the mortality tables issued by the National Institute of Statistics. The salary increase rates are considered to be constant. Further details about the assumptions used are given in Note 26.

#### **Fair value of financial instruments**

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. These judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

**TERAPLAST SA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2014**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

---

**4. REVENUE**

An analysis of the Company revenues is detailed below:

	<b>Year ended 31 December 2013</b>	<b>Year ended 31 December 2014</b>
	<b>RON</b>	<b>RON</b>
Sales from own production	210,017,749	217,163,879
Revenues from sale of commodities	18,204,957	16,679,848
Revenues from other activities	210,555	368,106
Rent and royalty revenues	217,602	89,806
Commercial discounts awarded	<u>(2,038,268)</u>	<u>(1,832,331)</u>
<b>Total</b>	<b><u>226,612,595</u></b>	<b><u>232,469,309</u></b>

**Geographical analysis**

	<b>Year ended 31 December 2013</b>	<b>Year ended 31 December 2014</b>
	<b>RON</b>	<b>RON</b>
Sales on the internal market (Romania)	190,546,289	199,497,221
Sales on the external market (Europe)	<u>36,066,306</u>	<u>32,972,088</u>
<b>Total</b>	<b><u>226,612,595</u></b>	<b><u>232,469,309</u></b>

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

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

**TERAPLAST SA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2014**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

**4. REVENUES (continued)**

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

<b>Year ended 31 December 2013</b>	<b>Pipes and fittings</b>	<b>Joinery profiles</b>	<b>Granules</b>	<b>PVC doors and windows</b>	<b>Non-allocated amounts</b>	<b>Total</b>
<b>Total revenue</b>	<b>118,134,115</b>	<b>42,613,619</b>	<b>41,103,257</b>	<b>24,971,817</b>		<b>226,822,808</b>
Expenses with sales, indirect and administrative expenses	(113,357,478)	(41,509,212)	(35,905,924)	(26,999,272)		(217,771,886)
<b>Operating result</b>	<b>4,776,637</b>	<b>1,104,407</b>	<b>5,197,333</b>	<b>(2,027,455)</b>		<b>9,050,922</b>
Financial result						(4,365,791)
<b>Profit before tax</b>						<b>4,685,131</b>
Profit tax						515,998
<b>Result for the year</b>						<b>5,201,129</b>
<b>Operating assets</b>	<b>100,220,709</b>	<b>44,050,468</b>	<b>21,884,007</b>	<b>23,007,535</b>	<b>22,817,596</b>	<b>211,980,314</b>
Non-current assets	54,775,667	29,484,467	8,953,172	13,290,799	22,817,596	129,321,701
Current assets	45,445,042	14,566,001	12,930,835	9,716,735		82,658,613
<b>Operating liabilities</b>	<b>49,599,742</b>	<b>18,632,353</b>	<b>17,786,632</b>	<b>11,921,430</b>		<b>97,940,157</b>
Long-term liabilities	8,812,344	3,189,289	3,068,181	1,869,072		16,938,886
Current liabilities	40,787,398	15,443,064	14,718,451	10,052,358		81,001,271

  

<b>Year ended 31 December 2014</b>	<b>Pipes and fittings</b>	<b>Joinery profiles</b>	<b>Granules</b>	<b>PVC doors and windows</b>	<b>Non-allocated amounts</b>	<b>Total</b>
<b>Total revenue</b>	<b>127,174,892</b>	<b>42,868,742</b>	<b>40,244,532</b>	<b>22,411,945</b>		<b>232,700,111</b>
Expenses with sales, indirect and administrative expenses	(116,506,536)	(41,050,330)	(35,833,551)	(25,375,951)		(218,766,368)
<b>Operating result</b>	<b>10,668,356</b>	<b>1,818,412</b>	<b>4,410,981</b>	<b>(2,964,006)</b>		<b>13,933,743</b>
Financial result						(2,537,294)
<b>Profit before tax</b>						<b>11,396,449</b>
Profit tax						(1,981,997)
<b>Result for the year</b>						<b>9,414,452</b>
<b>Operating assets</b>	<b>102,425,777</b>	<b>40,068,963</b>	<b>24,841,448</b>	<b>24,466,650</b>	<b>22,572,441</b>	<b>214,375,279</b>
Non-current assets	50,089,962	27,906,175	8,854,169	14,428,369	22,572,441	123,851,116
Current assets	52,335,815	12,162,788	15,987,279	10,038,281		90,524,163
<b>Operating liabilities</b>	<b>47,643,347</b>	<b>15,721,833</b>	<b>17,315,317</b>	<b>10,239,644</b>		<b>90,920,141</b>
Long-term liabilities	6,577,333	2,215,500	2,078,022	1,144,836		12,015,691
Current liabilities	41,066,014	13,506,333	15,237,295	9,094,808		78,904,450

The non-allocated amounts relate to investment properties, investments in subsidiaries and jointly controlled entities, as well as financial assets (2014 and 2013).

**TERAPLAST SA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2014**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

---

**5. OTHER OPERATING INCOME**

	<b>Year ended 31 December 2013</b>	<b>Year ended 31 December 2014</b>
	<b>RON</b>	<b>RON</b>
Compensations, fines and penalties	64,578	80,039
Other revenues	145,634	150,764
<b>Total</b>	<b>210,212</b>	<b>230,802</b>

**6. CHANGES IN INVENTORIES OF FINISHED GOODS AND WORK IN PROGRESS**

	<b>Year ended 31 December 2013</b>	<b>Year ended 31 December 2014</b>
	<b>RON</b>	<b>RON</b>
Changes in inventories of finished goods and work in progress	2,512,375	( 505,390)
<b>Total</b>	<b>2,512,375</b>	<b>( 505,390)</b>

**7. RAW MATERIALS, CONSUMABLES USED AND COMMODITIES**

	<b>Year ended 31 December 2013</b>	<b>Year ended 31 December 2014</b>
	<b>RON</b>	<b>RON</b>
Raw material expenses	133,853,842	132,036,355
Consumable expenses	11,274,532	11,072,525
Commodity expenses	13,909,407	12,194,082
Consumed packaging	530,385	580,330
Packaging for sale	40,524	-
<b>Total</b>	<b>159,608,690</b>	<b>155,883,292</b>

**8. OTHER GAINS AND LOSSES**

<b>Gains/losses from disposal of tangible and intangible assets</b>	<b>Year ended 31 December 2013</b>	<b>Year ended 31 December 2014</b>
	<b>RON</b>	<b>RON</b>
Revenues from the disposal of the tangible and intangible assets	380,091	179,206
Expenses with the disposal of the tangible and intangible assets	(317,182)	(267,591)
<b>Total</b>	<b>62,909</b>	<b>(88,385)</b>

**TERAPLAST SA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2014**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

**9. GAINS AND LOSSES ON THE FAIR VALUE MEASUREMENT OF INVESTMENT PROPERTIES**

	<b>Year ended 31 December 2013</b>	<b>Year ended 31 December 2014</b>
	<b>RON</b>	<b>RON</b>
Gain from the fair value measurement of investment properties	636,087	18,614
(Loss) on the fair value measurement of investment properties	<u>(4,016,881)</u>	<u>(208,243)</u>
<b>Total</b>	<b><u>(3,380,794)</u></b>	<b><u>(189,629)</u></b>

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

	<b>Year ended 31 December 2013</b>	<b>Year ended 31 December 2014</b>
	<b>RON</b>	<b>RON</b>
<b>Impairment adjustments for current assets and provisions</b>		
Setting and reversals of impairment adjustments for current assets (Note 20 and Note 21)	(1,573,666)	1,252,359
Provisions for risks and expenses (Notes 26 and Note 27)	<u>(666,780)</u>	<u>(164,564)</u>
<b>Total impairment adjustments for current assets and provisions</b>	<b><u>(2,240,446)</u></b>	<b><u>1,087,795</u></b>
Expenses with impairment, net (Note 15 and Note 17)	(2,276,059)	(685,420)
Amortization expenses (Note 15 and Note 17)	<u>12,856,104</u>	<u>12,962,794</u>
<b>Total provisions, impairment adjustments and amortization</b>	<b><u>8,339,599</u></b>	<b><u>13,365,170</u></b>

