2018 ANNUAL REPORT

TERA PLAST GROUP

TeraPlast since 1896
TeraSteel
TeraGlass windows & doors
TeraPlast Hungary
TeraSteel Serbia
wetterbest

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STATEMENT FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

Esteemed shareholders,
Esteemed partners,
Esteemed employees,

While 2017 has been a year of regional expansion and investment growth, with the goal of diversifying our product portfolio, 2018 meant consolidating on every level, without losing sight of our objective to develop the TeraPlast Group.

Last year, we celebrated 10 years since going public on the Bucharest Stock Exchange. During this time, the TeraPlast Group's value increased and we believe that we managed to prove that we are a solid, trustworthy group, that is capable of overcoming hard times, one that can adapt to the changes of the markets it activates on. We used stock mechanisms to the benefit of our shareholders, and we intend to continue to do this. In the 10 years since going public, our Group has invested over 320 million lei. „Efficient solutions for people and the environment" is more than just a motto. We take care so that we add sustainability to every action we take. As a result, last year, TeraPlast's recycling division processed over 6.000 tonnes of rigid PVC waste. Towards the end of the year, TeraPlast also signed an agreemend with E.ON to increase energy efficiency, an initiative which will improve energy conservation by up to 11.45% and will reduce CO2 emissions by up to 600.000 tonnes per year, for the long term.

2018 has been challenging, a year of macro-economic and political changes, but also a year in which the state proved through actions that it supports Romanian companies.

TeraPlast, TeraGlass and Depaco are the Group's companies which started implementing three investment projects worth a total of 15 million euros, 6.8 million of which are state aid – co-financing through H.G. 807/2014. These projects align with the company's objectives to develop the TeraPlast Group and call for the creation of new production and storage spaces, the expansion of our production capacity, as well as the addition of new production lines. Following these investments, the three companies will be able to offer new products, coresponding to our partners' needs.

Also in 2018, the TeraPlast Group team surpassed 1.000 emplyees and we can report that the pleasing results we registered at the start of this year are all because of team unity, our determination and the competencies of each and every one of us. Our Group includes professionals with experience in key areas, who identify with the company's values and objectives and who always try to get the best results.

As for our financial performance, the effects of consolidating the new businesses can already be seen - the TeraPlast Group registered a turnover increase of 91% and saw its EBIDA rise by 55%. We've consolidated our position on the regional market, becoming an important exporter within the CEE.

This year, we aim to increase our market share and our regional coverage through the development of our production capacity, in order to optimize our product portfolio, as well as through extending our distribution network. I believe in the TeraPlast Group team and in the actions take to meet these objectives.

Last but not least, I want to thank our employees for their daily contribution, our investors for their trust and our partners for being with us.

„Efficient solutions for people and the environment" is more than just a motto. We take care so that we add sustainability to every action we take.

Dorel Goia
Chairman of the Board of Directors

THE TERAPLAST GROUP

is the largest Romanian privately-held construction materials manufacturer.
The TeraPlast Group operates in five locations and eight factories: Sărăţel (Bistriţa-Năsăud), Bistriţa (Bistriţa Năsăud), Băicoi (Prahova), Podari (Dolj) and Leskovac (Serbia). The eight factories cover a total area of more than 300.000 square meters. With a turnover of more than 170 million euros, The Group invests constantly in developing its production capacity. In the last decade, total group level investments surpassed 100 million euros.

EFFICIENT SOLUTIONS FOR PEOPLE AND THE ENVIRONMENT

OUR MISSION

To develop durable solutions that will create value for us, our shareholders and our partners.

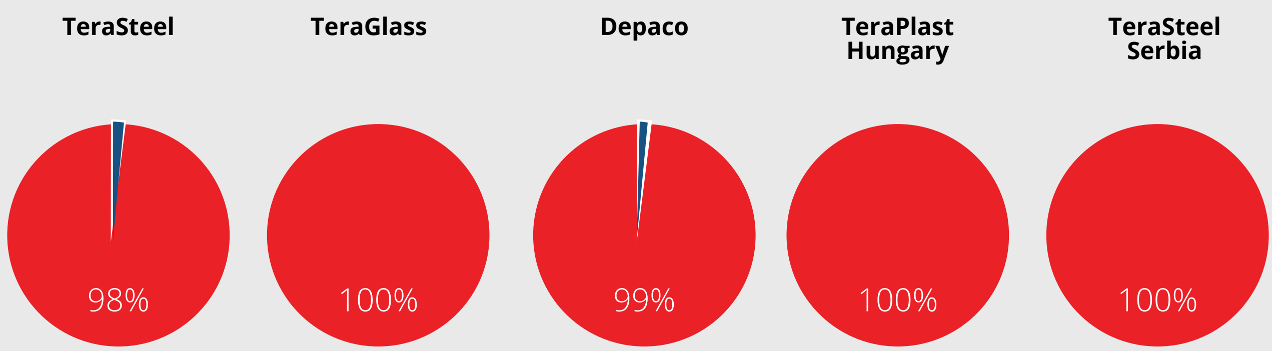
VISION

To become a model of excellence in management, business, and social responsibility.

VALUES

Quality, reliability and performance on the market. These values are part of our company culture and are always present in everything we do.

STRUCTURE - TERAPLAST SA share ownership



TERA PLAST GROUP

TeraPlast since 1896

TeraPlast was founded in 1896, as a ceramic tile production shop, in Bistriţa. Today, more than 12 decades later, TeraPlast SA is one of the largest PVC processors in Romania and **one of the most important Romanian manufacturers of construction materials**. These achievements are the natural result of more than a century of development and continuous innovation, all done with only one purpose: to offer efficient solutions for people and the environment.

Starting July 2, 2008, TeraPlast SA has gone public on the **Bucharest Stock Exchange**, under the TRP symbol, with its shares included within the indices BET-BK, BET-XT, BET-XT-TR and BET-Plus. Today, TeraPlast operates out of the TeraPlast Industrial Park, an industrial park covering more than 200.000 square meters of ground.

TeraPlast SA's product portfolio is split across **three different business lines:**

- PVC, polyethylene and polypropylene installations
- PVC Joinery Profiles
- Rigid and Plasticized Compounds

As part of its growth strategy, TeraPlast founded TeraPlast Hungary, a distribution company. Starting with 2018, the company started operating in its rigid PVC recycling unit. The unit has an annual processing capacity of 12.000 tonnes, which makes it the largest rigid PVC recycler in Romania and puts it in the Top 10 largest European rigid PVC recyclers. Starting with 2019, the business line was transferred to **TeraPlast Recycling company.**

PVC Pipe
5.750 km

PE Pipe
5.332 km

PP Pipe
2.659 km

Fittings **over 8.7 million pieces**

Manholes
over 22.700 pieces

Profile joinery
6.902 km

TERA PLAST GROUP

TeraSteel

TeraSteel's story started in 1994 when the company called Plastsistem was founded. TeraSteel is now one **of the largest manufacturers of sandwich panels and galvanized structures**, with production units in Romania and Serbia. **Its products are present in over 25 European countries** and the company is recognized as a strategic partner in the region.

TeraSteel started the production of **thermal insulating sandwich panels** with polyurethane foam in 2007.

After developing its production capacity, the company now offers:

• Sandwich panels with PUR polyurethane foam, PIR fireproof polyurethane foam and mineral wool
• Self-supporting trapezoidal sheet
• Galvanized profiles
• Turnkey halls – a modular, durable, easy to assemble and relocate product for a wide range of necessities.

In 2017, following an EUR 6 million investment, TeraSteel opened its first factory abroad. Named **TeraSteel DOO**, it was the first Romanian owned factory to open abroad after 1990.

Sandwich panels
3,1 mil. sqm

Galvanized profiles
5.720 tonnes

Self-supporting sheet
98.000 sqm

Turnkey halls
45 units

With more than 10 years of experience in manufacturing thermal insulating profiles, the **TeraGlass windows and doors factory** is active both on the Romanian and on other important European markets.

As part of the TeraPlast Group, TeraGlass shares the same values and always looks to offer its clients the best solutions. The factory in Bistrita has an annual **production capacity of 130.000 units.**

The wide range of products in TeraGlass' portfolio allows the company to offer its clients solutions of the best **quality**, which ensure their **comfort,** through thermal and acoustic insulation, while also **looking good** and fitting in with different architectural styles.

TeraGlass' list of products includes:

- PVC Windows
- PVC Doors
- Panels and ornamental panels
- Aluminium products

123.000 units
manufactured

Depaco started its journey in 1999, as an importer of metal roof tiles. Eight years later, in 2007, it went from importer status to that of high-quality **metal tiles manufacturer**, under the **Wetterbest** brand.

Today, Depaco's Romanian factories offer:
- 4 types of metal roof tiles
- Self-supporting sheet metal in 4 sizes
- Plated sheet metal
- Complete accessories and drainage systems

Depaco's production lines feature state-of-the-art machines which ensure high productivity as well as rigorous manufacturing, allowing the company to quickly deliver its high-quality products to its clients.

The high quality of its products helped Depaco become the second most important metal roof tiles manufacturer on the Romanian market.

Since 2018, **The Wetterbest School** has received its credentials from the Ministry of National Education, through the National Authority of Qualifications and the County Agency for Payments and Social Inspection, while its courses are recognized all over the European Union. The Wetterbest School is dedicated to tinsmiths and roofing systems sellers. Those who take the course gain advanced knowledge of roofing systems. So far, the Wetterbest School has trained more than 1.500 tinsmiths.

Metal tiles **more than 5 million square meters**

Self-supporting metal sheets **over 1.8 million square meters**

Drainage systems **over 1.4 million square meters**

Accessories **over 3.8 million pieces**

TERA PLAST GROUP

MAIN EVENTS IN 2018

TERAPLAST IN TOP 10 EUROPEAN RECYCLERS

Following an EUR 4 million investment, the TeraPlast recycling unit started its activity. The unit has state-of-the-art cleaning and sorting technologies from European market leaders and has a processing capacity of 12.000 tonnes per year. The company positions itself in top 10 rigid PVC recyclers in Europe and the largest in Romania, by the processing capacity.

10 YEARS SINCE THE COMPANY WENT PUBLIC ON BUCHAREST STOCK EXCHANGE

In the last 10 years since TeraPlast went public on the Bucharest Stock Exchange, the company invested over RON 323 million in the development of its production units, in state-of-the-art technology and in the expansion of the products portfolio, so as the TeraPlast Group would be the first choice in the construction materials market in Romania.

ACCREDITATION OF THE WETTERBEST SCHOOL

Starting with 2018, the Wetterbest School is accredited by the National Education Ministry, through the National Accreditation Centre and the County Agency for Payments and Social Inspection, which means the courses are recognized at the European Union level too. The project is the materialisation of the desire to offer not only high-quality products but a proper assemblage as well. Also, the Wetterbest School is the company's measure to the lack of skilled personnel in the market.

TERASTEEL DOO SERBIA BECOMES AN IMPORTANT REGIONAL PLAYER

TeraSteel DOO Serbia marked its first-year anniversary. During this time, it became one of the main suppliers of sandwich panels in the region by the access it has to the CEE area. The Serbian plant's main target markets are Serbia, Bulgaria, Macedonia, Bosnia, Croatia and Montenegro, as well as secondary markets like Hungary, Southern Romania and Northern Greece. Following an over EUR 1 million investment, TeraSteel Serbia started producing self-supporting trapezoidal sheets and mineral wool thermal insulating panels. These investments will strengthen the brand's market position and will contribute to the aimed growth.

MAIN EVENTS IN 2018

INVESTOR CARE

TeraPlast is one of the founding members of the Stock Exchange Investors Relations Association in Romania. The objective of the Association in recognising the importance of IR and by its means the IR professionals will contribute to increasing the ways investor communication is developed and implemented by using best-practices, increasing the transparency of the listed companies and the conformity to the corporate governance outlines, in order to offer the main elements of a well-documented investment decision to all investors and shareholders.

CLEAN WATER THROUGH POLITUB PE-100RC PIPE

TeraPlast delivered polyethylene pipes – Politub PE-100RC – to an ample project in Brasov county. The project was part of a drinking water system rehabilitation plan in Brasov and Sacele. The engagement in this project aligns with the company's initiative of offering an environment-friendly product on the market, in line with the European trends in water distribution and transportation systems.

DEVELOPMENT

The TeraPlast Group, by TeraPlast SA, Depaco SRL şi TeraGlass SRL started the implementation of 3 investment projects that have a total value of EUR 15 million, partly financed through state aid, after the Finance Ministry's approval. The value of the state aid is EUR 6,8 million. The investments target the expansion of the production capacities, the diversification of the products portfolio and the creation of new jobs.

MAIN EVENTS IN 2018

100 YEARS OF HOME

With the occasion of the centennial anniversary of the Great Unification of Romania, TeraPlast Group initiated the "100 Years of Home" campaign. By this campaign the company aimed to celebrate the beautiful stories in the Romanian homes, while stakeholders talked about what home means for them. The Group engaged in BIG BUILD 2018 project of Habitat for Humanity in order to support the stories and the dreams that are born in a Romanian house. The accelerated building project takes place every year with the help of volunteers. For this project, over 350 volunteers from all over Romania, USA, Germany and Holland helped building 8 houses for 8 families with limited income from Cumpana, Constanta county.

SUSTAINABILITY PARTNERSHIP

TeraPlast and E.ON Romania signed an EUR 1,9 million agreement for energy solutions. By this partnership, E.ON will install solar systems on the TeraPlast halls' roofs – this means the company will get its own sustainable electricity.

TERA PLAST GROUP

SUSTAINABLE DEVELOPMENT

The TeraPlast Grop's product portfolio is developed in the ***Research and Development Centre***, with the following activities:

- ***Developing new, enhanced products, with superior physical-mechanical attributes***
- ***Optimisation of the raw materials costs***
- ***Developing sustainable products***

EFFICIENT SOLUTIONS FOR PEOPLE AND THE ENVIRONMENT

The responsibility towards the environment and the community we activate in is an important component of our activity principles. We are constantly assigning resources to identify and minimise the negative impact we can have on the environment and we engage in the community.

The efficient management of the stated impact means:
- Monitoring the scrape and maintaining its percentage per final product tonne under 1%
- Controlling the electricity, water and natural gas consumption
- Monitoring the environmental factors

The TeraPlast Group implemented and certified, at every company level, the Quality-Environment-Health and Safety Integrated Management System in accordance with ISO 9001:2015, ISO 14001:2015 and OHSAS 18001:2007.

The materialisation of this responsible attitude and the orientation towards sustainability is the rigid PVC recycling unit that has an annual processing capacity of 12.000 tonnes. By the processing capacity, TeraPlast is the largest rigid PVC recycler in Romania and in top 10 rigid PVC recyclers in Europe. Also, the partnership with E.ON Energy from 2018 implies the construction of a Photovoltaic Station. This means TeraPlast will generate a part of its electricity resources and will have an approximately 11,45% energy economy of the total. The energy systems will be installed on the TeraPlast halls and, on long term, this means a CO_2 emissions reduction of cca. 600.000 tonnes/year.