**11. EMPLOYEE BENEFIT EXPENSES**

	<b>Year ended 31 December 2013</b>	<b>Year ended 31 December 2014</b>
	<b>RON</b>	<b>RON</b>
Salaries	17,413,752	17,849,985
Contributions to the public social security fund	4,749,552	4,786,853
Other taxes and contributions related to the salaries	192,247	162,749
Meal tickets	917,154	921,304
Other employee benefits	<u>(44,094)</u>	<u>60,177</u>
<b>Total</b>	<b><u>23,228,611</u></b>	<b><u>23,781,068</u></b>

**TERAPLAST SA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2014**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

**12. FINANCIAL COSTS AND REVENUES**

	<b>Period ended 31 December 2013</b>	<b>Period ended 31 December 2014</b>
	<b>RON</b>	<b>RON</b>
<b>Financial costs</b>		
Interest expense	2,326,889	1,907,160
Expenses with exchange rate differences	4,412,126	2,548,825
Financial discounts granted	868,330	834,931
Losses on operations with derivatives held for trading	81,736	11,617
Other financial expenses	393,684	128,632
<b>Total</b>	<b>8,082,765</b>	<b>5,431,165</b>
	<b>Period ended 31 December 2013</b>	<b>Period ended 31 December 2014</b>
	<b>RON</b>	<b>RON</b>
<b>Financial income</b>		
Interest income	86,902	5,371
Revenues from exchange rate differences	3,333,958	2,291,415
Investment revenues	66,948	580,574
Gains on operations with derivatives held for trading	229,162	11,617
Other financial income	5	4,894
<b>Total</b>	<b>3,716,975</b>	<b>2,893,872</b>
<b>Net financial loss</b>	<b>(4,365,790)</b>	<b>(2,537,293)</b>

**13. OTHER EXPENSES**

	<b>Period ended 31 December 2013</b>	<b>Period ended 31 December 2014</b>
	<b>RON</b>	<b>RON</b>
Travelling expenses	7,202,772	8,220,293
Expenses with utilities	5,822,817	5,487,168
Expenses with third party services	4,213,716	3,922,428
Expenses with compensations, fines and penalties	454,304	234,056
Entertainment, promotion and advertising expenses	1,799,768	1,564,680
Expenses with other taxes and duties	912,649	1,151,128
Repair expenses	1,104,250	731,050
Travelling expenses	472,628	454,639
Rent expenses	499,403	851,725
Mail and telecommunication expenses	268,142	288,135
Insurance premium expenses	327,321	439,265
Other general expenses	2,711,706	1,608,867
<b>Total</b>	<b>25,789,476</b>	<b>24,953,435</b>



**TERAPLAST SA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2014**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

---

**14. PROFIT TAX**

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

	<b>Period ended 31 December 2013</b>	<b>Period ended 31 December 2014</b>
	<b>RON</b>	<b>RON</b>
<b>Profit/(loss) before tax</b>	<b>4.685.131</b>	<b>11.396.449</b>
Theoretical tax calculated in a 16% rate	749,621	1,823,432
Elements assimilated to income (realized revaluation reserve)	122,597	77,798
Deductions	(1,899,639)	(2,184,828)
Non-taxable revenues	(1,739,120)	(1,208,154)
Non-deductible expenses	3,923,342	3,589,762
Effect of the fiscal loss to be recovered from prior years	-	-
Sponsorship (tax credit)	(114,535)	(141,966)
<b>Total current profit tax</b>	<b>1,042,266</b>	<b>1,956,044</b>
Current profit tax recognized in the profit and loss statement- (expense)/revenue	(1,042,266)	(1,956,044)
Deferred profit tax recognized in the profit and loss statement- (expense)/revenue	1,558,264	(25,953)
<b>Profit tax recognized in the profit and loss statement – (expense)/revenue</b>	<b>515,998</b>	<b>(1,981,997)</b>
	<b>Period ended 31 December 2013</b>	<b>Period ended 31 December 2014</b>
	<b>RON</b>	<b>RON</b>
<b>Profit/(loss) before tax</b>	<b>4,685,131</b>	<b>11,396,449</b>
Applicable tax rate	16%	16%
Theoretical profit tax	749,621	1,823,432
Tax impact of the permanent differences determined on profit tax calculation	(1,265,619)	158,565
<b>Profit tax recognized in the profit and loss statement</b>	<b>(515,998)</b>	<b>1,981,997</b>

**TERAPLAST SA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2014**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

---

**14. PROFIT TAX (continued)**

The tax rate applied for the reconciliation mentioned above related to 2014 and 2013 is 16% and is payable by Romanian legal entities.

**The components of the net deferred tax liabilities**

	Statement of financial position		Charged to the profit and loss account		Charged to the revaluation reserve	
	2013	2014	2013	2014	2013	2014
Tangible assets and investment properties	(3,848,182)	(4,037,538)	1,558,264	(189,356)	1,039,198	-
Investments in subsidiaries	392,000	392,000		-		-
Employee benefit liability		55,424		55,424		-
Trade and similar payables		107,979		107,979		-
<b>Total</b>	<b>(3,456,182)</b>	<b>(3,482,135)</b>	<b>1,558,264</b>	<b>(25,953)</b>	<b>1,039,198</b>	<b>-</b>
<b>Reconciliation of deferred tax liabilities, net</b>	<b>2013</b>	<b>2014</b>				
<b>Balance as at 1 January</b>	<b>(6,053,645)</b>	<b>(3,456,182)</b>				
Revenues from/(expenses with) the tax during the period recognized in the profit and loss statement	1,558,264	(25,953)				
Revenues from/(expenses with) the tax during the period recognized in other comprehensive income	1,039,198	-				
<b>Closing balance at 31 December</b>	<b>(3,456,182)</b>	<b>(3,482,136)</b>				

According to the Romanian tax legislation, the tax loss may be carried forward for seven years for the tax losses recorded after 1 January 2009, starting with the year when they occurred. In 2014, the Company has no fiscal losses carried forward from prior years.

**TERAPLAST SA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2014**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

**15. TANGIBLE ASSETS**

<b>COST</b>	<b>Land RON</b>	<b>Buildings RON</b>	<b>Tools and equipment RON</b>	<b>Installations and furniture. RON</b>	<b>Tangible assets in progress RON</b>	<b>Total RON</b>
<b>Balance as at 1 January 2013</b>	<b>11,787,885</b>	<b>65,502,385</b>	<b>132,496,793</b>	<b>1,097,396</b>	<b>1,759,025</b>	<b>212,643,484</b>
<b>Increases:</b>	<b>36,939</b>	<b>73</b>	<b>1,706,854</b>	<b>38,175</b>	<b>11,812,784</b>	<b>13,594,825</b>
Out of which:	-	-	-	-	-	-
Increases from the internal production of non-current assets	-	73	12,023	-	563,528	575,624
Elimination of gross value related to the accumulated depreciation for revalued tangible assets	(722)	(4,972,610)	-	-	-	(4,973,331)
Increases/(decreases) from revaluation with impact on reserves	(599,073)	(5,895,388)	-	-	-	(6,494,460)
Increases/(decreases) from revaluation of impact on the profit and loss account	-	(413,023)	-	-	-	(413,023)
Transfers	-	1,992,575	9,511,293	67,796	(11,571,663)	-
Disposals and other decreases	-	-	(1,936,360)	-	(270,527)	(2,206,887)
Transfers – investment properties	(3,115,881)	(1,610,366)	-	-	-	(4,726,247)
Transfers from inventory items	-	-	63,386	-	-	63,386
Corrections (Note 24)	-	-	163,514	-	-	163,514
<b>Balance as at 31 December 2013</b>	<b>8,109,148</b>	<b>54,603,645</b>	<b>142,005,481</b>	<b>1,203,367</b>	<b>1,729,619</b>	<b>207,651,260</b>
<b>ACCUMULATED DEPRECIATION</b>						
<b>Balance as at 1 January 2013</b>	<b>376</b>	<b>9,887,003</b>	<b>88,448,167</b>	<b>463,678</b>	<b>-</b>	<b>98,799,224</b>
Depreciation recorded during the year	346	2,537,809	9,733,929	150,139	-	12,422,223
Decreases	-	-	(1,890,729)	-	-	(1,890,729)
Elimination of accumulated depreciation for revalued tangible assets	(722)	(4,972,610)	-	-	-	(4,973,331)
Impairment	-	(2,389,210)	(299,872)	-	-	(2,689,082)
Corrections (Note 24)	-	-	421,600	(30,322)	-	391,278
<b>Balance as at 31 December 2013</b>	<b>-</b>	<b>5,062,993</b>	<b>96,413,096</b>	<b>583,494</b>	<b>-</b>	<b>102,059,583</b>
<b>Net carrying amount as at 1 January 2013</b>	<b>11,787,509</b>	<b>55,615,382</b>	<b>44,048,626</b>	<b>633,718</b>	<b>1,759,025</b>	<b>113,844,260</b>
<b>Net carrying amount as at 31 December 2013</b>	<b>8,109,148</b>	<b>49,540,652</b>	<b>45,592,385</b>	<b>619,873</b>	<b>1,729,619</b>	<b>105,591,677</b>