The engagement in the community means supporting the sports, social and education initiatives both locally and nationally.

TERAPLAST SHARES

TeraPlast SA, the mother-company of the TeraPast Group, went public on the Bucharest Stock Exchange in July 2nd, 2008, under the TRP symbol. Its shares are included in the following indexes: BET-BK, BET-XT, BET-XT-TR şi BET-Plus.

As of December 31st, 2018, TeraPlast SA had 1.070.245.274 shares with a value of RON 0,10/ share and a nominal value of RON 107.024.527.

In 2018 the increase of the share capital of the company with RON 21.333.483,20 was registered by incorporating the reserves from previous years. Therefore, the share capital increased from RON 85.691.044,2 to RON 107.024.527,4 by the emission of 213.334.832 new shares with a nominal value of RON 0,10/share.

TeraPlast shares in figures	2018	2017
Number of shares	1.070.245.274	856.910.970
Market capitalisation	266.491.073 lei	342.764.388 lei
Market capitalisation	56.221.208 EUR	73.559.325 EUR
High price	0,4700 lei	0,77 lei
Low price	0,2050 lei	0,35 lei
End of year price	0,2450 lei	0,40 lei
Shareholders revenue, lei/share	0,02	0,03 lei

INVESTITOR RELATIONS

TeraPlast publishes quarterly consolidated results followed by an investors and analysts conference where the financial evolution and the results are discussed directly with the management of the company.

Also, the company offers all the relevant information for the interested analyts and investors in the Investors Relation section from the teraplast.ro website.

Since 2018, TeraPlast is one of the founding members of the Stock Exchange Investors Relations Association in Romania. The objective of the Association in recognising the importance of IR and by its means the IR professionals will contribute to increasing the ways investor communication is developed and implemented by using best-practices, increasing the transparency of the listed companies and the conformity to the corporate governance outlines, in order to offer the main elements of a well-documented investment decision to all investors and shareholders.

OWN SHARES

In 2018 the company "bought-back" 3.571.114 shares through the Stock Option Plan program. This employee retention program respects the long-term performance principle.
Additional information about our activity as a listed company as well as all the important and necessary information for analysts and investors are available on our website, teraplast.ro, in the Investor Relations section.

BOARD OF DIRECTORS MEMBERS

TeraPlast is managedthough a unitary system by a Board of Directors comprised of five members elected by secret ballot in the General Meeting of the Shareholders. The mandate of the Board of Directors members has a one-year length and they can be re-elected. At this date, the Board of Directors' structure is the following:

DOREL GOIA – ***Chairman***
Mr. Dorel Goia is the main shareholder of TeraPlast and was first elected in the Board of Directors in 2008.

SORIN OLARU
• Role: Independent Non-Executive Administrator
• Profession: economist
• Elected in the Board of Directors: 2017
• Activity: ING Bank (Treasury), Millenium Bank (Treasury & Capital Markets), Cetus Capital

RĂZVAN LEFTER (RSL Capital Advisors SRL)
• Role: Non-Executive Administrator
• Profession: economist
• Elected in the Board of Directors: 2014
• Activity: RSL Capital Advisors, Conpet Ploieşti (Bard of Directors), Mundus Services AD Bulgaria (Board of Directors)

MAGDA PALFI
• Role: Non-Executive Administrator
• Profession: economist
• Elected in the Board of Directors: 2008
• Activity: Raiffeisen Bank (Corporate Regional Director – Cluj Corporate Centre), TeraSteel SA (Board of Directors)

ALEXANDRU STÂNEAN
• Role: Executive Administrator
• Profession: economist
• Elected in the Board of Directors: 2018
• Activity: TeraPlast SA (CEO)

BUSINESS LINES

EFFICIENT SOLUTIONS FOR PEOPLE AND THE ENVIRONMENT

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

The TeraPlast Group is the largest Romanian producer of construction materials and a trusted regional partner. Its exports and CEE market presence increased along with the inauguration of TeraSteel Serbia – the first Romanian owned factory to open abroad after 1990. The Group's products are present in over 25 European countries.

Over **3.500** clients and distrbutors monthly

7 logistic centres in Romania

over **200.000 SQM** of production facilities

over **1.000** employees

BUSINESS LINES

Currently, the TeraPlast Group's production activity is placed in the 10 factories in Romania and Serbia:

The PVC products factory – TeraPlast Industrial Park, Sărăţel, BN

- PVC pipes
- PVC joinery profiles
- PVC Compounds
- Rigid PVC recycling

The polyolefins factory – TeraPlast Industrial Park, Sărăţel, BN

- PE manholes and tanks
- PVC & PP fittings
- PP pipes
- Thermoformed products

The Politub pipes factory – TeraPlast Industrial Park, Sărăţel, BN

- Fittings manufacturing workshop
- Corrugated PE pipes (low-density PE)
- PE pipes (high-density PE) for water & gas transport and distribution, wires protection etc.

The PVC windows & doors factory – Bistriţa, BN

- PVC opening (PVC windows and doors production)
- Thermal insulating window production
- Panel (panels & ornamental panels production)
- Aluminium joinery

BUSINESS LINES

The thermal insulating panels factory –TeraPlast Industrial Park, Sărăţel, BN

- Thermal insulating panels with polyurethane foam (PUR)
- Thermal insulating panels with fireproof polyurethane foam (PIR)

The galvanized profiles factory – Bistriţa, BN

- Z, C, U, Sigma profiles, with heights from 110mm to 400mm

The thermal insulating panels factory – Leskovac, Serbia

- Thermal insulating panels with polyurethane foam (PUR)
- Thermal insulating panels with fireproof polyurethane foam (PIR)
- Thermal insulating panels with mineral wool (MW)
- Self-supporting trapezoidal sheets

BUSINESS LINES

The metallic roof tiles factory – Podari, DJ

- Metallic roof tiles

The metallic roof tiles factory – TeraPlast Industrial Park, Sărăţel, BN

- Metallic roof tiles

The metallic roof tiles factory – Băicoi, PH

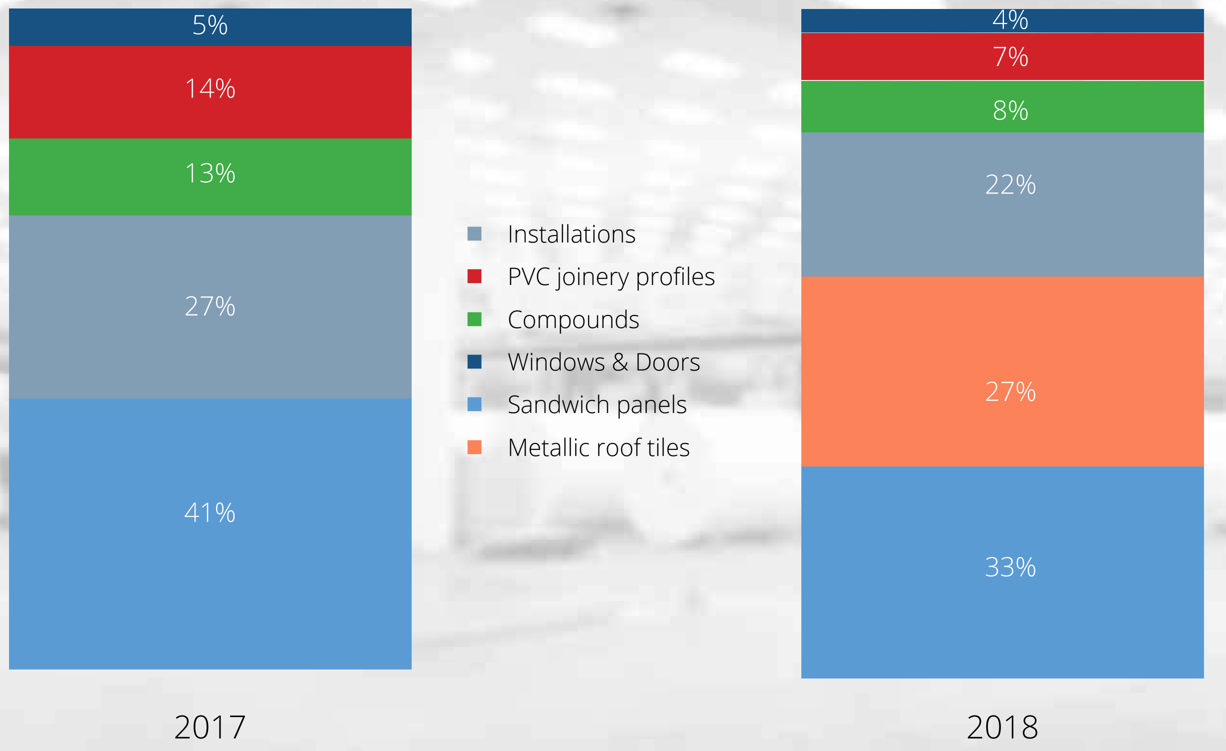
- Metallic roof tiles
- Click sheets
- Trapezoidal sheets
- Flat sheet boards and mini-rolls
- Metallic ribs
- Drainage – gutters and spouts
- Drainage accessories

BUSINESS LINES

On the construction materials market, the seasonality influences the monthly evolution of the sales. Therefore, the peak in our activity consists of approximately 6 months (May – October). The Group's distribution policy targets specialised clients in the constructions sector through the following channels:

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

Business lines weight in the turnover:



2017 turnover: 422,27 m.lei

2018 turnover: 804,96 m.lei

BUSINESS LINES

Sandwich panels and galvanized profiles

TeraSteel is one of the largest producers on the sandwich panels and galvanized profiles market in Romania and an important exporter in the CEE area. Starting with 2015, the company offers turnkey halls – a complete building solution. The product portfolio also includes, starting with 2018, self-supporting trapezoidal sheets. ***The company has a 20% market share (in value) on the PUR and PIR sandwich panels market in Romania and a 23% market share on the Romanian galvanized profiles market. TeraSteel has a 33% weight in the TeraPlast Group revenue.***

TeraSteel inaugurated, in 2017, the first fully Romanian owned production unit opened abroad after 1990 – TeraSteel Serbia. During 2018, TeraSteel Serbia developed its production capacity through an over EUR 1 million investment and started producing self-supporting trapezoidal sheets and mineral wool sandwich panels.

The company's clients are not directly influenced by the state financing. Its distribution network is comprised of large DIY networks in Romania, contractors and partner-companies in the cold storage warehousing industry.

The TeraSteel products are present in over 25 European countries. The exports embody over 44% of the company revenue, the main destination markets being Hungary, Slovakia, the Czech Republic, the Republic of Moldova and Bulgaria.

Metallic roog tiles

Depaco, through the Wetterbest brand, is the second largest producer on the metallic roof tiles market in Romania, both quantitative and in value.
Wetterbest is one of the top 3 metallic roof tiles producers recommended by the specialized masters and distributors as well as one of the top 3 producers in terms of brand awareness, according to a 2018 GfK study.

Wetterbest offers complete roofing systems as well as professional tools for the tinsmiths. ***The production takes place on more than 40 automated lines in 3 locations: Baicoi (Prahova county), Podari (Dolj county) and Saratel (Bistrita-Nasaud county). This business line weighs 27% of the 2018 TeraPlast Group revenue.***

Desiring to make a visible change in the quality of roof wrights works and as a response to the lack of skilled workforce in this industry, Depaco founded the Wetterbest School. This school received its credentials from the Ministry of National Education, through the National Authority of Qualifications and the County Agency for Payments and Social Inspection, while its courses are recognized all over the European Union.

In 2018, the company started implementing a state-aid investment project worth EUR 5,2 million. The investment implies a new production unit in Baicoi. This means optimal logistics and storage processes and will have an annual production capacity of over 10 million square meters of metallic roof tiles.

BUSINESS LINES

Installations

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

TeraPlast is the leader of the PVC pipes market and the second player on the installations market in Romania. From its local top-producer position the company has an advantage in contracting the infrastructure works in Romania compared to the foreign competitors.

According to the sustainable development strategy "Romania 2025", the total value of the investments needed for the rehabilitation of the public services of water and sewage infrastructure is EUR 12,5 billion, while the annual medium of the necessary investments is EUR 625 million. As for the population connected to the water and sewage systems, in 2017 in Romania only 50,8% of the residents were connected to a sewage system, while 49,4% were connected to sewage systems with treatment stations.

EUR 11 billion were allotted for the Large Infrastructure Operational Programme between 2014 and 2020. So far, EUR 2,3 billion in payments and EUR 9,7 billion in signed contracts were used. Taking this into consideration, an increase of the demand during the next 2 years, due to the execution phase of these projects.

The sales of this business lines represent 22% of the Group's turnover in 2018.

TeraPlast in constantly investing in developing the solutions it offers. This implies systems with client and sustainable oriented attributes – one of the main directions of the Group's development. In 2018 the Politub PE-100RC pipe was launched. Made of state-of-the-art polyethylene, the has a lifespan of around 100 years and superior attributes. Among these: crack-spreading resistance, does not interact with the water it transports and doesn't transfer any attributes (taste, smell etc.), thermal resistance, impact and abrasion proof, high flexibility. Due to the smooth surface of the material, the pipe does not accumulate deposits during its lifespan.

The company's development strategy also targets investments in the products that are not meant for the infrastructure market. In example, by the state aid project, TeraPlast invests into a new manufacturing technique for the interior sewage pipes made of polypropylene. These pipes are a superior alternative to the PVC pipes and, following the investment, the company will offer multi-layered interior sewage polypropylene pipes on the market.

TERA PLAST GROUP

BUSINESS LINES

PVC joinery Profiles

TeraPlast, through its PVC joinery profiles business line, offers systems with 4, 6 and 7 insulating chambers and widths between 60 and 88mm. The PVC joinery profiles portfolio are constantly improved to meet the domestic and international clients' needs.

With a 7% weight in the Group's turnover, the joinery profiles business line serves over 200 clients, producers of insulated openings. On the domestic market, the best-seller is the 4 insulating chambers system, while on the international markets the demand targets the 6 and 7 insulating chambers systems.

Starting with 2019, TeraPlast offers a new series of co-extruded gaskets that ensure superior thermal and sound insulation as well as new polish options for the current joinery portfolio.

Compounds

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

This business line weighs 8% in the consolidated revenue of the Group.

The state aid project by which TeraPlast invests a total of EUR 6,2 million implies this business line as well. Following this investment, the company will bring an innovative product on the Romanian compounds market – halogen free fire retardant compounds (HFFR).

Windows & Doors

Through the Windows and Doors business line, TeraGlass offers windows and doors made of joinery profiles with 4, 6 or 7 insulating chambers. Besides these, the business line also includes panels and ornamental panels as well as aluminium joinery. The TeraGlass products offer high quality and ensure the comfort of the users by soundproofing and thermal insulation as well as a pleasant appearance, fit for a wide range of architectural styles.

The Windows & Doors business line has a weight of 4% in the consolidated revenue of the Group. Over 70% of its production is intended for export, the main destination markets being Germany, Hungary and Slovakia. The distribution network counts over 600 clients both domestic and international. The TeraGlass products are present mostly in the DIY networks.

TeraGlass is one of the three Group's companies that implements state aid investments projects. The total value of the company's project is EUR 3,5 million and implies creating a new automated production line for the manufacture of PVC windows and doors. Hence, the production capacity and the output per man-shift will increase and contribute to supply the increasing demand.

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of TERAPLAST SA

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for opinion

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

Key audit matters

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

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

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

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

1. Business combinations and purchase price allocation

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

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

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

How our audit addressed the key audit matter

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

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

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

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

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

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

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

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

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

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

How our audit addressed the key audit matter:

Our audit procedures included, among others, the following:

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

Other information

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

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

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

Appointment and Approval of Auditor

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

Consistency with Additional Report to the Audit Committee

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

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Provision of Non-audit Services

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

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

On behalf of,

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

Registered in the electronic Public Register under No. 77

15. APR. 2019

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

Bucharest, Romania
15 April 2019

TERAPLAST SA

CONSOLIDATED FINANCIAL STATEMENTS

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

31 DECEMBER 2018

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

	Note	Financial year 31 December 2018 RON	31 December 2017 RON
Revenues total from customer contracts, out of which:	**4**	**804,512,197**	**422,270,070**
Revenues from sale of finished products		674,625,885	378,858,930
Revenues from the sale of merchandise		126,426,583	42,165,328
Revenues from service rendering		3,459,729	1,245,812
Other operating revenue	5	1,821,873	3,764,366
Changes in inventories of finished goods and work in progress		9,129,736	11,026,505
Works and services in progress		495,838	-
Raw materials, consumables used and merchandise	6	(605,376,072)	(313,344,060)
Employee benefit expenses	9	(68,406,348)	(40,348,001)
Amortization and the adjustments for impairment of non-current assets, net	8	(30,600,206)	(19,100,355)
Adjustments for the impairment of current assets, net		(1,540,803)	(1,481,591)
Expenses with provisions, net	8	(208,780)	2,614,451
Gains / (Losses) from the outflow/valuation of tangible and intangible assets	7	15,131	82,367
Gains / (Losses) from the outflow of assets held for sale	19	185,891	-
Gains / (Losses) from the outflow/fair value measurement of investment properties	7	(245,552)	335
Other operating expenses	10	(75,010,673)	(41,258,634)
Operating result		**34,722,232**	**24,227,453**
Financial expenses	5	(4,435,430)	(5,075,283)
Expenses on interest, net	5	(7,577,317)	(2,560,186)
Financial income	5	3,324,694	4,016,149
Dividend revenues	5	75,200	81,045
Financial result, net	**5**	**(8,612,853)**	**(3,538,275)**
Share of the result of joint ventures accounted for under the equity method		-	574,147
Profit before tax		**26,159,379**	**21,263,325**
Income tax expense	**11**	(3,520,673)	(2,693,989)
Profit for the year		**22,638,706**	**18,569,336**
Profit or loss for the period			
Attributable to			
Parent entity equity holders		21,878,022	18,236,827
Non-controlling interests	**22**	760,684	332,509
Result for the financial year		**22,638,706**	**18,569,336**
Other comprehensive income			
Revaluation of fixed assets	12	(700,722)	-
Deferred tax	11	136,968	-
		(563,754)	**-**
Comprehensive income		**22,074,952**	**18,569,336**
Attributable to			
Parent entity equity holders		21,314,268	18,236,827
Non-controlling interests		760,684	332,509
Comprehensive income		**22,074,952**	**18,569,336**
Number of shares		868,046,555	699,701,558
Earnings per share attributable to the parent entity equity holders		**0.02**	**0.03**

Alexandru Stanean
CEO

Ioana Birta
CFO

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

	Note	31 December 2018 RON	31 December 2017 RON
ASSETS			
Non-current assets			
Property, plant and equipment	12	214,194,882	185,915,909
Investment properties	14	8,324,389	9,791,568
Intangible assets	13	71,013,891	1,662,350
Investments in joint ventures accounted for under the equity method	16	-	40,677,273
Other long-term financial investments	16,18	745,868	10,849,872
Other financial investments		17,107	16,472
Total non-current assets		**294,296,137**	**248,913,444**
Current assets			
Inventories	17	194,414,744	100,464,598
Works and services in progress		495,838	-
Trade and similar receivables	18	127,460,704	89,766,981
Prepayments		895,914	601,359
Cash and short term deposits	30	22,817,571	12,015,802
Total current assets		**346,084,771**	**202,848,740**
Assets classified as held for sale	**19**	1,865,560	653,215
Total assets		**642,246,468**	**452,415,399**
Equity and liabilities			
Equity			
Total share capital, out of which:	19	**85,691,097**	**56,643,266**
Called-up capital	19	107,024,527	85,691,097
Other capital reserves	19	1,472,925	-
Share premium	19	27,384,726	27,384,726
Treasury shares		(1,472,925)	(663,396)
Revaluation reserves	19	17,698,554	19,652,115
Legal reserve	20	15,516,164	13,939,022
Retained earnings	21	68,526,436	78,250,693
Capital attributable to controlling interests		**236,150,407**	**224,254,257**
Non-controlling interests	22	1,965,458	489,480
Total equity		**238,115,865**	**224,743,737**
Non-current liabilities			
Loans and finance lease liabilities	23	71,598,023	74,968,047
Other non-current liabilities	15	49,022,037	-
Employee benefit liabilities	24	724,849	320,836
Deferred tax liabilities	11	8,855,594	3,207,463
Investment subsidies – long-term portion	32	3,597,809	2,470,745
Total non-current liabilities		**133,798,312**	**80,967,093**
Current liabilities			
Trade and other payables	25	145,252,622	86,184,973
Loans and finance lease liabilities	23	123,467,890	58,778,393
Income tax payable		377,800	307,943
Investment subsidies - current portion	32	453,766	457,814
Provisions	24	780,213	975,446
Total current liabilities		**270,332,291**	**146,704,569**
Total liabilities		**404,130,603**	**227,671,662**
Total equity and liabilities		**642,246,468**	**452,415,399**

Alexandru Stanean
CEO

Ioana Birta
CFO

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

	Total share capital RON	Other capital reserves RON	Share premium RON	Revaluation reserves RON	Legal reserve RON	Treasury shares RON	Cumulated retained earnings RON	Capital attributable to controlling interests RON	Non-controlling interests RON	Total equity RON
Balance as at 1 January 2017	**56,643,266**	**450,980**	**27,384,726**	**21,741,823**	**12,407,036**	**(512,707)**	**98,473,824**	**216,588,948**	**334,698**	**216,923,646**
Result for the year	-	-	-	-	-	-	18,236,827	18,236,827	332,509	18,569,336
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**18,236,827**	**18,236,827**	**332,509**	**18,569,336**
Share capital increase from reserves (Note 20)	29,047,831	-	-	-	-	-	(29,047,831)	-	-	-
Legal reserve setting (Note 21)	-	-	-	-	1,531,986	-	(1,531,986)	-	-	-
Own shares redemption (Note 20)	-	-	-	-	-	(663,396)	-	(663,396)	-	(663,396)
Losses related to own shares sale	-	-	-	-	-	61,727	(61,727)	-	-	-
Employee benefits in the form of financial instruments (Note 33)	-	(450,980)	-	-	-	450,980	-	-	-	-
Realized revaluation reserve (Note 12)	-	-	-	(2,089,708)	-	-	2,089,708	-	-	-
Dividends paid	-	-	-	-	-	-	(9,572,712)	(9,572,712)	(191,848)	(9,764,560)
Other equity items	-	-	-	-	-	-	(335,410)	(335,410)	14,121	(321,288)
Balance as at 31 December 2017	**85,691,097**	**-**	**27,384,726**	**19,652,114**	**13,939,022**	**(663,396)**	**78,250,693**	**224,254,257**	**489,480**	**224,743,737**

Alexandru Stanean
CEO

Ioana Birta
CFO

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

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

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

Alexandru Stanean
CEO

Ioana Birta
CFO

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

	Note	Year ended 31 December 2018 RON	Year ended 31 December 2017 RON
Cash flows from operating activities:			
Net profit before tax		**26,159,379**	**21,263,325**
Losses / (Gains) from the sale of assets (fixed assets) and retirement		(15,131)	(82,367)
Impairment and amortization of non-current assets		30,600,206	19,100,355
Provisions for risks and expenses, net		208,780	(2,614,451)
Adjustments to doubtful customers		1,050,428	412,313
Adjustments for inventory impairment		490,375	1,069,278
Dividend revenues		(75,200)	(81,045)
(Gains) / loss from the measurement of investment property		245,552	(335)
Loss from the valuation of financial investments		494,662	-
Interest expense		7,577,317	2,560,186
Gain from gaining control over an associate		-	(2,506,104)
Operating profit before changes in working capital		**66,766,628**	**39,121,156**
Increase in trade and other receivables		(20,431,207)	(17,992,153)
Increase in inventories		(52,395,275)	(29,411,790)
Increase in trade and other payables		25,428,887	26,472,743
Income tax paid		(3,151,254)	(2,754,258)
Interest paid, net		(7,577,317)	(2,560,186)
Share of the profit or loss of the joint venture accounted for under the equity method		-	(574,147)
Revenues from subsidies		(753,969)	(463,440)
Cash from operating activities		**7,886,493**	**11,837,924**
Cash flows from investment:			
Payments for acquisition of tangible and intangible assets, other long-term receivables		(32,059,265)	(54,561,546)
Acquisition of investments – Depaco, net of purchased cash		(6,185,777)	(39,246,960)
Acquisition of investments – Politub, net of purchased cash		-	(8,781,707)
Receipts from the sale of tangible assets		2,048,116	485,130
Own share redemption net of exercising the options		(809,529)	(512,689)
Losses related to own shares sale		-	61,727
Net cash from investment		**(37,006,455)**	**(112,648,137)**
Cash flows from financing activities:			
Payment of finance lease liabilities		(1,051,141)	(845,351)
Dividends received		75,200	81,045
Dividends paid		(11,171,042)	(9,764,560)
Loans reimbursement		(15,955,580)	(17,291,680)
Loans drawings		18,870,465	90,286,417
Net drawings from credit lines		55,153,837	34,327,772
Net cash from finance activities		**39,921,730**	**96,793,636**
Net increase / (decrease) in cash and cash equivalents		10,801,769	(4,016,571)
Cash and cash equivalents at the beginning of the financial year	**30**	**12,015,802**	**16,032,373**
Cash and cash equivalents at the end of the financial year	**30**	**22,817,571**	**12,015,802**

Alexandru Stanean
CEO

Ioana Birta
CFO

1. GENERAL INFORMATION

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

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

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

The Teraplast SA company has been preparing consolidated financial statements since 2007. These financial statements are available on the Company website (www.teraplast.ro).

The Teraplast Group includes Teraplast (producer of pipes, granules and PVC profiles), the subsidiaries Terasteel Bistrita and Terasteel Serbia (producer of sandwich panels and zincate metallic structures), Teraglass (producer of PVC windows and doors), Teraplast Logistic (during June 2016 – September 2018, it has coordinated the logistic activities of the Group; starting October 2018, this activity was reintegrated into the parent), Teraplast Hungary (distributor), Politub SA (on 31 December 2017, the Politub business was transferred to Teraplast SA, therefore becoming the Polyethylene Division), and the Depaco Company (producer of metallic tiles). More details on the Group structure are presented in Note 15.

In March 2007, the Company became the majority shareholder of Terasteeel SA (Terasteel). Terasteel main activity is the production of heat insulating panels with polyurethane foam for the construction of warehouses. Starting 31 December 2015, the percentage held by Teraplast SA in Terasteel SA is 97.95%.

The Company holds another subsidiary, Teraglass Bistrita SRL, having as scope of business the production and trading of windows and doors in PVC and aluminum. In March 2015, Teraplast SA transferred the activity of production and trading of heat insulated glass, windows and doors in PVC and aluminum to Teraglass Bistrita SRL.

On 26 November 2015, the Board of Directors approved through a Decision, Teraplast SA’s participation as a shareholder in the setting of a limited-liability company in Romania: Teraplast Logistic SRL. Teraplast SA’s investment in this company is 99%. Starting October 2018, the Group’s logistic activity was reintegrated into the Parent.

On 29 September 2016, by Decision of the Board of Directors, the participation of Teraplast as the sole shareholder in the setting of a limited-liability company in Hungary was approved.

Teraplast Hungary distributes the Company products, mainly joinery profiles, on this market.

Starting 2015, Teraplast SA is a shareholder of a legal entity registered in the Republic of Moldova, Teraplast Group Moldova, with a shareholding 51%.

In 2017, the Board of Directors approved the assignment of the Company shares in Teraplast (Group) Moldova to the other shareholders of this company, at their nominal value MDL 2,754.

The results of 2018 reflect the investments made related to 2017: Terasteel Doo (Serbia), Depaco and Politub.

In January 2017, the Board of Directors approved the setting of a subsidiary (100% holding of Teraplast SA) in Serbia. Until 30 June 2017, the Company called-up and paid in full share capital amounting to EUR 10,000.

Starting October 2017, following the acquisition of production assets from a company undergoing liquidation, Terasteel Serbia produces and trades polyurethane foam sandwich panels in Serbia and on the neighboring markets.

1. GENERAL INFORMATION (continued)

During 2017, the Group concluded agreements for the acquirement of 67% of Depaco, the second player on the metallic tile market, through the Wetterbest brand. TeraPlast gained control over Depaco in January 2018, after a favorable approval issued by the Competition Council. As at 31 December 2017, Depaco is jointly controlled with the other shareholders; therefore, the company is consolidated under the equity method. The Depaco SRL company is consolidated as a subsidiary starting January 2018.

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

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

Until September 2017, the Company held 50% of the shares of Politub SA ("Politub"), controlling Politub jointly with the other shareholder, New Socotub. Therefore, until 30 September 2017, Politub was a joint venture, consolidated under the equity method. In August 2017, the Company bought from New Socotub 49.99% of the Politub shares, for EUR 2.5 million. On 28 September 2017, the Company received the Competition Council approval for the sole control over Politub; as a result, Politub is consolidated starting 1 October 2017. As at 31 December 2017, the Politub business was bought by the Company.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. SIGNIFICANT ACCOUNTING POLICIES

2.1. Statement of compliance

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

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

The functional currency, which reflects the substance of the concerned events and relevant circumstances for Teraplast SA, Plastsistem SA, Teraglass Bistrita SRL and Politub SA is the Romanian Leu ("RON"). The functional currency for Teraplast Hungary is the Hungarian Forint ("HUF"), and for Terasteel Serbia is the Serbian Dinar ("RSD").

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2. Basis of accounting

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

2.3. Going concern

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

As of 31 December 2018, the Group current assets exceed the current liabilities by RON 75,191,194 (as of 31 December 2017: RON 56,144,171). In 2018, the Group recorded profit RON 22,638,706 (2017: profit RON 18,569,336). As detailed in Note 28, the Group gearing ratio is 42% (31 December 2017: 35%). The Group depends on financing banks, as also described in Note 23.