**TERAPLAST SA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2014**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

**15. TANGIBLE ASSETS (continued)**

	Land	Buildings	Tools and equipment	Installations and furniture.	Tangible assets in progress	Total
<b>COST</b>	<b>RON</b>	<b>RON</b>	<b>RON</b>	<b>RON</b>	<b>RON</b>	<b>RON</b>
<b>Balance as at 1 January 2014</b>	<b>8,109,148</b>	<b>54,603,645</b>	<b>142,005,481</b>	<b>1,203,367</b>	<b>1,729,619</b>	<b>207,651,260</b>
<b>Increases:</b>		<b>9,190</b>	<b>316,031</b>		<b>6,735,421</b>	<b>7,060,641</b>
Out of which:						
Increases from the internal production of non-current assets			15,602		1,088,283	1,103,885
Transfers		402,819	5,263,485	10,675	(5,676,979)	0
Transfers - consumables			41,838			41,838
Disposals and other decreases	(37,059)	(48,022)	(12,235,221)	(86,889)	(151,124)	(12,558,314)
Transfers – assets under construction					(68,688)	(68,688)
Transfers – investment properties		48,022	-	-		48,022
<b>Balance as at 31 December 2014</b>	<b>8,072,089</b>	<b>55,015,654</b>	<b>135,391,613</b>	<b>1,127,153</b>	<b>2,568,249</b>	<b>202,174,757</b>
<b>ACCUMULATED DEPRECIATION</b>						
<b>Balance as at 1 January 2014</b>	-	<b>5,062,993</b>	<b>96,413,096</b>	<b>583,494</b>		<b>102,059,583</b>
Depreciation recorded during the year	346	2,399,777	9,867,583	137,137		12,404,843
Decreases	-		(12,201,100)	(86,889)		(12,287,989)
Impairment	-	(379,322)	229,784		(76,315)	685,420
<b>Balance as at 31 December 2014</b>	<b>346</b>	<b>7,083,449</b>	<b>93,891,633</b>	<b>633,742</b>	<b>(76,315)</b>	<b>101,532,855</b>
<b>Net carrying amount as at 1 January 2014</b>	<b>8,109,148</b>	<b>49,540,652</b>	<b>45,592,385</b>	<b>619,873</b>	<b>1,729,619</b>	<b>105,591,677</b>
<b>Net carrying amount as at 31 December 2014</b>	<b>8,071,743</b>	<b>47,932,205</b>	<b>41,499,980</b>	<b>493,411</b>	<b>2,644,563</b>	<b>100,641,902</b>

**15. TANGIBLE ASSETS (continued)**

The tangible assets include vehicles and equipment used as part of finance lease contracts, as follows:

	<b>31 December 2013</b>	<b>31 December 2014</b>
	<b>RON</b>	<b>RON</b>
Net value – vehicles	311,852	832,003
Net value – equipment	7,391,373	8,337,955

As of 31 December 2014, the carrying amount of land and building that would have been recognized if the asset were recorded according to the cost model is:

	<b>31 decembrie 2013</b>	<b>31 decembrie 2014</b>
	<b>RON</b>	<b>RON</b>
Land and building – cost model	53,503,958	46,893,714

As at 31 December 2014, the Company had pledged in favor of financial institutions non-current assets and investment properties with a net carrying amount RON 73.987.028 (31 December 2013: RON 83.595.521).

The items revalued in 2013 were land and buildings. The Company management decided they represented a single class of assets for fair value revaluation purposes under IFRS 13. This analysis took into consideration the characteristics and risks associated to the revalued properties.

The fair value of the land was determined applying the market value. This means that the valuation performed by an independent valuator was based on the prices on an active market, as adjusted to the differences related to the location, property condition and its nature. As at 31 December 2013, the fair value of the land was determined by an external accredited independent valuator.

Significant data used for the valuation which are not directly observable:

Price per square meter for land Range EUR 4.5 – 101 /sq. m.

Significant increases/(decreases) of the estimated market price for only one property may result in the significant increase/(decrease) of the fair value.

For the valuation of buildings, the direct capitalization method was used.



**TERAPLAST SA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2014**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

---

**16. INVESTMENT PROPERTIES (continued)**

Taking into account the complexity of the computations required for the sensitivity analysis of unobservable data (change of assumptions and variables used), the Company did not performed such analysis considering that the potential impact will not exceed 10% - 15% of the fair value assessed for the buildings classified as investment property (2,263,131 RPN).

	<b>31 December 2013</b>	<b>31 December 2014</b>
	<b>RON</b>	<b>RON</b>
Opening balance at 1 January	12,257,263	13,602,716
Reclassifications from tangible assets	4,726,247	55,526
(Loss)/Net gain from valuation of investment properties at fair value (Note 9)	<u>(3,380,794)</u>	<u>(189,629)</u>
<b>Closing balance at 31 December</b>	<b><u>13,602,716</u></b>	<b><u>13,357,561</u></b>
	<b>31 December 2013</b>	<b>31 December 2014</b>
Rental revenues from investment properties	125,336	-
Direct operational expenses	<u>(5,942)</u>	<u>-</u>
<b>Net profit resulting from investment properties recorded at fair value</b>	<b><u>119,394</u></b>	<b><u>-</u></b>

**TERAPLAST SA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2014**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

**17. OTHER INTANGIBLE ASSETS**

Cost	Licenses	Intangible assets	Total
	RON	in progress RON	RON
<b>Balance as at 1 January 2013</b>	<b>4,047,429</b>	<b>957</b>	<b>4,048,386</b>
Increases	371,420	142,637	514,057
Transfers	143,594	(143,594)	-
Corrections	31		31
Disposals and other decreases	(3,679)	-	(3,679)
<b>Balance as at 31 December 2013</b>	<b>4,558,795</b>	<b>-</b>	<b>4,558,795</b>
<b>Accumulated amortization</b>			
<b>Balance as at 1 January 2013</b>	<b>3,126,052</b>	<b>-</b>	<b>3,126,052</b>
Amortization expense	497,264	-	497,264
Decreases	(2,585)	-	(2,585)
Corrections	25,110	-	25,110
<b>Balance as at 31 December 2013</b>	<b>3,645,840</b>	<b>-</b>	<b>3,645,840</b>
<b>Net carrying amount as at 1 January 2013</b>	<b>921,377</b>	<b>957</b>	<b>922,334</b>
<b>Net carrying amount as at 31 December 2013</b>	<b>912,956</b>	<b>-</b>	<b>912,956</b>
Cost	Licenses	Intangible assets	Total
	RON	in progress RON	RON
<b>Balance as at 1 January 2014</b>	<b>4,558,795</b>		<b>4,558,795</b>
Increases	171,179	41,900	213,079
Transfers from tangible assets - correction		68,688	68,688
Transfers	53,375	(53,375)	-
Disposals and other decreases	(644,587)	-	(644,587)
<b>Balance as at 31 December 2014</b>	<b>4,138,762</b>	<b>57,214</b>	<b>4,195,976</b>
<b>Accumulated amortization</b>			
<b>Balance as at 1 January 2014</b>	<b>3,645,839</b>	<b>-</b>	<b>3,645,839</b>
Amortization expense	557,952	-	557,952
Decreases	(644,587)	-	(644,587)
Corrections		-	
<b>Balance as at 31 December 2014</b>	<b>3,559,204</b>	<b>-</b>	<b>3,559,204</b>
<b>Net carrying amount as at 1 January 2014</b>	<b>912,956</b>	<b>-</b>	<b>912,956</b>
<b>Net carrying amount as at 31 December 2014</b>	<b>579,558</b>	<b>57,214</b>	<b>636,772</b>



**TERAPLAST SA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2014**

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

**18. INVESTMENTS IN SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES**

As at 31 December 2014 and 31 December 2013, the Company holds investments in two subsidiaries and a jointly controlled entity.