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

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

Basis for consolidation

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Business combinations

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Goodwill

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

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

Intangible assets purchased in a business combination

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

Derecognition of intangible assets

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

2.4. Standards, amendments and new interpretations of the standards

A) First time adoption of new or revised standards

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In addition, the Group has adopted the following standards with initial application starting 1 January 2018:

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**
  The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Management has assessed that this standard has no impact on the Group's financial statements, as the share-based payment exclusively depends on the performance prior to granting the shares; the granting is not revocable.

- **IAS 40: Transfers to Investment Property (amendments)**
  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Management has assessed this standard will not have an impact on the Group's financial statements.

- **IFRIC 22 INTERPRETATION: Foreign Currency Transactions and Advance Consideration**
  The interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation addresses transactions in foreign currency for which the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income. The Interpretation provides that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established by the entity for each payment or receipt. The Group's practice was compliant with the Interpretation and, consequently, it has no effects on the financial statements.

- **The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle,** which is a collection of amendments to IFRSs.

  - **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments):** The Amendments clarify that the option to measure at fair value through profit and loss an investment in an associate or in a joint venture which is held by an entity representing a joint venture or by another entity that qualifies, is available for each investment in an associate or joint venture for each separate investment, upon initial recognition.

- **IFRS 9 Financial Instruments**
  The final version of IFRS 9 *Financial Instruments* reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The Standard replaces:
- IAS 11 Construction contracts;
- IAS 18 Revenue;
- IFRIC 13 Customer loyalty programs;
- IFRIC 15 Agreements for the construction of real estate;
- IFRIC 18 Transfers of assets from customers; and
- SIC-31 Revenue – Barter transactions involving advertising services.

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

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

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

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

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

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

The Group has analyzed the main types of revenues/contracts by applying the five-step model under IFRS 15:
1. Identification of the client agreement(s);
2. Identification of the execution obligations resulted from these agreements;
3. Determination of the transaction price;
4. Allocation of the transaction price to the agreement execution obligations;
5. Recognition of the revenue when (or as) the Company fulfils a contractual execution obligation.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B) New or revised standards, but not yet mandatory

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- **IFRS 9: Prepayment features with negative compensation (Amendment)**
  The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. The Group is in progress of assessing the impact of adopting this amendment on the financial statements and it does not expect it to be significant.

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

- **IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments**
  The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The Group is in progress of assessing the impact of adopting this amendment on the financial statements and it does not expect it to be significant.

- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU. The Group is in progress of assessing the impact of adopting these amendments on the financial statements and it does not expect it to be material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. These Amendments have not yet been endorsed by the EU. The Group is in progress of assessing the impact of adopting these amendments on the financial statements and it does not expect it to be significant.

- The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU.
  - ***IFRS 3 Business Combinations and IFRS 11 Joint Arrangements*:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
  - ***IAS 12 Income Taxes*:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
  - ***IAS 23 Borrowing Costs*:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5. Summary of accounting and valuation principles

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

2.5.1. Cash and cash equivalents

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

2.5.2. Revenue recognition

Revenues from contracts with customers

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Assets and liabilities related to the contract

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

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

2.5.3. Revenues from rents and royalties

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

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

2.5.4. Dividend and interest revenues

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

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

2.5.5. Lease

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5.6. Foreign currency transactions

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

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

	31 December 2018	31 December 2017
EUR 1	4.6639	4.6597
USD 1	4.0736	3.8915
CHF 1	4.1404	3.9900

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

2.5.7. Costs related to long-term borrowings

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

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

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

2.5.8. Government grants

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5.9. Costs related to retirement rights

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

2.5.10. Employees' contribution

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

2.5.11. Taxation

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

Current tax

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

Deferred tax

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

2.5.12 Tangible assets

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

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

2.5.13. Investment properties

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

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

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

2.5.14. Intangible assets

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

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

	Years
Licenses	1 – 5
Brand	20
Client lists	20

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5.15. Impairment of tangible and intangible assets

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

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

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

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

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

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

2.5.16. Inventories

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

2.5.17. Share capital

Common shares are classified in equities.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5.18. Dividends

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

2.5.19. Provisions

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

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

2.5.20. Segment reporting

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

2.5.21. Financial assets and liabilities

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

Loans and receivables

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

Borrowings and liabilities

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Impairment of financial assets

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

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

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

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

Derecognition of assets and liabilities

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

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

2.5.22 Fair value measurement

An entity measures financial instruments and non-financial assets, such as investment property, at fair value at each balance sheet date. Also, the fair values of financial instruments measured at amortized cost are presented in Note 29 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 fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

2.5.23 Use of estimates

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

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

3.1. Judgments

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

Investment properties

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

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

Acquisition of Depaco shareholding

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

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

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

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

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

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

More details on this transaction are included in Note 15 and 16.

Acquisition of Politub

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

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

3.2. Estimates and assumptions

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

Revaluation of property, plant and equipment and investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognized in the statement of profit or loss. In addition, it measures land and buildings at revalued amounts with changes in fair value being recognized in other comprehensive income. The Group engaged independent valuation specialists to assess fair value as at 31 December 2016 for land and buildings and for investment properties, this action was performed on an annual basis, including as at 31 December 2018. Investment properties (land and buildings) were valued by reference to market-based information, using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

Investment properties (land and buildings) were revalued as at 31 December 2016 by an external valuator, an ANEVAR member. The valuation methods used were the market comparison for land and the net replacement cost impacted by the application of the income-based method and the market comparisons.

Impairment of intangible and tangible assets

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

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

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

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

The cash generating units identified are:

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

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

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

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

- For the cash generating unit Installations and arrangements, management estimates a turnover increase, due to the extension of the distribution network, and, in the following four years, the annual growth rate will be on average 5.42%;
- For the cash generating unit Granules, management has estimated an annual average growth for the following five years of 9.87% by increasing competitiveness as a result of developing new networks and increasing the presence on the neighboring markets;
- For the cash generating unit PVC Joinery Profiles, the average growth rate for the turnover over the projection period is estimated to be 4.83%, following the implementation of new co-extrusion technologies for profiles, which increases our competitiveness, and also, the inventory policy revision.

Business combinations

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

Impairment of goodwill

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

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

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

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

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

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

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

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

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

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

The EBITDA margin reflects the management estimates concerning the operating profitability of the cash generating unit, in line with the historical levels and the market evolution (its level is not disclosed due to the strategic nature of this information). If the increase level of the EBITDA margin would drop by 0.67%, the recoverable value of the cash generating unit would reach the profitability threshold.

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

4. REVENUE AND OPERATING SEGMENTS

An analysis of the Group revenues is detailed below:

	Year ended 31 December 2018 RON	Year ended 31 December 2017 RON
Sales from own production	684,720,115	384,186,206
Revenues from sale of commodities	126,426,583	42,165,328
Revenues from other activities	3,459,729	1,245,812
Commercial discounts awarded	(10,094,230)	(5,327,276)
Total	**804,512,197**	**422,270,070**

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

4. REVENUE AND OPERATING SEGMENTS (continued)

Geographical analysis

	Year ended 31 December 2018 RON	Year ended 31 December 2017 RON
Sales on the internal market (Romania)	644,352,774	319,206,210
Sales on the external market	160,159,423	103,063,860
Total	**804,512,197**	**422,270,070**

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

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

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

4. REVENUES AND OPERATING SEGMENTS (continued)

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

2017	**Heat insulated panels and metallic structures**	**Metal tiles – not consolidated in 2017**	**Plant and improvements**	**Joinery profiles**	**Granules**	**Heat insulated joinery**	**Non-allocated amounts**	**Total**
Turnover	172,344,707	-	115,573,235	57,395,489	53,994,501	22,962,138	-	**422,270,070**
Other operating income	2,965,693	-	173,918	119,261	492,923	12,571	-	**3,764,366**
Operating income, total	**173,099,516**	**-**	**120,533,878**	**55,250,663**	**54,175,670**	**22,974,709**	**-**	**426,034,436**
Raw materials, consumables used and merchandise	(131,195,758)	-	(76,346,217)	(40,034,691)	(41,394,946)	(13,345,942)	-	**(302,317,553)**
Employee benefits expenses	(9,705,524)	-	(19,687,355)	(2,904,383)	(3,143,423)	(4,907,316)	-	**(40,348,001)**
Amortization and adjustments for the impairment of assets and provisions	(2,718,139)	-	(9,200,100)	(4,597,305)	(1,306,992)	(62,257)	-	**(17,884,793)**
Other expenses	(13,445,001)	-	(9,890,448)	(9,734,520)	(4,244,984)	(3,941,684)	-	**(41,256,636)**
Total expenses related to sales, indirect and administrative expenses	(157,064,422)	-	(118,269,540)	(55,217,890)	(48,997,933)	(22,257,200)	(1,452,401)	**(401,806,983)**
Operating result	**16,035,094**	**-**	**2,264,338**	**32,773**	**5,177,737**	**717,510**	**(1,452,401)**	**24,227,453**
EBITDA	**18,753,233**	**-**	**11,464,438**	**4,630,078**	**6,484,729**	**779,767**	**(1,452,401)**	**42,112,245**
Assets								
Total assets, out of which:	**112,913,816**	**-**	**152,642,936**	**67,898,370**	**37,479,909**	**19,669,116**	**61,811,252**	**452,415,399**
Non-current assets	50,739,681	**-**	72,829,545	37,898,531	16,741,510	9,455,141	61,158,037	**248,913,445**
Current assets	62,714,135	**-**	79,813,392	29,908,839	20,738,399	10,213,975	-	**202,848,740**
Assets held for sale	-	**-**	-	**-**	**-**		653,215	**653,215**
Liabilities								
Total liabilities, out of which:	**54,054,873**	**-**	**60,441,972**	**30,197,323**	**20,714,711**	**4,234,790**	**58,027,931**	**227,671,661**
Non-current liabilities	4,027,719	**-**	14,469,318	8,316,401	3,089,408	685,642	50,378,606	**80,967,093**
Current liabilities	50,027,155	**-**	45,972,654	21,880,923	17,625,363	3,549,148	7,649,325	**146,704,569**

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

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

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

4. REVENUES AND OPERATING SEGMENTS (continued)

2018	Heat insulated panels and metallic structures	Metal tiles – not consolidated in 2017	Plant and improvements	Joinery profiles	Granules	Heat insulated joinery	Non-allocated amounts	Total
Total revenue (*)	**261,992,982**	**220,999,584**	**173,537,733**	**55,970,409**	**63,091,541**	**28,919,946**	**-**	**804,512,197**
Other operating income	827,620	330,306	287,096	293,442	73,602	9,809	-	**1,821,874**
Revenue from subsidies	445,858	304,734	-	-	-	-	-	**750,592**
Operating income, total	**262,820,602**	**221,329,890**	**173,824,829**	**56,263,851**	**63,165,143**	**28,929,755**	**-**	**806,334,071**
Raw materials, consumables used and merchandise	(206,045,308)	(169,487,851)	(123,390,712)	(34,141,646)	(48,130,720)	(14,554,262)	-	**(595,750,498)**
Employee benefits expenses	(11,716,002)	(17,295,948)	(23,067,877)	(6,475,778)	(3,942,754)	(5,907,989)	-	**(68,406,348)**
Amortization and adjustments for the impairment of assets and provisions	(5,124,663)	(6,543,390)	(12,171,889)	(4,754,750)	(1,512,569)	(746,257)	-	**(30,853,518)**
Adjustments for the impairment of current assets	(151,934)	(778,687)	(289,473)	(211,007)	-	(109,702)	-	**(1,540,803)**
Other expenses	(18,042,052)	(18,869,311)	(17,216,379)	(11,948,741)	(3,824,170)	(5,110,020)	-	**(75,010,673)**
Total expenses related to sales, indirect and administrative expenses	**(241,079,961)**	**(212,975,186)**	**(176,136,330)**	**(57,531,922)**	**(57,410,213)**	**(26,428,230)**	**-**	**(771,561,838)**
Operating result	**21,740,641**	**8,354,704**	**(2,311,500)**	**(1,268,071)**	**5,754,930**	**2,501,525**	**-**	**34,772,232**
EBITDA	**26,419,446**	**14,593,359**	**9,860,389**	**3,486,679**	**7,267,499**	**3,247,782**	**-**	**64,875,155**
Assets								
Total assets, out of which:	**144,765,996**	**189,137,726**	**169,045,528**	**67,744,885**	**38,715,501**	**22,646,883**	**10,189,949**	**642,246,468**
Non-current assets	53,623,251	99,815,668	72,378,186	34,199,641	15,155,042	10,799,960	8,324,389	**294,296,137**
Current assets	91,142,745	89,322,058	96,667,342	33,545,244	23,560,459	11,846,923	-	**346,084,771**
Assets classified as held for sale	-	-	-	-		-	1,865,560	**1,865,560**
Liabilities								
Total liabilities, out of which:	**96,037,732**	**162,835,756**	**109,949,339**	**31,174,500**	**19,389,230**	**5,581,413**	**-**	**404,130,603**
Non-current liabilities	18,111,998	92,766,044	11,375,401	8,360,680	2,581,214	602,974	-	**133,798,312**
Current liabilities	77,925,734	70,069,712	77,736,572	22,813,820	16,808,015	4,978,439	-	**270,332,291**

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

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

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

5. SUNDRY INCOME

Financial income / costs

	Year ended 31 December 2018 RON	Year ended 31 December 2017 RON
Loss from foreign exchange differences, net	(626,834)	(1,084,680)
Other financial income	73,571	25,546
Interest revenues	935	1,581
Dividend revenues	75,200	81,045
Other financial expenses	(495,605)	-
Financial discounts granted	(61,868)	-
Interest expense	(7,578,252)	(2,561,767)
Net financial loss	**(8,612,853)**	**(3,538,275)**

Other operating income

	Year ended 31 December 2018 RON	Year ended 31 December 2017 RON
Compensations, fines and penalties	364,854	140,349
Other revenues	706,427	3,164,626
Subsidies income	750,592	459,391
Total	**1,821,873**	**3,764,366**

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

6. RAW MATERIALS, CONSUMABLES USED AND COMMODITIES

	Year ended 31 December 2018 RON	Year ended 31 December 2017 RON
Raw material expenses	462,124,546	257,553,283
Consumable expenses	24,990,443	15,570,250
Commodity expenses	114,549,848	39,505,799
Consumed packaging	3,711,235	714,728
Total	**605,376,072**	**313,344,060**

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

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

7. OTHER GAINS AND LOSSES

	Year ended 31 December 2018 RON	Year ended 31 December 2017 RON
Revenues from the disposal of the tangible and intangible assets	2,048,116	485,130
Expenses with the disposal of tangible and intangible assets	(2,032,985)	(402,763)
Gain from revaluation of tangible assets	-	-
Net loss from the disposal / revaluation of tangible and intangible assets	**15,131**	**82,367**
Gain from the fair value measurement of investment properties	-	335
Loss on fair value measurement of investment properties	(245,552)	-
Net gain / (loss) from valuation of investment properties at fair value	**(245,552)**	**335**

8. EXPENSES WITH PROVISIONS, IMPAIRMENT ADJUSTMENTS AND AMORTIZATION

	Year ended 31 December 2018 RON	Year ended 31 December 2017 RON
Expenses with non-current assets impairment	(1,294,955)	(1,319,067)
Revenues from reversal of non-current assets impairment	434,199	439,906
Amortization and depreciation expenses	(29,739,450)	(18,221,194)
Net adjustments for non-current assets impairment	**(30,600,206)**	**(19,100,355)**
Inventory impairment expenses	(4,815,438)	(4,283,633)
Revenues from inventory impairment reversal	4,325,063	2,321,429
Net adjustments for inventory impairment	**(490,375)**	**(1,962,204)**
Expenses with current assets impairment	(3,493,008)	(1,433,685)
Revenues from current assets impairment reversal	3,082,933	3,015,601
Current receivables charged to expenses	(640,353)	(1,101,303)
Net adjustments for current assets impairment	**(1,050,428)**	**480,613**
Provisions expenses	(512,009)	(125,165)
Revenues from provisions reversal / cancellation	303,229	2,739,616
Net adjustments for provisions	**(208,780)**	**2,614,451**

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

9. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December 2018 RON	Year ended 31 December 2017 RON
Wages	62,826,216	31,261,109
Contributions to the public social security fund	2,370,201	7,337,821
Meal tickets	3,209,931	1,749,071
Total	**68,406,348**	**40,348,001**

10. OTHER EXPENSES

	Year ended 31 December 2018 RON	Year ended 31 December 2017 RON
Transport costs	29,453,184	13,686,868
Expenses with utilities and green certificates	9,436,746	6,706,392
Expenses with third party services	13,857,324	9,401,977
Expenses with compensations, fines and penalties	60,693	52,367
Entertainment, promotion and advertising expenses	5,155,895	2,415,770
Other general expenses	2,696,494	1,978,286
Expenses with other taxes and duties	2,107,177	1,171,398
Repair expenses	3,083,141	1,623,646
Travelling expenses	1,430,365	1,032,822
Rent expenses	3,824,486	691,475
Mail and telecommunication expenses	752,756	566,723
Insurance premium expenses	1,895,322	912,582
Sponsorship expenses	1,257,090	1,016,328
Total	**75,010,673**	**41,256,634**

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

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

11. INCOME TAX

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

	Period ended 31 December 2018	Period ended 31 December 2017
	RON	RON
Profit before tax	**26,159,379**	**20,011,711**
Income tax calculated at 16% (2017: 16%)	4,185,501	3,201,874
Items assimilated to income	259,686	338,307
Deductions	(3,042,199)	(2,567,027)
Not taxable income	(3,168,218)	(3,301,901)
Non-deductible expenses	6,535,393	5,915,866
Sponsorship (tax credit)	(1,249,490)	(748,737)
Total income tax at the effective rate 13.5% (2017:14%)	**3,520,673**	**2,838,382**
Current income tax recognized in the profit and loss account - expense	4,198,150	3,155,658
Deferred income tax – revenue	(677,477)	(317,276)
Total income tax - expense	**3,520,673**	**2,838,382**

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

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

The components of the net deferred tax liabilities

2017	Opening balance	Recorded in the income statement	Closing balance
	RON	RON	RON
Tangible and intangible assets and investment properties	(4,298,806)	99,144	(4,199,662)
Inventories	-	-	-
Investments in subsidiaries	376,821	23,103	399,924
Employee benefit liabilities	117,357	2,088	119,445
Trade and similar payables	276,760	196,071	472,831
Net liabilities with deferred tax recognized	**(3,527,868)**	**320,406**	**(3,207,462)**

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

11. INCOME TAX (continued)

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

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

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

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

12. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Plant and equipment and vehicles	Installations and furniture	Tangible assets in progress	Total
	RON	RON	RON	RON	RON	RON
COST						
Balance as at 1 January 2017	**11,478,397**	**61,838,472**	**184,640,358**	**1,492,654**	**4,089,305**	**263,548,186**
Increases:	1,095,000	23,254,245	17,807,621	156,795	29,445,440	**71,759,102**
Out of which:						
Increases from the acquisition of Politub	1,095,000	5,205,210	10,270,811	35,471	-	**16,606,492**
Increases from the internal production of non-current assets	-	-	-	-	2,855,664	**2,855,664**
Transfers in / from non-current assets in progress	-	9,505,876	18,307,961	78,946	(27,892,784)	**-**
Transfers to non-current assets held for sale	(156,965)	(535,514)	-	-	-	**(692,478)**
Increases / (decreases) from value adjustments with impact on reserves	144,534	-	-	-	-	**144,534**
Disposals and other decreases	-	(2,392,901)	(1,669,703)	(44,138)	(308,000)	**(4,414,742)**
Balance as at 31 December 2017	**12,560,965**	**91,670,179**	**219,086,237**	**1,684,258**	**5,342,961**	**330,344,600**
Balance as at 1 January 2018	**12,560,965**	**91,670,179**	**219,086,237**	**1,684,258**	**5,342,961**	**330,344,600**
Increases:	2,331,508	7,556,282	28,344,831	1,076,638	20,360,758	**59,670,018**
Out of which:						
Increases from the acquisition of Depaco Group	2,096,125	8,069,765	16,175,206	424,407	24,908	**26,790,411**
Increases from the internal production of non-current assets	-	-	-	-	1,437,450	**1,437,450**
Transfers in / from non-current assets in progress	-	1,751,837	9,419,807	127,407	(11,309,736)	**(10,684)**
Transfers from inventory items	-	-	49,884	-	-	**49,884**
Transfers to non-current assets held for sale	(1,137,491)	(826,853)	-	-	-	**(1,964,344)**
Transfers from investment property	599,425	622,201	-	-	-	**1,221,626**
Decrease from valuation prior to the classification as assets held for sale, with impact on reserves	(522,189)	(333,862)	-	-	-	**(856,051)**
Increases / (decreases) from value adjustments with impact on reserves	-	155,328	-	-	-	**155,328**
Disposals and other decreases	-	(2,555,084)	(14,684,417)	(210,367)	-	**(17,449,869)**
Balance as at 31 December 2018	**13,832,218**	**98,040,028**	**242,216,342**	**2,677,936**	**14,393,983**	**371,160,508**

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

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land	Buildings	Plant and equipment	Installations and furniture	Tangible assets in progress	Total
	RON	RON	RON	RON	RON	RON
ACCUMULATED DEPRECIATION						
Balance as at 1 January 2017	**-**	**4,054,395**	**124,800,786**	**995,443**	**-**	**129,850,624**
Depreciation recorded during the year	346	3,241,780	14,340,091	158,931	-	**17,741,149**
Disposals and decreases	-	(2,342,257)	(1,618,847)	(41,875)	-	**(4,002,979)**
Impairment	-	(363,877)	278,145	-	964,893	**879,161**
Transfers to non-current assets held for sale active	-	(39,263)	-	-	-	**(39,263)**
Balance as at 31 December 2017	**346**	**4,550,778**	**137,800,175**	**1,112,499**	**964,893**	**144,428,691**
Balance as at 1 January 2018	**346**	**4,550,778**	**137,800,175**	**1,112,499**	**964,893**	**144,428,691**
Depreciation recorded during the year	346	4,495,501	22,256,684	310,261	-	**27,062,791**
Disposals and decreases	-	(1,515,779)	(13,760,561)	(160,156)	-	**(15,436,495)**
Impairment	-	(153,253)	474,412	-	539,597	**860,756**
Transfers from inventory items	-	-	49,884	-	-	**49,884**
Balance as at 31 December 2018	**692**	**7,377,247**	**146,820,594**	**1,262,604**	**1,504,490**	**156,965,627**
NET CARRYING AMOUNT						
Net carrying amount as at 1 January 2018	**12,560,619**	**87,119,401**	**81,286,062**	**571,759**	**4,378,068**	**185,915,909**
Net carrying amount as at 31 December 2018	**13,831,527**	**90,662,782**	**95,395,748**	**1,415,333**	**12,889,494**	**214,194,881**

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

12. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	31 December 2018 RON	31 December 2017 RON
Net value – vehicles	1,891,654	1,596,803
Net value – equipment	436,995	1,935,867
Total	**2,328,649**	**3,532,670**

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

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

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

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

In 2018, the Group concluded a sale promise for assets held in Otopeni (land and buildings) having a net book value of RON 1,865,560. According to IFRS 5, these assets were reclassified as of 31 December 2018 from tangible assets into assets held for sale and they were measured at reclassification date at the lowest between the net book value and the fair value less the costs generated by the sale.

The impairment adjustments set in 2018 related to assets not used. As at 31 December 2018, the Group had specific recorded impairment adjustments for tangible assets in an amount RON 2,312,454 (2017: RON 3,093,888).

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

13. INTANGIBLE ASSETS

	Goodwill	Licenses and other intangible assets	Intangible assets in progress	Total
Cost				
Balance as at 1 January 2017	**-**	**6,030,198**	**6,618**	**6,036,816**
Increases, out of which:	-	482,882	287,110	**769,992**
Politub acquisition	-	2,680	-	**2,680**
Transfers into / from tangible assets in progress	-	290,631	(290,631)	**-**
Disposals and other decreases	-	(17,542)	-	**(17,542**
Balance as at 31 December 2017	**-**	**6,786,169**	**3,097**	**6,789,266**
Balance as at 1 January 2018	**-**	**6,786,169**	**3,097**	**6,789,266**
Increases, out of which:	35,230,839	36,585,892	724,056	**72,541,010**
Depaco acquisition, out of which:	35,230,839	36,083,307	-	**71,314,146**
- Goodwill	35,230,839		-	**35,230,839**
- Wetterbest brand	-	27,351,076	-	**27,351,076**
- Commercial relations	-	7,427,844	-	**7,427,844**
Transfers into / from tangible assets in progress	-	333,163	(322,479)	**10,684**
Disposals and other decreases	-	(216,139)	-	**(216,139)**
Balance as at 31 December 2018	**35,230,839**	**43,489,085**	**404,897**	**79,124,821**
Cumulated amortization				
Balance as at 1 January 2017	**-**	**4,665,213**	**-**	**4,665,213**
Amortization expense	-	479,245	-	**479,245**
Decreases	-	(17,542)	-	**(17,542)**
Balance as at 31 December 2017	**-**	**5,126,916**	**-**	**5,126,916**
Balance as at 1 January 2018	**-**	**5,126,916**	**-**	**5,126,916**
Amortization expense	-	2,695,736	-	**2,695,736**
Depaco acquisition	-	503,772	-	**503,772**
Impairment	-	56	-	**56**
Decreases	-	(215,606)	-	**(215,606)**
Balance as at 31 December 2018	**-**	**8,110,874**	**-**	**8,110,874**
Net carrying amount				
As at 31 December 2017	**-**	**1,659,253**	**3,097**	**1,662,350**
As at 31 December 2018	**35,230,839**	**35,378,211**	**404,897**	**71,013,891**

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

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

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

14. INVESTMENT PROPERTIES

Investment properties include the following items:

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

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

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

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

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

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

	Year ended 31 December 2018 RON	Year ended 31 December 2017 RON
Opening balance at 1 January	**9,791,568**	**9,755,015**
Additions / (disposals)	(1,221,627)	36,888
Net variation from valuation of investment properties at fair value (Note 7)	(245,552)	335
Closing balance at 31 December	**8,324,389**	**9,791,568**

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

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

15. SUBSIDIARIES AND OTHER FINANCIAL INVESTMENTS

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

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

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

1. Depaco SRL

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

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

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

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

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

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

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

15. SUBSIDIARIES AND OTHER FINANCIAL INVESTMENTS (continued)

As a result of the purchase of 67% of the shares and of the sale-purchase promise mentioned above, the group consolidates the Depaco sub-group considering an investment of 99% from the acquisition date. Following the consolidation of the Depaco sub-group, the Group has registered goodwill amounting to RON 35,230,839, as positive difference between the consideration paid and, respectively, deferred and the fair value of the net assets taken from the summarized Financial information of the subsidiary Depaco SRL at the date of obtaining control, namely 1 January 2018, are presented below:

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

	31 December 2017
Intangible assets	35,578,360
Tangible assets	25,794,107
Financial investments	947,518
Inventories	41,107,981
Trade and other receivables	16,003,341
Prepayments	245,559
Cash and bank accounts	894,216
Long-term liabilities	9,726,945
Current liabilities	40,287,578
Total net identifiable assets, at fair value	**70,556,559**

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

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

Intangible assets

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

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

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

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

15. SUBSIDIARIES AND OTHER FINANCIAL INVESTMENTS (continued)

Tangible assets

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

The fair value of the tangible assets as of the purchase date was considered as being RON 25,794,107, RON 191,945 lower as compared to their net book value as of the purchase date amounting to RON 25,986,052.

Financial investments

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

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

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

	31 December 2017
Total assets	**3,881,646**
Tangible assets	996,305
Intangible assets	1,175
Inventories	1,433,103
Trade and other receivables	1,301,333
Prepayments	14,319
Cash and short-term deposits	135,412
Total liabilities	**(2,023,767)**
Long-term liabilities	(127,239)
Current liabilities	(1,896,528)
Net book assets	**1,857,879**
Equity, out of which:	**1,857,879**
Total equity attributable to Depaco SRL (51%)	947,518
Equity attributable to non-controlling interests (49%)	910,361

Current assets

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

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

15. SUBSIDIARIES AND OTHER FINANCIAL INVESTMENTS (continued)

Current liabilities and long-term liabilities

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

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

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

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

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

At the date of obtaining the control, 1 January 2018, the fair value of the consideration paid for the initial investment purchased in 2017 did not suffer any changes in relation to the book value of the investment.

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

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

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

As of 31 December 2018, the value of the deferred consideration for the additional investment of 32% was restated at fair value, on the basis of the same reasoning, obtaining an expense in profit and loss of RON 494,662:

1 January 2018	-
The fair value of the promise for the 32% investment	(48,527,375)
Financial expenses resulted from discounting the fair value	(494,662)
31 December 2018	**(49,022,037)**

Allocation of the purchase price

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

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

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

15. SUBSIDIARIES AND OTHER FINANCIAL INVESTMENTS (continued)

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

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

The costs related to the acquisition transaction of the investment in Depaco SRL were recognized directly in profit and loss when incurred. They represented financial, legal and notary advisory services carried out for finalizing the transaction and they were recognized in other expenses with services provided by third parties (Note 10). The entire amount related to the acquisition (contingency and expenses) of RON 56,554 thousand was paid as of the balance sheet date (from this amount, the amount of RON 7,215,405 was paid in 2018, the rest being transferred in 2017).