Subsidiary	Country	Share	31 December	Share of	31 December
		.	2013	.	2014
		%	RON	%	RON
Plastsistem S.A.	Romania	78.71%	8,904,408	78.71%	8,904,408
Teraglass Bistrita SRL	Romania	100%	50,000	100%	50,000
Politub SA	Romania	50%	245,000	50%	245,000
			<b>9,199,408</b>		<b>9,199,408</b>

***Plastsistem SA***

In March 2007, the Company became the majority shareholder of Plastsistem SA (Plastsistem) by purchasing 52.77% of the shares. As at 31 December 2013, the Teraplast shareholding in Plastsistem is 78.71%. The main activity of Plastsistem is the production of panels insulated with polyurethane foam for the building of industrial halls and warehouses.

In 2008, the Company participated in the increase of the share capital of Plastsistem, which resulted in an increase in shareholding by 0.71%. Additionally, the Company increased its investment in Plastsistem by 1.4% in 2008.

In 2010, changes in the percentages held by Teraplast SA in the share capital of Plastsistem SA were recorded in the form of an increase in the share capital by a contribution in kind (a real estate property located in Bistrita, str. Tarpiului nr. 25) with a value RON 2,316,000, which resulted in an increase in investment by 6.17%. At the end of 2014, the shareholding of Teraplast in Plastsistem was 78.71%.

***Teraglass Bistrita SRL***

Teraglass Bistrita SRL Company was established in 2011 and is owned 100% by Teraplast SA. The main activity was the production of plastic items for constructions and it has a share capital of RON 50,000. In December 2011, the activity of Teraglass Bistrita SRL was integrated into Teraplast SA. In 2014 and 2013, Teraglass Bistrita SRL performed no activity.

***Politub SA***

The Company also holds 50% of the shares of a jointly controlled entity - Politub SA, with the head office in Bistrita, Romania. The main activities of Politub include the production of medium and high density polyethylene pipes for the transmission and distribution networks for water, natural gas, and for telecommunications, sewerage or irrigations.

**TERAPLAST SA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2014**

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

**19. OTHER FINANCIAL ASSETS**

The details of the financial assets of the Company are as follows:

Investment description	Country	Share	31 December	Share	31 December
		%	2013	%	2014
			RON		RON
CERTIND SA	Romania	7.50%	14,400	7.50%	14,400
Sustainable development partnership	Romania	7.14%	1,000	7.14%	1,000
Tera Tools SRL	Romania	24%	72	24%	72
<b>Total</b>			<b>15,472</b>		<b>15,472</b>

CERTIND Company is an independent certification body accredited by Greek Accreditation Body / ESYD for the following certification services: quality management system certification according to ISO 9001, environmental management system certification according to ISO 14001, food safety management system certification according to ISO 22000.

The Company has undertaken no obligation and has made no payment on behalf of the entities in which it holds securities as investments in associates.

**20. INVENTORIES**

	31 December	31 December
	2013	2014
	RON	RON
Finished goods	20,265,940	19,958,065
Raw materials	10,613,802	11,752,568
Commodities	2,201,036	2,162,102
Consumables	1,369,923	1,553,888
Inventory items	271,802	268,506
Semi-finished goods	957,588	712,887
Residual products	187,105	128,047
Goods in transit	244,185	943,326
Packaging	89,569	75,154
<b>Inventories – gross value</b>	<b>36,200,950</b>	<b>37,554,543</b>
Value adjustments on raw materials and materials	(1,128,534)	(2,075,052)
Value adjustments for finished products	(1,119,445)	(855,688)
Value adjustments for commodities	(1,235,827)	(967,184)
<b>Total</b>	<b>32,717,144</b>	<b>33,656,618</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 are fully adjusted (100%).

**21. TRADE AND OTHER RECEIVABLES**

	<b>31 December 2013</b>	<b>31 December 2014</b>
	<b>RON</b>	<b>RON</b>
Trade receivables	33,981,362	37,654,343
Non-chargeable trade notes	23,010,347	26,083,372
Advances paid to suppliers of assets	887,379	1,129,549
Advances paid to suppliers of inventories and services	275,188	653,884
Commercial guarantees paid	242,486	239,869
Advances paid to employees	33,119	569
Other receivables	699,680	821,547
Adjustments for trade receivables impairment	<u>(12,503,797)</u>	<u>(13,342,038)</u>
<b>Total</b>	<b><u>46,625,764</u></b>	<b><u>53,241,094</u></b>

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

	<b>31 December 2013</b>	<b>31 December 2014</b>
	<b>RON</b>	<b>RON</b>
<b>Balance at the beginning of the year</b>	<b><u>(13,884,930)</u></b>	<b><u>(12,503,798)</u></b>
(Increase)/decrease in impairment adjustments charged to profit and loss	1,381,132	838,241
Out of which:		
For trade receivables	<u>1,381,132</u>	<u>838,241</u>
<b>Balance at the end of year</b>	<b><u>(12,503,798)</u></b>	<b><u>(13,342,038)</u></b>

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

**TERAPLAST SA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2014**

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

**22. SHARE CAPITAL**

	<b>31 December 2013</b>	<b>31 December 2014</b>
	<b>RON</b>	<b>RON</b>
Subscribed share capital paid in full	28,887,588	28,887,588
The adjustment for the effect of hyperinflation until 31 December 2003	30,092,472	30,092,472
<b>Total</b>	<b>58,980,060</b>	<b>58,980,060</b>

As at 31 December 2014, the value of the subscribed share capital of the Company includes 288,875,880 authorized shares issued and paid in full at a value RON 0.1 and having a total nominal value RON 28,887,588. Common shares bear a vote each and give the right to dividends.

The share capital was increased in 2008 by a public purchase offering. 49,645,980 new shares with a nominal value RON 0.1 per share were issued with a share premium RON 0.9 per share. The expenses with the listing process on the Bucharest Stock Exchange, in an amount RON 2,436,264, were incurred from the share premium.

In 2009, 4,480,000 shares were purchased for the price RON 1,682,159, to be used for resale to the Company executive management at acquisition cost, in accordance with the Shareholder's decision dated 11 December 2008.

In 2010, 4,042,655 shares were purchased for the price RON 1,946,981, accounting for 1.36% of the share capital. In 2011, 526,345 shares were purchased for the price RON 245,713, accounting for 0.17% of the share capital. The shares were purchased to be resold to the Company executive management at acquisition cost, according to the shareholders' decisions dated 11 December 2008 and 11 December 2009.

On 16 December 2010, the shareholders decided on the distribution of these shares free of charge to the Company executive management. To this effect, before implementing this decision, the Company has prepared and submitted a simplified prospectus to the competent bodies (CNVM), according to the legal requirements for this case.

The plan included:

- The distribution of 4,500,000 free shares;
- For a 10 year period to the Company management - each year, the management will receive a part of the shares, based on their performance.

Until 31 December 2012, the redeemed shares have not been distributed, being included in retained earnings. In March 2013, the Company decided to cancel the redeemed shares by decreasing the share capital. As a result of this decision, during the period March-September 2013, Teraplast SA prepared and sent, according to the legal provisions in force, the documents required for recording of the decrease in the share capital subscribed and paid-in, by cancelling 9,000,000 own shares which was recorded by the Central Depository on 15 October 2013.

When adjusting the share capital following the cancellation of own shares, the Company also adjusted the related hyperinflation effect.

**Shareholding structure**

	<b>31 December 2013</b>		<b>31 December 2014</b>	
	<b>Number of shares</b>	<b>% ownership</b>	<b>Number of shares</b>	<b>% ownership</b>
Goia Dorel	102,067,342	35.33%	135,124,842	46.78%
Viciu Emanoil	25,240,069	8.74%	25,240,069	8.74%
Marley Magyarorszag (Gemencplast Szekszard)	22,885,589	7.92%	22,885,589	7.92%
SIF Banat Crisana	32,766,683	11.34%	-	
KJK Fund II Sicav-SIF	23,166,500	8.02%	29,000,000	10.04%
Other individuals and legal entities	105,916,197	36.67%	76,625,380	26.53%
<b>Total</b>	<b>288,875,880</b>	<b>100.00%</b>	<b>288,875,880</b>	<b>100.00%</b>

**TERAPLAST SA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2014**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

---

**23. LEGAL RESERVES**

	<b>31 December 2013</b>	<b>31 December 2014</b>
	<b>RON</b>	<b>RON</b>
Opening balance	3,330,468	3,561,377
Set during the period	230,909	539,863
<b>Total</b>	<b>3,561,377</b>	<b>4,101,240</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 Company 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.

**24. RETAINED EARNINGS**

	<b>31 December 2013</b>	<b>31 December 2014</b>
	<b>RON</b>	<b>RON</b>
<b>Balance at the beginning of the year</b>	<b>(16,296,668)</b>	<b>(9,453,943)</b>
Realized revaluation reserve		-
Impact from own share redemption	1,837,538	-
Legal reserves	(230,909)	(539,863)
Correction of prior year errors	34,965	-
Result for the year	5,201,129	9,414,452
<b>Balance at the end of year</b>	<b>(9,453,943)</b>	<b>(579,356)</b>

The correction of errors for 2013 relates to the adjustment of the gross value and the accumulated depreciation of fixed assets (mainly equipment) and the reconsideration of certain values charged in prior years as receivables impairment. This correction was caused by the identification of discrepancies between the trial balance and the fixed asset register (please see Note 15).

**TERAPLAST SA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2014**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

**25. LOANS AND FINANCE LEASE LIABILITIES**

	<u>Short-term</u>		<u>Long-term</u>	
	<u>31 December 2013</u>	<u>31 December 2014</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
	<u>RON</u>	<u>RON</u>	<u>RON</u>	<u>RON</u>
Bank loans	7,808,376	4,966,047	9,577,121	4,641,521
Credit line	27,506,756	28,352,094	-	-
Lease liabilities	1,577,456	2,109,795	3,603,097	3,545,633
<b>Total</b>	<b>36,892,588</b>	<b>35,427,936</b>	<b>13,180,218</b>	<b>8,187,154</b>

Bank loans are classified as follows:

Bank	<u>Balance as at 31 December 2013</u>		<u>Balance as at 31 December 2014</u>	
	<u>Short - term</u>	<u>Long-term</u>	<u>Short-term</u>	<u>Long-term</u>
	<u>RON</u>	<u>RON</u>	<u>RON</u>	<u>RON</u>
Banca Transilvania Bank	10,373,426	-	11,869,367	-
BRD	16,932,416	4,484,425	11,380,404	2,240,775
Unicredit	7,734,666	4,199,999	9,774,936	1,800,000
Porsche Bank	274,624	892,697	293,435	600,746
Leasing	1,577,456	3,603,097	2,109,795	3,545,633
<b>Total</b>	<b>36,892,588</b>	<b>13,180,218</b>	<b>35,427,937</b>	<b>8,187,154</b>

All loans have a floating interest rate.

The classification according to the currencies is as follows:

<u>Currency</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
EUR	34,577,805	17,375,531
RON	15,495,000	26,239,560
<b>TOTAL</b>	<b>50,072,805</b>	<b>43,615,091</b>

Bank loans as at 31 December 2014 are as follows:

- A. A short-term credit contract signed with BRD on 10 April 2010 and expressed in EUR for financing the working capital; the initial amount was EUR 1,500,000, supplemented up to EUR 3,300,000 starting 15 April 2011, and the interest rate is the Reference rate Euribor 3M + 2.50 pp for EUR and Euribor 3M + 1.85 for RON; the amount remaining from this amount as at 31 December 2014 is RON 9,127,764 (EUR 2,036,493) (31 December 2013: RON 14,679,833 (EUR 3,273,314); the maturity is 19 June 2015; the Company is discussing with BRD for the extension of the credit periods by another 12 months.
- B. An investment contract signed with BRD on 19 December 2011 and expressed in EUR; the total amount is EUR 2,500,000 with an interest rate EURIBOR 3M + 3 pp; the amount remaining as at 31 December 2014 under this contract is RON 4.481.825 (EUR 999.939) (31 December 2013: RON 6.726.775 [EUR 1.499.939]); the maturity is 20 December 2016 and the reimbursement is performed in 60 monthly instalments amounting to EUR 41,666.67.

**25. LOANS AND FINANCE LEASE LIABILITIES (continued)**

- C. A credit contract – credit line for supporting the current activity, as renewed with Unicredit Tiriac Bank on 1 October 2013 and expressed in RON; the amount is EUR 2,800,000 resulting from the reduction of the amount EUR 4,800,000, an amount originally consisting in the unification of the revolving credit signed with Unicredit on 4 September 2006 for the amount EUR 3,500,000 and of the short-term credit for financing the working capital, in an amount EUR 1,300,000, divided as follows: EUR 1,000,000 – a credit line usable in RON and EUR 800,000 – overdraft; the interest rate is ROBOR (3M) + 1.5% p.a., for the amount EUR 1,000,000 and EURLIBOR (3M) + 1.5% p.a. for the amount 800,000. The total amount used under this contract as at 31 December 2014 is RON 4.206.411. (31 December 2013: RON 2.453.497 (EUR 547.082); the credit line amounting to EUR 1,000,000 as at 31 December 2013 is not used in full; the maturity is 1 October 2015;
- D. An investment contract signed with Unicredit Tiriac Bank on 29 September 2011 and expressed in EUR or USD for investment; the initial amount was EUR 3,000,000 with an interest rate EURIBOR 1M + 5.75% pp; the balance of the credit as at 31 December 2013 was converted in RON and resulted in the amount RON 6,599,999 with an interest rate ROBOR 1M + 2.5 pp; the amount remaining as at 31 December 2014 under this contract is RON 4.199.999 (31 December 2013: RON 6,599,999 [EUR 2,266,666,52]); upon the credit conversion, the maturity was extended by 12 months and, as a result, the maturity is 29 September 2016; the reimbursement was initially due in 45 equal monthly instalments in an amount EUR 66,666,67 and, subsequent to the conversion and extension by 12 months, the reimbursement is due also in instalments, but in an amount RON 200,000;
- E. An investment contract signed with Porsche Bank on 28 November 2013 and expressed in RON for the purchase of cars; the initial amount is RON 1,189,532 and the interest rate ROBOR 1M + 5.5 pp.; the amount remaining under this contract as at 31 December 2014 is RON 894.181(31 December 2013: RON 1.167.321); the maturity is November 2017 and the reimbursement schedule is from December 2013 to 27 November 2017;
- F. A credit contract - credit line for financing the current activity signed with Banca Transilvania Bank on 27 August 2013 and expressed in RON. The total amount is of RON 13,250,000 resulted from increasing the initial ceiling of RON 11,000,000 with RON 2,000,000 at prolonging date, respectively 28 August 2014. The interest rate is ROBOR 3 M + 1.5% p.a.; the total amount remaining under this contract as at 31 December 2014 is RON 11,869,367 (31 December 2013: RON 10.373.426). The maturity date is 24 August 2015,

As at 31 December 2014, the Company had credit facilities not used in an amount EUR 1,261,035 and RON 6,586,632.