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

2. Politub SA

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

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

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

15. SUBSIDIARIES AND OTHER FINANCIAL INVESTMENTS (continued)

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

	30 September 2017
Non-current assets	17,131,580
Inventories	5,138,803
Trade and other receivables	10,173,450
Cash and cash equivalents	2,942,665
Total	**35,386,498**
Trade and other payables	9,929,496
Provisions	501,976
Total	**10,431,472**
Total net asset at fair value	24,955,026
The fair value of 50% of the net assets purchased	12,477,513
Purchase cost for the rest of 50%	11,432,250
Negative goodwill	**1,045,263**
The fair value of the investment premium of 50%	12,477,513
The book value of the investment of 50%	11,016,673
Gain form the valuation of the initial investment	**1,460,841**

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

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

Other long-term financial investments

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

Investment name	Country	Investment share %	31 December 2018 RON	Investment share %	31 December 2017 RON
CERTIND SA	Romania	7.50	14,400	7.5	14,400
Partnership for sustainable development	Romania	7.14	1,000	7.14	1,000
Tera Tools SRL	Romania	24	72	24	72
The Association of Metal Panels Producers	Romania	11.11	1,000	11.11	1,000
		-	**16,472**	-	**16,472**

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

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

15. SUBSIDIARIES AND OTHER FINANCIAL INVESTMENTS (continued)

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

The other Group companies do not have any financial investments.

16. JOINTLY-CONTROLLED ENTITY

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

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

Following the purchase of the initial investment of 50% in Depaco SRL, a goodwill of RON 19,512,494 was included in the investment value. The Group management did not identify impairment indicators concerning the Depaco SRL investment. At the date of taking control over Depaco SRL, following the valuation of the initial 50% investment, no losses or gains were recorded, the fair value of the investment in Depaco as of 31 December 2017 being equal to the book value.

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

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

Balance Sheet

	31 December 2017
	RON
Non-current assets	29,318,520
Current assets, including cash and short-term deposits	60,237,819
Current liabilities	40552,664
Long-term liabilities	7,372,412
Total equity	**41,631,261**
Group's interest in jointly-controlled entity	50%
Group share in the net assets of the joint venture	20,815,631

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

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

Profit and loss account	Depaco 1 July – 31 December 2017 RON	Politub 1 January – 30 September 2017 RON
Revenue	113,204,308	22,195,865
Cost of goods sold and of services rendered	(100,325,198)	(21,375,366)
General administration expenses	(9,279,852)	(2,460,161)
Financial loss	(345,087)	(72,671)
Profit / (loss) before tax	**3,706,513**	**(1,712,333)**
Income tax expense	(393,543)	-
Profit / (loss) for the year	**2,860,627**	**(1,712,333)**
Group's interest in jointly-controlled entity	50%	50%
Group's share of the joint venture's profit	1,430,313	(856,166)
Group's share of the joint venture's comprehensive income	-	-
Effect on the investment value	**1,430,313**	**(856,166)**

17. INVENTORIES

	31 December 2018 RON	31 December 2017 RON
Finished goods	40,509,329	25,576,825
Raw materials	55,406,294	32,903,781
Commodities	7,047,070	3,881,949
Consumables	2,655,109	2,341,688
Inventory items	234,237	203,891
Semi-finished goods	711,610	824,489
Residual products	288,142	148,219
Goods to be purchased	1,212,587	1,035,560
Packaging	189,869	142,225
Inventories – gross value	**108,254,247**	**73,349,461**

	31 December 2018 RON	31 December 2017 RON
Value adjustments for raw materials and consumables	(2,168,156)	(2,714,316)
Value adjustments for finished products	(4,730,950)	(2,718,773)
Value adjustments for merchandise	(890,543)	(857,745)
Total value adjustments	**(7,789,649)**	**(6,290,834)**
Total inventories – net value	**100,464,598**	**67,058,627**

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

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

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

18. TRADE AND OTHER RECEIVABLES

Short-term receivables	31 December 2018 RON	31 December 2017 RON
Trade receivables	133,856,312	101,495,325
Advances paid to suppliers of assets	6,404,825	3,233,906
Advances paid to suppliers of inventories and services	1,528,978	1,463,081
Other receivables	10,766,819	5,513,725
Adjustments for trade receivables impairment	(25,096,230)	(21,939,056)
Total	**127,460,704**	**89,766,981**

Other receivables include the amount of RON 8,240,921 (2017: RON 4,529,020) representing VAT recoverable (Teraglass Bistrita SRL,Terasteel Doo Serbia, Teraplast Logistic SRL, Depaco SRL).

The changes in adjustment for impairment on doubtful receivables

	31 December 2018 RON	31 December 2017 RON
Balance at the beginning of the year	**(21,939,056)**	**(18,205,487)**
Receivables transferred to expenses during the year	640,353	1,101,303
Impairment adjustment charged to profit and loss for trade receivables	(1,050,491)	(188,892)
Purchase of shareholder control	(2,747,037)	(4,645,980)
Balance at the end of year	**(25,096,230)**	**(21,939,056)**

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

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

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

	Trade receivables	Other receivables
1 January 2018, in accordance with IAS 39	**21,691,557**	**247,499**
(Revenue) / expense in profit and loss	(177,120)	77,258
Net revaluation of expected losses from receivables	510,000	-
Acquisition of Depaco control	2,100,461	646,576
31 December 2018	**24,124,898**	**971,333**

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

19. ASSETS HELD FOR SALE

	31 December 2018	31 December 2017
Opening balance as of 1 January	**653,215**	**-**
Inputs through transfers from tangible non-current assets	1,865,560	653,215
Outputs through sale	653,215	-
Closing balance as of 31 December	**1,865,560**	**653,215**

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

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

20. SHARE CAPITAL

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

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

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

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

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

20. SHARE CAPITAL (continued)

Shareholding structure

	31 December 2018		31 December 2017	
	Number of shares	**% ownership**	**Number of shares**	**% ownership**
Goia Dorel	501,197,059	46.83	400,957,648	46.79
Viciu Emanoil	39,447,752	3.69	38,004,202	4.44
Marley Magyarorszag (Gemencplast Szekszard)	84,858,730	7.93	67,886,984	7.92
KJK BALKAN HOLDING S.a.r.l.	107,530,688	10.05	-	-
KJK Fund II Sicav-SIF	-	-	86,024,551	10.04
FONDUL DE PENSII ADMINISTRAT PRIVAT NN / NN PENSII S.A.F.P.A.P. S.A.	71,305,117	6.66	57,044,094	6.66
LCS IMOBILIAR SA	38,619,285	3.61	27,222,044	3.18
Other individuals and legal entities	227,286,643	21.24	179,771,447	20.98
Total	**1,070,245,274**	**100**	**856,910,970**	**100**

Treasury shares

	thousands	**RON**
As of 31 December 2017	**1,663**	**663,396**
Repurchase of own shares, net of exercising the options	1,908	809,28
As of 31 December 2018	**3,571**	**1,472,925**

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

21. LEGAL RESERVES

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

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

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

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

22. NON-CONTROLLING INTERESTS

	31 December 2018 RON	31 December 2017 RON
Balance at the beginning of the year	**489,480**	**334,698**
Result for the year	760,684	332,509
Dividends	(1,101,638)	(191,848)
Acquirement of non-controlling interests	1,615,926	-
Other items	201,005	14,121
Balance at the end of year	**1,965,458**	**489,480**

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

23. LOANS

	Short-term		Long-term	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Porsche Bank	-	41,398	-	7,392
Transilvania Bank	71,161,905	53,945,847	67,757,841	74,262,300
Raiffeisen Bank	32,606,025	3,741,922	-	-
UniCredit Bank	12,957,716	-	2,703,823	-
Citi Bank	5,724,129	-	-	-
ING Bank	343,496	-	-	-
Leases	674,619	1,049,226	1,136,359	698,355
Total	**123,467,890**	**58,778,393**	**71,598,023**	**74,968,047**

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

Currency	**2018**	**2017**
EUR	14,985,632	-
RON	180,080,281	133,746,440
Total	**195,065,913**	**133,746,440**

The distribution of bank loans per companies is as follows:

	Short-term		Long-term	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Teraplast SA	58,948,895	42,475,727	67,218,258	73,084,383
Terasteel SA	27,537,494	14,359,779	-	534,517
Teraglass Bistrita SRL	2,678,585	893,661	539,583	650,792
Depaco SRL	24,171,789	-	2,504,454	-
Terasteel Doo Serbia	9,366,195	-	-	-
Cortina WTB SRL	90,313		199,369	
Total	**122,793,271**	**57,729,167**	**70,461,664**	**74,269,692**

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

23. LOANS (continued)

Bank loans as of 31 December 2018 are the following:

Teraplast SA

Financing bank	Financing type	Date granted	On balance as of 31 December 2017	On balance as of 31 December 2018	Short-term as of 31 December 2018	Long-term as of 31 December 2018	Period
Transilvania Bank	Working capital	07.06.2017	25,969,682	28,059,730	28,059,730	-	12 MONTHS
Transilvania Bank	Investments	20.04.2017	12,043,485	15,035,639	2,769,495	12,266,144	84 MONTHS
Transilvania Bank	Investments	07.06.2017	32,900,000	28,200,000	4,700,000	23,500,000	84 MONTHS
Transilvania Bank	Investments	19.07.2017	15,663,934	14,411,254	2,663,303	11,747,950	84 MONTHS
Transilvania Bank	Investments	24.07.2017	4,644,469	3,824,857	1,101,327	2,723,529	60 MONTHS
Transilvania Bank	Investments	31.07.2017	10,730,255	8,345,754	2,403,072	5,942,682	60 MONTHS
Transilvania Bank	Investments	07.11.2017	9,832,529	7,820,000	1,955,000	5,865,000	60 MONTHS
Transilvania Bank	Investments	04.04.2018	-	6,230,303	1,057,351	5,172,953	72 MONTHS
Raiffeisen Bank	Working capital	01.07.2017	3,741,922	14,239,615	14,239,615	-	12 MONTHS
Porsche Bank	Investments	31.03.2015	33,835	-	-	-	48 MONTHS
TOTAL			**115,417,664**	**126,167,153**	**58,948,895**	**67,218,258**	

Terasteel SA

Financing bank	Financing type	Date granted	On balance as of 31 December 2017	On balance as of 31 December 2018	Short-term as of 31 December 2018	Long-term as of 31 December 2018	Period
Transilvania Bank	Working capital	08.07.2018	13,737,396	18,002,763	18,002,763	-	12 MONTHS
Transilvania Bank	Investments	30.11.2017	1,141,941	534,516	534,516	-	12 MONTHS
Raiffeisen Bank	Working capital	31.05.2018	-	9,000,215	9,000,215	-	12 MONTHS
Porsche Bank	Investments	23.12.2014	14,956	-	-	-	12 MONTHS
TOTAL			**14,894,293**	**27,537,494**	**27,537,494**	**-**	

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

23. LOANS (continued)

Teraglass Bistrita SRL

Financing bank	Financing type	Date granted	On balance as of 31 December 2017	On balance as of 31 December 2018	Short-term as of 31 December 2018	Long-term as of 31 December 2018	Period
Transilvania Bank	Working capital	07.12.2017	878,245	2,493,585	2,493,585	-	12 MONTHS
Transilvania Bank	Investments	07.12.2017	666,208	724,583	185,000	539,583	60 MONTHS
TOTAL			**1,544,453**	**3,218,169**	**2,678,585**	**539,583**	

Depaco SRL

Financing bank	Financing type	Date granted	On balance as of 31 December 2017	On balance as of 31 December 2018	Short-term as of 31 December 2018	Long-term as of 31 December 2018	Period
UniCredit Bank	Investments	-	282,812	28,317	21,238	-	48 MONTHS
UniCredit Bank	Investments	26.05.2017	1,976,283	1,230,674	778,287	450,194	30 MONTHS
UniCredit Bank	Investments	20.04.2016	879,844	580,994	296,592	257,439	60 MONTHS
UniCredit Bank	Investments	26.05.2015	223,046	42,655	42,655	-	48 MONTHS
UniCredit Bank	Investments	28.02.2018	-	1,796,821	-	1,796,821	48 MONTHS
UniCredit Bank	Investments	-	128,490	-	-	-	48 MONTHS
UniCredit Bank	Working capital	09.02.2012	4,390,382	3,497,925	3,497,925	-	12 MONTHS
UniCredit Bank	Working capital	17.01.2017	-	3,969,081	3,969,081	-	24 MONTHS
UniCredit Bank	Working capital	25.02.2011	-	4,261,625	4,261,625	-	12 MONTHS
Transilvania Bank	Working capital	14.12.2016	104,468	23,216	22,505	-	23 MONTHS
Transilvania Bank	Working capital	20.02.2018	-	5,213,545	5,213,545	-	12 MONTHS
CITI Bank	Working capital	29.05.2018	-	5,724,129	5,724,129	-	12 MONTHS
ING Bank	Investments	07.04.2016	806,827	343,496	343,496	-	41 MONTHS
TOTAL			**8,792,151**	**26,676,243**	**24,171,789**	**2,504,454**	

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

23. LOANS (continued)

Terasteel d.o.o Serbia

Financing bank	Financing type	Date granted	On balance as of 31 December 2017	On balance as of 31 December 2018	Short-term as of 31 December 2018	Long-term as of 31 December 2018	Period
Raiffeisen Bank Serbia	Working capital	10.04.2018	-	9,323,726	9,323,726	-	12 MONTHS
TOTAL			-	**9,323,726**	9,323,726	**-**	

Cortina WTB SRL

Financing bank	Financing type	Date granted	On balance as of 31 December 2017	On balance as of 31 December 2018	Short-term as of 31 December 2018	Long-term as of 31 December 2018	Period
UniCredit Bank	Investments	01.06.2015	120,209	53,973	53,973	-	60 MONTHS
UniCredit Bank	Investments	01.06.2016	89,090	52,751	36,340	16,411	60 MONTHS
UniCredit Bank	Investments	28.02.2018	-	182,958	-	182,958	60 MONTHS
UniCredit Bank	Working capital	09.02.2014	-	-	-	-	12 MONTHS
TOTAL			**209,299**	**289,682**	**90,313**	**16,411**	

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

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

24. EMPLOYEE BENEFIT LIABILITIES AND PROVISIONS

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

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

	Short-term		**Long-term**	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
	RON	**RON**	**RON**	**RON**
Employee benefits	-	-	724,849	320,836
Provisions for risks and expenses	780,213	975,446	-	-
Total	**780,213**	**975,446**	**724,849**	**320,836**

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

Employee benefits	**31 December 2018**	**31 December 2017**
	RON	**RON**
Opening balance	320,838	351,936
Movements	404,011	(31,098)
Closing balance	**724,849**	**320,838**

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

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

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

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

25. TRADE AND OTHER PAYABLES

	31 December 2018 RON	31 December 2017 RON
Trade payables	125,833,102	66,864,762
Trade notes payable	818,625	1,172,128
Liabilities from the purchase of non-current assets	2,270,474	2,495,030
Other current payables (Note 26)	9,075,734	8,250,800
Advance payments from clients	7,254,687	7,402,253
Total	**142,252,622**	**86,184,973**

26. OTHER CURRENT LIABILITIES

	31 December 2018 RON	31 December 2017 RON
Salary-related payables to employees and social security payables	6,877,775	5,349,242
VAT payable	1,210,565	1,506,578
Unclaimed employee rights	91,531	88,536
Sundry creditors	12,556	209,712
Deferred income	8,928	184,143
Commercial guarantees received	114,859	123,130
Other taxes payable	524,373	603,193
Dividends payable	235,147	186,265
Total	**9,075,734**	**8,250,799**

27. FINANCIAL LEASE OBLIGATIONS

Lease contracts

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

Finance lease liabilities

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

	Minimum lease payments		Discounted value of the minimum lease payments	
	31 December 2018 RON	31 December 2017 RON	31 December 2018 RON	31 December 2017 RON
Present value of minimum lease payments				
Amounts payable in one year	741,431	1,086,294	674,619	1,049,226
More than one year but less than five years	1,403,743	745,444	1,303,679	698,355
Above 5 years	-	-	-	-
Total lease liabilities	**2,145,174**	**1,831,738**	**1,978,298**	**1,747,581**
Minus future financial expenses	(166,876)	(84,157)	-	-
The current value of financial lease liabilities	**1,978,298**	**1,747,581**	**-**	**-**

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

28. FINANCIAL INSTRUMENTS

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

(a) Capital risks management

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

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

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

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

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

	2018 RON	2017 RON
Total loans (Note 23)	195,065,913	133,746,440
Less cash and cash equivalents	(22,817,571)	(12,019,025)
Net debt	**172,248,340**	**121,730,638**
Total equity	**238,115,865**	**224,743,737**
Total equity and net debt	**410,364,205**	**346,474,375**
Gearing ratio	**42%**	**35%**

(b) Summary of significant accounting policies

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

28. FINANCIAL INSTRUMENTS (continued)

(c) Objectives of the financial risk management

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

(d) Market risk

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

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

(e) Foreign currency risk management

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

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

	31 December 2018		**31 December 2017**	
	RON	**RON**	**RON**	**RON**
Profit or (loss)	3,976,917	(3,976,917)	1,496,014	(1,496,014)

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

(f) Interest rate risk management

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

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

28. FINANCIAL INSTRUMENTS (continued)

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

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

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

As at 31 December 2018 and, respectively 31 December 2017, in the case of a CU 100pb increase / decrease of the interest rate on loans, with all the other variables held constant, the net profit for the period would fluctuate as follows, mainly as a result of the higher/lower interest expenses on floating interest loans.

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

(g) Other price risks

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

(h) Credit risk management

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

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

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

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

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

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

28. FINANCIAL INSTRUMENTS (continued)

(i) Liquidity risk management

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

(j) Fair value of financial instruments

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

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

	31 December 2018 RON	31 December 2017 RON
Not overdue	99,968,714	79,746, 379
Overdue, but not impaired	27,491,990	8,964,700
Impaired and provisioned in full	25,096,230	21,832,885
Total	**152,556,934**	**110,543,964**

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

Overdue, but not impaired:

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

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

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

28. FINANCIAL INSTRUMENTS (continued)

Impaired and provisioned in full:

	31 December 2018 RON	31 December 2017 RON
Below 6 months	1,787,136	788,301
6 to 12 months	883,528	1,494,797
Above 12 months	22,425,566	19,549,787
Total	**25,096,230**	**21,832,885**

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

28. FINANCIAL INSTRUMENTS (continued)

Tables on liquidity and interest rate risks

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

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

2018	Below 1 month	1-3 months	3 months to 1 year	1-3 years	3 - 5 years	Above 5 years	Total
Non-interest bearing							
Trade payables and other liabilities	(96,723,892)	(48,253,632)	(275,099)	(49,022,037)	-	-	**(194,274,661)**
Interest-bearing instruments							
Short and long-term loans	(24,290,899)	(13,493,867)	(84,683,731)	(53,004,077)	(19,593,338)	-	**(195,065,911)**
Future interest	(515,878)	(1,597,492)	(3,706,581)	(11,086,541)	(4,479,623)	-	**(21,386,116)**
Non-interest bearing							
Cash and cash equivalents	22,817,571	-	-	-	-	-	**22,817,571**
Receivables	78,720,055	46,253,683	2,486,967	-	-	-	**127,460,704**

2017	Below 1 month	1-3 months	3 months to 1 year	1-3 years	3 - 5 years	Above 5 years	Total
Non-interest bearing							
Trade payables and other liabilities	(48,044,742)	(34,555,312)	(3,584,920)	-	-	-	**(86,184,973)**
Interest-bearing instruments							
Short and long-term loans	(292,667)	(1,940,085)	(56,545,642)	(46,077,055)	(22,829,355)	(7,061,637)	**(133,746,440)**
Future interest	(304,799)	(716,787)	(3,012,258)	(6,073,491)	(3,147,377)	(734,006)	**(13,988,719)**
Non-interest bearing							
Cash and cash equivalents	12,015,802	-	-	-	-	-	**12,015,802**
Receivables	47,667,812	40,513,843	1,585,322	-	-	-	**89,766,981**

29. RELATED PARTY TRANSACTIONS

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

31 December 2017
Subsidiaries and jointly controlled entities
Teraglass Bistrita SRL
Terasteel SA
Politub SA
Teraplast Logistic SRL
Teraplast Hungaria
Depaco SRL
Terasteel DOO Serbia

Related entities (shareholding / joint decision-maker)
ACI Cluj SA Romania
Ferma Pomicola Dragu SRL Romania
La Casa Ristorante Pizzeria Pane Dolce SA Romania
Omniconstruct SA Romania
Magis Investment SRL
Ischia Invest SRL
Ischia Activholding SRL
Info sport SRL
Agrolegumicola Dragu SRL
New Croco Pizzerie SRL
Parcserv SRL
Ditovis Impex SRL Romania
RSL Capital Advisors SRL

31 December 2018
Subsidiaries
Teraglass Bistrita SRL
Terasteel SA
Politub SA
Teraplast Logistic SRL
Teraplast Hungaria Kft
Depaco SRL
Terasteel Doo Serbia
Cortina WTB SRL

Related entities (shareholding / joint decision-maker)
ACI Cluj SA Romania
AGROLEGUMICOLA DRAGU SRL Romania
Cetus Capital SRL Romania
Ditovis Impex SRL Romania
Eurohold AD Bulgaria
FERMA POMICOLA DRAGU SRL Romania
Hermes SA Romania
INFO SPORT SRL
ISCHIA ACTIVHOLDING SRL
ISCHIA INVEST SRL
LA CASA RISTORANTE PIZZERIA PANE DOLCE SRL
Magis Investment SRL
Mundus Services AD Bulgaria
NEW CROCO PIZZERIE SRL
Parc SA
PARCSERV SRL
RSL Capital Advisors SRL
Sphera Franchise Group SA

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

29. RELATED PARTY TRANSACTIONS (continued)

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

Transactions and balances with other related parties	**31 December 2018**	**31 December 2017**
	RON	**RON**
Sales of goods and services	157,463	2,112,299
Purchases of goods and services	154,477	1,647,037
Debit balances	97,276	33,451
Credit balances	18,496	54,774

30. CASH AND CASH EQUIVALENTS

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

	31 December 2018	**31 December 2017**
	RON	**RON**
Cash in bank	22,284,803	11,844,996
Bills receivable	235,668	7,184
Cash on hand	192,728	132,618
Cash equivalents	104,372	31,004
Total	**22,817,571**	**12,015,802**

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

31. COMMITMENTS AND CONTINGENT LIABILITIES

Teraplast SA

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

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

31. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

As of 31 December 2018, tangible assets and investment property having a net book value of RON 56,463,119 are guarantees for loans and credit lines. The Company has guaranteed for bank loans with all current and future cash available, with all current and future inventories of merchandise and products and it has assigned the current and future rights of receivable, as well as their accessories, arising from current and future contracts with its clients, having the capacity of assigned debtors. In addition, the Company has assigned the rights resulting from the insurance policies issued having as object the immovable and movable property used as guarantees.

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

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

As of 31 December 2018, the Company has unused loan facilities amounting to RON 18,794,869 and unused investment loans amounting to RON 0 (as of 31 December 2017: RON 30,488,396 and unused investment loans amounting to RON 15,493,535).

The Company signed in November 2018 a financing agreement for an investment project of RON 28,987 thousand, within the State aid scheme for stimulating investments having a major impact on the economy, 50% of the project value is funded through state aid. The Teraplast SA project aims at offering a new product in the granules field and endowing a line which will allow extending the production capacity of the polypropylene systems.

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

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

Terasteel SA

As of 31 December 2018, the Company has unused loan facilities amounting to RON 5,497,027 (31 December 2017: RON 4,262,604).

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

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

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

In 2017, the Company granted to Transilvania Bank a guarantee for being jointly liable with Teraplast SA for reimbursing the loans amounting to RON 150,763,303 which Teraplast SA has contracted from Banca Transilvania.

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

31. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

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

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

Teraglass Bistrita SRL

As of 31 December 2018, the Company has unused loan facilities amounting to RON 506,415.

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

Depaco SRL

As of 31 December 2018, the Company has unused loan facilities amounting to RON 8,107,433 and EUR 608,105.

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

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

Potential tax liabilities

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

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

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

31. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Environmental matters

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

Transfer pricing

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

Auditor fees

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

32. INVESTMENT SUBSIDIES

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

	2018	2017
	RON	RON
As at 1 January	**2,928,557**	**3,391,999**
Depaco acquisition	1,873,607	-
Transferred to profit and loss	(750,592)	(463,442)
As at 31 December	**4,051,575**	**2,928,557**
Current	453,766	457,814
Long-term	3,597,809	2,470,743

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

33. SHARE-BASED PAYMENT

During 2015, the Company decided to implement a „stock compensation plan" type of remuneration through which, those employees having a significant contribution to the results of 2015, will be distributed shares, as part of the General Share Options Plan (GSPO).

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

In May 2016, a part of this program was carried out and 840,947 shares amounting to RON 499,520 have been issued, the value of the shares at the purchase price being of RON 478,247 (RON 0.56 price / share).

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

In December 2017, Terasteel registered a provision amounting to RON 920,000.

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

34. SUBSEQUENT EVENTS

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

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

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

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

34. SUBSEQUENT EVENTS (continued)

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

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

Alexandru Stanean	**Ioana Birta**
CEO	CFO

The Board of Directors report on the consolidated financial statements of Teraplast Group prepared in accordance with the International Financial Reporting Standards ("IFRS")

Headquarters: Saratel village, Sieu-Magherus commune, DN 15A, km 45 + 500, Bistrita-Nasaud county

Sole registration number at the Trade Register Office: 3094980

Trade Register No: J06/735/1992

Regulated market on which the issued shares are traded: Bucharest Stock Exchange

Subscribed and paid share capital: RON 107,024,527Main features of securities issued by the trading company: 1,070,245,274 nominative shares with a nominal value of RON 0.1/share

The Board of Directors of Teraplast SA, appointed by the General Meeting of Shareholders, has drawn up for fiscal year 2018 this report on the balance sheet, profit and loss statement, statement of changes in shareholders' equity, cash flow statement and accounting policy, as well as explanatory notes included in the 2018 consolidated financial statements of Teraplast Group.

These consolidated financial statements are submitted along with the Audit Report and this Directors Report and refer to:

Equity	**RON 238,116 thousands**
Turnover	**RON 804,512 thousands**
Net result – profit	**RON 22,639 thousands**
Of which, attributable to the equity holders of the parent – profit:	RON 21,878 thousands

The financial statements have been drawn up in accordance with:
(i) Accounting Law 82/1991 republished in June 2008 ("Law 82")
(ii) Order of the Minister of Public Finance no. 2844/2016 for the approval of the Accounting Regulations in accordance with International Financial Reporting Standards

The consolidated financial statements include the financial statements of the parent company, of the subsidiaries and of the jointly-controlled unit. The control is obtained when the Company has the power to control the financial and operational politics of an entity in order to obtain benefits from its activity.

Where necessary, correction is made on the financial statements of the subsidiary in order to bring its accounting policies in accordance with those of the Group.

All the intragroup transactions balance, income and expenses are eliminated from the consolidation. Non-controlling interests in assets (excluding goodwill) of the consolidated subsidiary are separately identified from the Group's equity owned in this. Non-Controlling interests are the amount of these interests at the initial combination of the companies and in the part owned by the non-controlling interests in the changes of the equity starting with the combination date.

The consolidated financial statements were audited by the independent auditor Ernst & Young Assurance Services SRL, which issued an unqualified opinion.

Contents

1. About TeraPlast Group

1.1 Group Structure

The history of TeraPlast started in 1896, with the ceramic tile production workshop in Bistrita. Today, in over 12 decades, the TeraPlast Group is one of the world's leading manufacturers of building materials. These achievements are the natural result of more than a century of continuous development and innovation, all done for one objective: providing efficient solutions for people and the environment.

With over 120 years of tradition, TeraPlast SA, the parent company, is currently the largest building material manufacturer with Romanian capital. The company’s product portfolio is organised on three business lines: Installations, Joinery profiles, Granules, Thermal insulation panels. As of 2 July 2008, TeraPlast SA – has been listed on the Bucharest Stock Exchange under the symbol TRP. TeraPlast shares are covered by BET-BK, BET-XT, BET-XT-TR si BET-Plus index range.

The Group Structure as of 31 December 2018 is:

TeraSteel is one of the largest manufacturers of sandwich panels and galvanized structures on the CEE market. Its products are present in 20 European countries, and the company is recognized as a trusted partner.

Depaco is the second largest metal tile producer in Romania, in terms of value and quantity. The Wetterbest brand is among the top 3 metal tile manufacturers recommended by craftsmen and distributors, as well as top 3 renowned manufacturers.

With over 10 years' experience in the production of PVC windows and doors, TeraGlass focuses mainly on the export and DIY market in Romania. The company manufactures and trades PVC and aluminum windows and doors, with an annual capacity of 120,000 pieces.

In 2017, after the acquisition of an Interlemind factory, TeraSteel inaugurated a new production facility in Leskovac, Serbia. It is the first Romanian-owned company, opened abroad after 1990. With this acquisition, TeraSteel responds to the growing demand in the Balkans area, besides the Serbian market, and consolidates its position on the Romanian market.

It distributes PVC profiles on the Hungarian market where, for an efficient customer service, the company was opened with distribution operations as the main activity.

Starting 2017, the Group started its activity in the rigid PVC recycling section. The recycling line has an annual processing capacity of 12,000 tons. Starting November 2018, Teraplast Logistic SRL has changed its name and legal form in Teraplast Recycling SA, given that since October 2018, the Group's logistics activity has been reintegrated into the parent company. In April 2019, the recycling line was transferred from Teraplast SA to Teraplast Recycling SA.