## **25. LOANS AND FINANCE LEASE LIABILITIES (continued)**

According to the credit contracts concluded with BRD which are in force as of 31 December 2014, the Company must comply with certain financial conditions, otherwise, the bank being entitled to request the immediate reimbursement of the outstanding amounts. The related ratios are as follows:

- Net Financial Liability / EBITDA – at most 3.5 over the financing period, subject to a quarterly check;
- Interest Coverage Ratio ICR (EBITDA / interest expense) – at least 6 over the financing period;
- DSCR (Debt Service Coverage Ratio) – at least 1.2 in 2011 over the financing period;
- Global liquidity – at least 1, subject to a quarterly check;
- Equity /Total Assets – at least 40%, subject to a quarterly check.

As of 31 December 2013 and 2014, the company complied with the conditions related to the financial ratios in the long term bank loan agreements.

The Company received from BRD a letter, dated 29 December 2014 mentioning that the bank had acknowledged the Company's situation and a new calculation of the ratios would be performed as at 31 December 2015.

On 13 February 2014, the Company signed with BRD a seasonal credit contract in an amount EUR 3,500,000 for financing purchases of raw materials, with an interest rate EURIBOR 3M + 2.55%, with the maturity on 30 November 2014 paid in full, according to the approved schedule.

Furthermore, another loan recorded as at 31 December 2013 was fully reimbursed during 2014, according to the approved schedule - a EUR 3,500,000 loan to Unicredit Tirioc Bank.

As at 31 December 2014, tangible assets and investment properties, with a net carrying amount RON 73.987.028, are pledged for loans and credit facilities (land, buildings and investment properties – RON 50.235.380; equipment, tools and other non-current assets – RON 23.751.648).

The loans received from banks are guaranteed with cash from bank accounts, both current and prospective, and of assignment of current and future inventories stocks and trade receivables balances, deriving from present and future contracts concluded with its customers, having the quality of ceased debtors. Furthermore, the Company pledged its rights from insurance policies in place in relation to movable and immovable assets set as guarantee.

### **Lease contracts**

Finance leases relate to motor vehicles and equipment on lease periods of 5-6 years. The Company has the option to buy the equipment for a nominal amount at the end of the contractual periods. The Company finance lease obligations are secured with the lessee's ownership on the assets.



**25. LOANS AND FINANCE LEASE LIABILITIES (continued)**

**Finance lease liabilities**

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

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2013 RON	31 December 2014 RON	31 December 2013 RON	31 December 2014 RON
<b>Present value of minimum lease payments</b>				
Amounts payable in one year	1,854,840	2,363,445	1,577,456	2,109,796
More than one year but less than five years	3,902,239	3,750,299	3,603,097	3,545,633
<b>Total lease liabilities</b>	<b>5,757,079</b>	<b>6,113,744</b>	<b>5,180,553</b>	<b>5,655,429</b>
Minus future financial expenses	576,526	458,315		

The present value of finance lease liabilities, as included on the financial statements:

Short-term loans	1,577,456	2,109,796
Long-term loans	3,603,097	3,545,633

**26. EMPLOYEE BENEFIT LIABILITIES**

The Company has established a benefit plan according to which the employees are entitled to receive retirement benefits according to the seniority within the Company when they turn the retirement age of 65 for men and of 61 for women. There are no other post-retirement employee benefits. The provision represents the present value of the retirement benefit as calculated on an actuarial basis. The main estimates in the actuarial valuation were based on a discount rate of 2.53% for the first 5 years and of 3.47% for the following years and represent the average rate on the interest curve provided by "Bloomberg".

The latest actuarial valuations were performed on 31 December 2014 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 2014, Teraplast SA Company has reversed provisions amounting to RON 60.177 (2013: RON 44.094) related to the rights to compensate employees based on the actuarial calculation, for the amounts granted to the employees for retirement; these amounts are provided under the collective labor agreement.

<b>Employee benefits</b>	<b>31 December 2013</b>	<b>31 December 2014</b>
Opening balance	330,319	286,225
Decreases	(44,094)	60,177
<b>Closing balance</b>	<b>286,225</b>	<b>346,402</b>

**TERAPLAST SA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2014**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

**27. CURRENT PROVISIONS**

	31 December 2013	Movements			1 January 2013
	RON	Reversal of provision not used RON	Reversal of provision used RON	Additional provision RON	RON
Provisions for environmental expenses	3,001,425	-	-	127,643	2,873,782
Provisions for litigation	2,205	(619,140)	(48,337)	38,843	630,839
Other provisions	1,152,785	(316,670)	(12,988)	163,868	1,318,575
<b>Closing balance</b>	<b>4,156,415</b>	<b>(935,810)</b>	<b>(61,325)</b>	<b>330,354</b>	<b>4,823,196</b>

	31 December 2014	Movements			1 January 2014
	RON	Reversal of provision not used RON	Reversal of provision used RON	Additional provision RON	RON
Provisions for environmental expenses	2,917,492	(297,223)		213,290	3,001,425
Provisions for litigation	559,915	-		557,710	2,205
Other provisions	514,444	(551,855)	(300,739)	214,253	1,152,785
<b>Closing balance</b>	<b>3,991,851</b>	<b>(849,078)</b>	<b>(300,739)</b>	<b>985,253</b>	<b>4,156,415</b>

Teraplast SA has set provisions for sundry expenses related to environmental protection, being probable obligations generated by prior events of the entity. Furthermore, the Company has set provisions for different litigations.

**28. TRADE AND SIMILAR LIABILITIES**

	31 December 2013	31 December 2014
	RON	RON
Trade payables	31,645,890	31,484,943
Trade notes payable	783,996	1,016,562
Liabilities from the purchase of long-term assets	2,306,222	1,482,524
Advance payments from clients	1,239,702	839,340
Other payables	3,796,787	4,303,795
<b>Total</b>	<b>39,772,597</b>	<b>39,127,164</b>

**Other payables**

	31 December 2013	31 December 2014
	RON	RON
Salary-related payables to employees and social security payables	2,493,604	2,557,544
VAT payable	650,864	959,861
Unclaimed employee rights	95,006	84,988
Sundry creditors	169,704	389,177
Commercial guarantees received	94,190	79,399
Other taxes payable	293,419	232,826
<b>Total</b>	<b>3,796,787</b>	<b>4,303,795</b>

## 29. FINANCIAL INSTRUMENTS

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

### (a) Capital risks management

The Company manages its capital with a view that it will be able to continue its activity while maximizing income for the shareholders, by way of optimizing the balance of debt and equity.

The structure of the Company capital consists in debts, which include the loans detailed in Note 25, the cash and cash equivalents and the equity attributable to equity holders of the parent. Equity includes the share capital, reserves and retained earnings, as detailed in Notes 22, 23 and 24, respectively.

The management of the Company risks also includes a regular capital structure analysis. As part of this analysis, the management takes into consideration the cost of capital and the risks related to each class of capital. Based on the management recommendations, the Company may balance its general capital structure by paying dividends, issuing new shares and redeeming shares, and also, by contracting new debts or settling existing ones.

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

The degree of indebtedness as at 31 December 2014 and 2013 was as follows:

	<u>2013</u>	<u>2014</u>
Total loans	50,072,806	43,615,091
Cash	(2,891,828)	(3.457.505)
Net debt	47,180,978	40.157.586
<b>Total equity</b>	<b>114,040,685</b>	<b>123,455,138</b>
<b>Total equity and net debt</b>	<b>161,221,663</b>	<b>163,612,725</b>
<b>Gearing ratio</b>	<b>29%</b>	<b>25%</b>

The Company is subject to capital requirements provided by the legal regulations in force governing the net-asset-to-share-capital ratio. The net asset, calculated as the difference between total assets and total liabilities must exceed 50% of the share capital amount. According to the Company Law 31/1990, as republished, when this requirement is not met, the administrators must immediately convene the Extraordinary General Meeting to decide on whether to increase the share capital or decrease the share capital by an amount at least equal to the losses that cannot be covered from the existing reserves, or to dissolve the company.

The Company met this requirement and needed no share capital increase as at 31 December 2014 and 31 December 2013.

**29. FINANCIAL INSTRUMENTS (continued)**

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

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

**(c) Market risk**

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

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

**(d) Foreign currency risk management**

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

**(e) Interest rate risk management**

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

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

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

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

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

### **(f) Other price risks**

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

### **(g) Credit risk management**

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

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

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

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

The Company considers the exposure to the credit risk in relation to counterparty or a group of similar counterparties by analyzing the receivables individually and making impairment adjustments together with the client credit management department. The Company defines the counterparties as having similar characteristics when they are affiliated entities.

### **(h) Liquidity risk management**

The ultimate responsibility for liquidity risk management lies with the Board of Directors, which have developed an appropriate liquidity risk management framework in terms of ensuring funding for the Company on the short, medium and long-term and managing liquidities. The Company manages the liquidity risks by maintaining appropriate reserves, bank facilities and reserve loan facilities, by continuously monitoring actual cash flows and by correlating the maturity profiles of financial assets and liabilities. Note 25 includes a list of additional facilities not drawn by the Company, which the Company has in order to further reduce the liquidity risk. .

### **(i) Fair value of financial instruments**

The financial instruments disclosed on the balance sheet include trade and other receivables, cash and cash equivalents, short and long-term loans and other debts, including liabilities/receivables related to derivative financial instruments. The estimated fair values of these instruments approximate their carrying amounts. The carrying amounts represent the maximum exposure of the Company to the credit risk related to the existing receivables.

**29. FINANCIAL INSTRUMENTS (continued)**

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

	<b>31 December 2013</b>	<b>31 December 2014</b>
	<b>RON</b>	<b>RON</b>
Not payable	41,713,419	47,552,280
Overdue, but not impaired	4,912,345	5,688,814
Impaired and provisioned in full	12,503,797	13,342,038
<b>TOTAL</b>	<b>59,129,561</b>	<b>66,583,132</b>

Overdue, but not impaired

	<b>31 December 2013</b>	<b>31 December 2014</b>
	<b>RON</b>	<b>RON</b>
Below 3 months	4,409,691	4,927,491
3 to 6 months	51,821	288,643
6 to 9 months	192,354	31,311
Above 9 months	258,478	441,369
<b>TOTAL</b>	<b>4,912,345</b>	<b>5,688,814</b>

Impaired and provisioned in full

	<b>31 December 2013</b>	<b>31 December 2014</b>
	<b>RON</b>	<b>RON</b>
Below 6 months	808,817	1,016,098
6 to 12 months	1,009,395	711,264
Above 12 months	10,685,585	11,614,676
<b>TOTAL</b>	<b>12,503,797</b>	<b>13,342,038</b>

**TERAPLAST SA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2014**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

**29. FINANCIAL INSTRUMENTS (continued)**

The carrying amounts of the Company currencies expressed in monetary assets and liabilities at the reporting date are as follows:

	EUR	USD	CHF	RON	31 December
	1 EUR= RON 4.4847 EUR	1 USD= RON 3.2551 USD	1 CHF= RON 3.6546 CHF	1 RON RON	2013 Total
2013	RON	RON	RON	RON	RON
<b>ASSETS (Loans and receivables)</b>					
Cash and cash equivalents	304,247	238,849	-	2,348,733	<b>2,891,828</b>
Receivables	3,816,141		(6,449)	42,816,072	<b>46,625,764</b>
<b>LIABILITIES (Financial liabilities)</b>					
Trade and other payables	(24,603,944)	(913,468)	-	(14,255,185)	<b>(39,772,597)</b>
Short and long-term loans	(34,577,805)	-	-	(15,495,000)	<b>(50,072,805)</b>
					<b>31 December</b>
	1 EUR= RON 4.4821 EUR	1 USD= RON 3.6868 USD	1CHF= RON 3,7273 1CHF=	1 RON RON	2014 Total
2014	RON	RON	RON	RON	RON
<b>ASSETS (Loans and receivables)</b>					
Cash and cash equivalents	79,829	56,386		3,321,289	<b>3,457,505</b>
Receivables	3,666,518	45,072		49,529,505	<b>53,241,094</b>
<b>LIABILITIES (Financial liabilities)</b>					
Trade and other payables	(21,397,021)	(2,426,171)	(20)	(15,303,952)	<b>(39,127,164)</b>
Short and long-term loans	(17,375,531)			(26,239,560)	<b>(43,615,091)</b>

**29. FINANCIAL INSTRUMENTS (continued)**

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

	<u>31 December 2013</u>		<u>31 December 2014</u>	
	RON	RON	RON	RON
Profit or (loss)	(5,606,136)	5,606,136	(3,502,621)	3,502,621

***Tables on liquidity and interest rate risks***

The tables below detail the dates remaining until the maturity of the Company financial liabilities.

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

As at 31 December 2014, in the case of a 1% increase/decrease of the interest rate on loans, with all the other variables held constant, the net profit for the period would fluctuate as follows, mainly as a result of the higher/lower interest expenses on floating interest loans.

	<u>31 December 2013</u>		<u>31 December 2014</u>	
	RON	RON	RON	RON
Profit or (loss)	500,728	(500,728)	436,151	(436,151)



**TERAPLAST SA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2014**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

**29. FINANCIAL INSTRUMENTS (continued)**

	2013	Below 1 month	1-3 months	3 months to 1 year	1-3 years	3 - 5 years	Total
<b>Non-interest bearing</b>							
Trade and other payables		(24,864,990)	(13,657,713)	(1,015,068)	(430,758)	-	(39,968,528)
<b>Interest-bearing instruments</b>							
Short and long-term loans		(804,222)	(1,610,885)	(34,477,481)	(12,053,094)	(1,127,124)	(50,072,806)
Future interest		(184,688)	(385,067)	(1,731,879)	(32,730)	-	(2,334,364)
<b>Non-interest bearing</b>							
Cash and cash equivalents		2,891,828					2,891,828
Receivables		12,521,283	28,200,319	5,900,361	3,800	-	46,625,764
	<b>2014</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>Total</b>
<b>Non-interest bearing</b>							
Trade and other payables		(21,810,785)	(16,712,098)	(566,385)	(37,895)		39,127,164
<b>Interest-bearing instruments</b>							
Short and long-term loans		(880,894)	(1,701,270)	(32,845,773)	(7,779,282)	(407,871)	(43,615,091)
Future interest		(227,657)	(447,551)	(1,885,273)	(358,676)	(5,559)	<b>(2,924,715)</b>
<b>Non-interest bearing</b>							
Cash and cash equivalents		3,457,505					3,457,505
Receivables		26,099,886	25,356,248	1,782,261	2,700		53,241,094

**29. FINANCIAL INSTRUMENTS (continued)**

***Fair value measurement***

The fair value of financial assets and liabilities is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The carrying amount of the main financial assets of the Company and of the liabilities approximates their fair value as at 31 December 2014 and 2013 as detailed below. The methods and assumptions below were used to estimate the fair values:

- For cash, trade receivables and other current assets, trade payables and other current liabilities, their carrying amount approximates the fair value because of the short-term maturities of these instruments.
- The fair value of the interest-bearing short-term loans, interest-bearing long-term loans and obligations arising from the financial lease agreements approximates their carrying amount (the interest rates are adjusted with sufficient regularity in order to reflect the risks associated with the Company and industry). The long-term loans of the Company are very specific in nature and, as a result, similar contractual terms and clauses cannot be easily identified on the market.

### **30. RELATED-PARTY TRANSACTIONS**

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

#### **31 December 2013**

##### **Subsidiaries**

Plastsistem SA Bistrita

Politub SA Bistrita

Teraglass Bistrita SRL Bistrita

##### **Related entities (shareholding/joint decision-maker)**

Omniconstruct S.A.

Magis Investment SRL

Ditovis Impex SRL

ACI Cluj S.A

Ferma Pomicola Dragu SRL

GM Ecoinstal SRL

La Casa Ristorante Pizzeria Pane Dolce S.A.

Art Investment& Management S.R.L.

Trasim Consult SRL

#### **31 December 2014**

##### **Subsidiaries**

SC Plastsistem SA Bistrita

SC Politub SA Bistrita

SC Teraglass Bistrita SRL Bistrita

##### **Related entities (shareholding/joint decision-maker)**

Omniconstruct S.A.

Magis Investment SRL

Ditovis Impex SRL

ACI Cluj S.A

Ferma Pomicola Dragu SRL

GM Ecoinstal SRL

La Casa Ristorante Pizzeria Pane Dolce S.A

Art Investment& Management S.R.L

Trasim Consult SRL

Condmag SA

Electrogrup SA

**30. RELATED-PARTY TRANSACTIONS (continued)**

	<b>31 December 2013</b>	<b>31 December 2014</b>
	<b>RON</b>	<b>RON</b>
Transactions and balances with subsidiaries		
Sales of goods and services	2,463,120	2,471,631
Purchases of goods and services	3,084,887	3,165,938
Purchases of fixed assets	27,209	21,694
Debit balances	1,606,550	842,723
Credit balances	614,603	783,815
	<b>31 December 2013</b>	<b>31 December 2014</b>
Transaction and balances with related parties		
Sales of net services	5,971	33,032
Sales of net goods	808,379	929,353
Purchases of net services	187,782	217,279
Purchases of net goods	34,227	2,948,185
Purchases of net fixed assets	0	0
Debit balances	371,929	228,934
Credit balances	42,158	35,160

**Compensations to the members of senior management**

The remuneration of directors and other senior management members during the year was in amount of RON 3.326.085 (2013: RON 2.748.054).

The remuneration of the directors and executive personnel is determined by the shareholders, according to the persons' performance and payment conditions.

**31. EARNINGS PER SHARE**

The basic earnings per share are calculated by dividing the profit of the Company shareholders to the weighted average number of ordinary shares being issued during the year, excepting the ordinary shares purchased by the Company and held as equity.

	<b>31 December 2013</b>	<b>31 December 2014</b>
	<b>RON</b>	<b>RON</b>
(Loss) attributable to equity holders of the parent	<b>5.201.129</b>	<b>9.414.452</b>
Average number of shares	288,875,880	288,875,880
<b>Earnings per share</b>	<b>0.0180</b>	<b>0,033</b>

The diluted earnings per share equal the basic earnings per share.

**TERAPLAST SA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2014**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

**32. CASH AND CASH EQUIVALENTS**

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

	<b>31 December 2013</b>	<b>31 December 2014</b>
	<b>RON</b>	<b>RON</b>
Cash in bank	2,874,358	3,431,174
Cash on hand	4,198	13,576
Cash equivalents	13,272	12,755
<b>Total</b>	<b>2,891,828</b>	<b>3,457,505</b>

**33. COMMITMENTS AND CONTINGENCIES**

The Company has concluded various contracts for the purchase of new tools, detailed as follows in the table below:

<b>Firm</b>	<b>Subject matter of contract</b>	<b>Date</b>	<b>Value of contract EUR</b>
Elco - Bistrita	Assembling LED lamps	05.12.2014	7,246
Theysohn - Austria	Molds and snecks repairs	07.12.2014	42,303
Theysohn - Austria	Plast units TTS108 2 pieces and repairs	18.12.2014	90,000
IPM - Italia	Factory equipment PVC	19.12.2014	355,000
Bausano - Italia	Granulation line + plasticising unit	22.12.2014	425,000

As at 31 December 2014, the Company has letters of guarantee issued, as detailed below:

<b>Issuer bank</b>	<b>Period of validity</b>	<b>Amount</b>	<b>Currency</b>	<b>Object of guarantee</b>
BRD Banca Transilvania	12.08.2010-11.08.2015 10.01.2014-12.01.2015	9.961 90.000	RON RON	good performance in favor of IMI Cluj Napoca Good pay in favor of MOL ROMANIA PETROLEUM PRODUCTS SRL

On 27 August 2013, the Company signed with Banca Transilvania a contract – ceiling for issuance of multicurrency letters of guarantee with multiple use and valid until 26 August 2015. The value of the ceiling is RON 1,750,000.

On 10 January 2014, as part of this cap, a letter of bank guarantee amounting to RON 90,000 was issued in favor of MOL ROMANIA PETROLEUM PRODUCTS SRL, as a payment guarantee under the contract and valid during 10.01.2014 - 12.01.2015, with a reissue on 09.02.2015 and valid until 08.02.2016.

As at 31 December 2014, tangible assets and investment properties, with a net carrying amount RON 73.987.028, are set as a security for credits and credit lines (land and buildings – RON 50.235.380; equipment, tools and other non-current assets – RON 23.751.648). For the loans from banks, the Company guaranteed with all bank accounts, the current and future inventories and trade receivable balances, and their accessories arising from current and future contracts with its customer, in capacity of assigned debtors. Moreover, the Company has assigned the rights resulting from the insurance policies issued for movable and immovable properties set as guarantee.

### **33. COMMITMENTS AND CONTINGENCIES (continued)**

#### **Potential tax liabilities**

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

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

#### **Environmental matters**

The main activity of the Company has inherent effects on the environment. The environmental effects of the Company activities are monitored by the local authorities and by the management. As a result, no provisions were set for any kind of potential obligations currently quantifiable in relation to environmental matters or actions for their remedial.

#### **Transfer pricing**

The Romanian tax legislation includes the "market value" principle, according to which inter-company transactions must be performed at market value. The local taxpayers that conduct transactions with affiliates must prepare and make available the transfer pricing documentation file to the Romanian tax authorities, on their written request. The failure to submit the transfer pricing documentation file or the submission of an incomplete file may result in penalties for non-conformity; additionally to the transfer pricing documentation file, the tax authorities may interpret the transactions and circumstances differently from the management's interpretation and, as a result, they may determine additional tax obligations resulting from the transfer pricing adjustment. The Company management considers no losses will be recorded in the event of a tax inspection related to transfer pricing. However, the impact of a different interpretation of the tax authorities cannot be reliably measured. This may be significant for the Company financial position and/or the operations.

### **33. COMMITMENTS AND CONTINGENCIES (continued)**

#### **Financial crisis**

##### *Recent volatility of the international and Romanian markets*

The current liquidity crisis that started mid-2007 resulted, among other things, into low financing levels on the capital market, low liquidity levels in the financial sector and, occasionally, higher payments for inter-banking loans, as well as very high volatility of stock exchanges. Moreover, the volatility of the exchange rate for RON and for the main currencies used in international exchanges was very high.

To date, the overall impact of the current financial crisis is still impossible to anticipate and prevent in full. This affects mainly in the economic segments dependent on the constructions industry and the infrastructure projects, business filed that are dependent of European Funds absorption rate as well as of investment decision taken at the level of the state budget.

The management cannot reliably estimate the effects on the Company financial position in the event of a potential decrease in the financial markets liquidities, of an increase in the exchange rate for the national currency and of the continued recession. The management considers that the necessary action was taken in order to assure the Company continuity under the current conditions.

##### *Impact on clients*

The clients and other debtors of the Company may be affected by the market conditions, and this may affect their ability to reimburse the amounts owed. This may have an impact on the Company management's forecast of the cash flows and on the assessment of the financial and non-financial asset impairment. To the extent there is available information, the management has appropriately reflected the revised estimates of future cash flows when assessing the impairment.

### **30. EVENTS AFTER THE BALANCE SHEET DATE**

Starting with 1 April 2015, the Company plans to transfer the operational segment PVS windows and doors to a separate entity, company Teraglass Bistrita SRL. This Company is 100% owned by Teraplast. For 2014, PVC windows and doors operation segment has a contribution of 10% to the Company's turnover. After the transfer, the products of this business line will be marketed under the brand of Teraglass.

The transfer of business will be realized also by renting the land and buildings and sale of the production equipment. The Company will retain its ownership of the assets sold until full payment of their sale price. The Teraglass plant is located in the city of Bistrita, was built in 2004 and was not part of the relocation plan to Saratel Industrial Park.

In February 2015 the Company contracted from Unicredit Tiriac Bank an investment credit of EUR 2,000,000, convertible in RON, in order to finance acquisitions of equipment. The applicable interest rate is ROBOR 1M + 2,5%. The loan is due by February 2020, with a grace period of 12 months and is to be reimbursed according the approved payment schedule.

On March 6<sup>th</sup>, 2015 the Board of Administrators approved the set-up of a private limited company in the Republic of Moldova. Teraplast's share in the newly incorporated entity will be of 51%

### **31. APPROVAL OF THE FINANCIAL STATEMENTS**

These financial statements were approved by the Board of Directors on March 26<sup>th</sup>, 2015.