1. About TeraPlast Group (continued)

1.2 Production capacity of the Group

Today, the TeraPlast Group products are made in the 8 factories located in Romania (Saratel, Baicoi, Podari) and outside the country (Leskovac, Serbia) with an area of over 300,000 square meters:

1. PVC factory (TeraPlast)
2. Polypropylene Factory (TeraPlast)
3. Polyethylene products factory (TeraPlast)
4. PVC window and door factory (TeraGlass)
5. Production facility for thermal insulating panels (TeraSteel)
6. Production facility for zinc coated panels (TeraSteel)
7. The galvanized profile factory (TeraSteel)
8. Tile and Sheet Metal Factory (Wetterbest)

The PVC plant has a processing capacity of 50 thousand tons / year.
• 4 dosing / mixing plants, 100% automatic;
• 6 PVC pipe extrusion lines for indoor and outdoor sewers as well as for water supply;
• 14 PVC profile extrusion lines;
• 4 granulators for the production of plasticized granules (especially for the production of electric cables) and rigid (for the production of fittings or other injected parts;

The Polyolefine Factory has a production capacity of 2,500 to / year of extruded, injected and rotoformed polyethylene, polypropylene and PVC products, for internal sewage, external sewerage (fireplaces and some fittings), water supply (bins), liquid storage (tanks) as well as water treatment solutions (septic tanks, purification micro-plants) and comprises:
• 7 injection machines for the production of PP and PVC fittings
• 1 line of polypropylene pipe;
• 1 rotoforming machine;

The polyethylene pipe factory, with a production capacity of 12,000 t / y, produces high density polyethylene pipes for transmission and distribution networks of water, natural gas, but also for telecommunication, sewerage or irrigation, as well as polyethylene pipes of medium and high density with structured walls.
• 5 lines of pressure pipe extrusion for water and gas feeds;
• 1 line for corrugated pipe production for sewerage and cable protection.

The PVC window and door factory, with a production capacity of 120,000 pieces / year, manufactures PVC and aluminum (AL) insulating joinery, which encompasses the entire range of products that can be achieved by using PVC / AL profiles, these being windows or doors of PVC / AL.
• 2 cutting centers;
• 1 cantilever cutting machine;
• 3 machining centers where all drilling and reinforcement milling operations are carried out in both PVC and reinforced steel, with 3 welding lines at 4 ends, 3 deburring machines, 3 ironing equipment on the sashes;
• 5 production tables on which the joints with the sashes are made, resulting in the PVC joinery;
• 2 glazing stands on which the riding and installation of the window glass is made.

1. About TeraPlast Group (continued)

The sandwich panel factory from TeraPlast Industrial Park in Saratel, Bistrita-Nasaud (RO):
- 1 Pu.Ma line for production of PUR and PIR sandwich panels, with capacity: 2.2 mil sq m and press length: 32m;
- 4 scrollers;
- 1 roof and wall profiler;

Sandwich panel and sheet metal factory from Serbia:
- 1 line Pu.Man production sandwich panels with a capacity: 2.2 mil sqm and length of the press 32m;
- 4 scrollers;
- 1 roof and wall profiler;
- 1 high-line 153mm high-line board;
- mineral wool module integrated into the panel line;

Galvanized profile factory, Bistrita, Bistrita-Nasaud (RO), with the following equipment:
- 1 slicing line;
- 1 C, Z, U and Sigma profile production line, being the only production line of galvanized profiles in Romania that produces 4mm board with a capacity of 5,500 tons;
- 2 metal reinforcement lines for PVC joinery, with a production capacity of 4,000 tons / line;

The metal tile and sheet metal factory in Baicoi operates on 40 automatic lines: for metal tiles with different profiles, for 4-dimensional sheet metal, for the gutter and pipe system, for folded sheet metal and many other accessories.
- at present, in the factory in Podari, Dolj County, there are 4 automatic production lines of the Wetterbest metal tile;
- from the second half of 2017, an automatic metal tile production line operates in Bistrita.

In November 2017, the Company set up a complex PVC recycling facility both post-industrial and post-consumer with an automatic sorting cycle, grinding washing and color separation of recycled materials with a processing capacity of over 10,000 to / year, thus entering the top 10 rigid PVC recyclers at European level.

1.3 Customers and markets

The TeraPlast Group exports to over 20 European countries, including Germany, Austria, Hungary, Slovenia, the Czech Republic, Slovakia, Italy, Bulgaria, Serbia and Belgium. The companies with the highest export activity within the group are TeraSteel and TeraGlass, with over 40% and 75% respectively.

Currently, the number of TeraPlast Group's active clients exceeds 3,000. Customer satisfaction levels increase from year to year, according to studies conducted by specialized companies.

1.4 Products and business lines

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

1. About TeraPlast Group (continued)

Thus, the Group's product portfolio is structured on the following business lines:
• PVC, polyethylene and polypropylene plants
• Profiles of PVC joinery
• Plasticized and rigid granules
• Metal roof tile and roof accessories
• Heat-insulating panels and metal structures
• Carpentry

Installations

The Installations business line includes external sewage systems, internal sewage, water and gas transport and distribution, rainwater and domestic water management, telecommunication, electrical networks, individual utilities connections.

TeraPlast is the leader of the PVC pipe market and the second player on the Romanian market.

According to the sustainable development strategy "Romania 2025", the total investment needs for the rehabilitation of the public water supply and sewerage infrastructure are 12.5 billion euros, and the annual average of the required investments is 625 million euros per year. As regards the connection of the population to water and sewage, in 2017 in Romania, 50.8% of the resident population is connected to the sewage systems, while the percentage of connection to the resident population of the sewage systems provided with sewage treatment plants is 49.4%.

For 2014-2020, € 11 billion was earmarked under the POEM. Of this amount, payments totaled 2.3 billion euros to date and contracts worth 9.7 billion euros were signed. In this context, demand is expected to increase over the next 2 years as a result of reaching the execution stage of these projects.

TeraPlast constantly invests in developing the solutions it offers. This implies obtaining systems with functionalities that meet the needs of the clients, but also responsible development - one of the main directions of the Society in this area. In 2018, Politub PE-100RC launched the latest generation polyethylene, which provides a lifetime of up to 100 years, ease of installation and superior properties.

The Group also envisages investments in product categories that do not address the infrastructure market within the development strategy. For example, under the state aid scheme, TeraPlast is investing in a new technique for the production of polypropylene sewer pipes. These are a superior quality alternative to PVC pipes and, following the investment, the company will offer multilayer polypropylene pipes for indoor sewerage.

Joinery profiles

The joinery profiles business line serves over 200 clients producing thermal insulating joinery. On the domestic market, the best-selling system is the 4-room, while for export the demand is predominant for 6 and 7-room systems.

Starting 2019, TeraPlast offers a new range of joinery profiles with a new co-extruded gasket that offers superior thermal and sound insulation as well as new glaze variants for the existing range of systems.

1. About TeraPlast Group (continued)

Granules

With a market share of more than 34%, TeraPlast is the leader in the granular market in Romania and the main supplier of PVC granules for the cable industry in Romania. The portfolio includes plasticized granules and rigid granules, with applications in the extrusion and injection industry.

The state aid project through which TeraPlast SA invests a total of EUR 6.2 million also targets this line of business. As a result of the investment, the company will bring an innovation on the Romanian grain market - halogen-free, fire resistant granules (HFFR).

Metal tile

Wetterbest products are present in most DIY stores in Romania. The product portfolio covers a complete range of finished products and accessories to install complete roof systems:

- Metallic tile: Wetterbest metallic tile panels in "Classic", "Wind" and Premium ("Plus", "Gladiator" and "Colloseum");
- Plate: Flat Plates "Wetterbest® Click;
- Roof accessories, which include the complete range of accessories (called curbs) needed for the installation of roof systems: strassy type, rooftop, turbine connection, turbine special beam, dolie, sort of slope breaking, rounded ridge, parapets, reinforced collector rails, collector, stoppers snow, hinges / closures, etc.
- Sheet metal;
- Drainage systems own brand in two types
- Windows attics, membranes and other accessories (screws, sprays, etc.) marketed in the form of commodities, required to provide a complete roofing system.

The state aid project through which Depaco SRL invests a total of EUR 3.8 million is aimed at opening a new manufacturing facility in Baicoi (Prahova), which, at a production capacity of more than 10 million square meters of tile, will ensures optimal flow of logistics and storage.

Sandwich panels and steel structures

The business line includes an extensive portfolio of products obtained in the three factories, two in Bistrita, Romania, respectively, one in Serbia, offering the next product categories:

- PUR, PIR thermal insulation panels with mineral wool
- Galvanized structures
- Turnkey halls
- Sheet self-supporting

In 10 years of activity in the market of sandwich panels with polyurethane foam in Romania, the Group is a market leader with a market share of 20%. The Group retains its leading position with a market share of 14% and in the galvanized steel market in Romania. Through its presence in Serbia, the Group strengthened its position as a major player at regional level.

Through the network of partner companies in the refrigeration industry, the Group has provided over 50% of the panels used for refrigeration chambers in the major supermarket chains in Romania.

Following an investment of more than EUR 1 million, the product portfolio in Serbia is expanding with the production of sheeting and heat-insulating panels with mineral wool.

1. About TeraPlast Group (continued)

Carpentry joinery

The production and marketing of thermo-insulating joinery includes 2 divisions, namely:

1) Thermal PVC joinery, PVC joinery products and accessories, with the following product groups:
• Window and USI PVC brand "Teraglass", systems with 4,6 and 7 rooms;
• PVC windows and doors "Salamander", 5 and 6-door systems;

2) Thermal alloy joinery, aluminum fittings and accessories, including profiles 11000, M900 and M9300, which may be with barrier or without thermal barrier depending on the requirements and needs of the final beneficiary.

The state aid project through which Teraglass Bistrita SRL invests a total of 3.4 million euros aims to create a new fully automated flow for the production of PVC windows and doors, a process that will contribute both to the increase of production capacity and labor productivity, as well as to meet demand on an upward trend.

1.5 The Group's employees

During 2018, the employees' structure was as follows:

	2018
Directors	14
Managers	49
Administrative staff	324
Production staff	650
Total	**1,037**

According to the applicable collective agreement, Group's minimum pay rates are above the national minimum wage.

TERAPLAST group aims to hire and retain the best professionals in the labor market, so as to continuously improve operations and create added value.

The HR strategy is integrated into the business strategy and aims to respond to the requirements of business objectives through actions on human resources field such as organization, recruitment and selection, performance, and development. In this respect, the Group has specific internal procedures for each of these stages.

1. About TeraPlast Group (continued)

Guidelines for policy implementation are:

- recruiting and employing staff based on competencies;
- quick integration of new employees;
- developing adequate training and improvement programs with the objectives of each organization in the Company;
- developing incentive plans designed to encourage efficient achievements with reduced costs;
- elaboration of non-financial stimulation systems;
- development of career programs and succession plans;
- the standardization of human resources policies at the TeraPlast Group level.

We aim to provide a trained and motivated workforce that contributes, by continually improving individual and team performance, to achieving the goals of the group companies. We know that each member of the team is important and can bring added value to the group, which is why we are trying to always have the right person in the right place.

Our values are: quality, seriousness, performance. These values have been embedded in our organizational culture and have been incorporated into the ongoing improvements of group companies.

The human resources policy focuses on the following directions:
- ensuring the needed trained personnel in the context of competition resulting from the free movement of labor within the European Community area and achieving a balanced distribution of human resources at group level;
- increasing the level of professional competence of the employees;
- Strengthening its own system of promoting staff with potential for performance;
- Anticipating fluctuations in staff shortages or surpluses;
- covering the operational needs of the organization through the efficient use of human resources;
- observance of the financial forecasts, respectively the sizing of the human resources at the level of the need established in the organizational chart;

The Group's responsibility towards employees means ensuring a safe and healthy work environment, offering professional and personal development opportunities, and establishing a permanent dialogue to monitor their satisfaction and expectations. Each employee has the responsibility to maintain a safe and healthy job for all employees, following health and safety regulations and practices in work and by reporting accidents, injuries, and equipment, practices and unsafe conditions.

The main strategic directions for Occupational Health and Safety Management that TeraPlast aims and is committed to accomplish are: to continually prevent and reduce the risks of injury and occupational disease, to create the conditions necessary for the continuous improvement of the occupational health and safety performance and the involvement of all in achieving the proposed objectives.

1. About TeraPlast Group (continued)

1.6 Effective solutions for people and the environment

Responsibility towards the environment and the community in which we operate is an important part of the principles we guide our activity after. We are constantly allocating resources to identify and minimize the negative impact that our work can have on the environment and we are actively involved in the community.

Effective management of the impact that our work has on the environment means:
• Waste monitoring, recycling and keeping the percentage of waste / ton of finished product below 1%
• Maintaining under control the consumption of electricity, water and natural gas
• Monitoring environmental factors

The TeraPlast Group has implemented and certified, at each company level, the Quality-Environment-Health and Occupational Safety Integrated Management System according to ISO 9001: 2015, ISO 14001: 2015 and OHSAS 18001: 2007.

The materialization of this responsible attitude towards sustainability is translated by the TeraPlast rigid PVC recycling unit, which has an annual processing capacity of 12,000 tons, which places us on the 1st place in Romania and in the top 10 in Europe.

In addition, the partnership with E.ON Energie at the end of 2018 requires the construction of a photovoltaic power plant, which will partially generate our own electricity, saving up to 11.45% of the total energy required today. The energy systems will be installed in the halls of TeraPlast Industrial Park and, in the long run, make it possible to reduce CO2 emissions by up to 600,000 tons per year.

Community involvement means supporting initiatives in sport, social and education areas, both locally and nationally.

The Group supports local community initiatives through long-term partnerships. For example, the Wetterbest Association for the Community aims to support excellence, the chances of education and the social, economic, entrepreneurial and physical development of young people in the communities in which the company operates.

At the same time, within the business lines of roof systems, in the desire to bring about a visible change in the way in which the work of fitter is performed and in the quality of work execution, as well as from the effects of the lack of craft schools, In 2015 the Wetterbest School was established. The school is accredited by the Ministry of National Education, through the National Authority for Qualifications and the County Agency for Payments and Social Inspection.

Minimizing the environmental impact of your business, engaging in local communities, creating attractive working conditions, and working with responsible suppliers are the main guiding principles in our day-to-day business.

2. The Group's results

2.1. Evolution of the key-items of profit and loss

The results of TeraPlast Group for the period January-December 2018 are summarized as follows:

Profit and loss account (RON thousand)	2017	2018
Net turnover	422,270	804,512
Operating result	24,227	34,722
Net profit	18,569	22,639

From the increase in **turnover**, RON 37,730 thousand was generated by the polyethylene systems, through the Politub brand, business taken over by the Group starting January 2018; RON 221,000 thousand in the Metal tiles segment, having entered the Group's portfolio by purchasing the majority shareholding of Depaco SRL also in 2018; RON 88,000 thousand are from the development of the Heat insulating panels segment (Terasteel SA Romania and Terasteel Doo Serbia).

Over 80% of the Group sales are on the domestic market. The Group has a sales system that includes its own network of rented or owned storehouses opened in: Otopeni, Brasov, Oradea, Deva, Piatra-Neamt and Iasi (Teraplast SA); Bacau, Bistrita and Cluj-Napoca (Depaco SRL), as well as partnerships with the distributors, construction companies, plasticized and rigid PVC processors, as well as with the manufacturers of doors and windows all over the country, roof carpenters.

Considering that the Group operates on construction materials market, seasonality is a major factor in the monthly evolution of sales.

In these circumstances, the peak activity covers about 6 months (May to October).

The distribution policy targets mainly specialist customers in the installation and construction fields, and the distribution channels are:

- Sales through distributors and resellers (internal market and partially exports);
- Sales by specialized networks (DIY) (internal market and exports);
- Sales to general contractors and constructors (tenders for infrastructure projects);
- Direct sales to cable manufacturers or other profiles (internal market and exports);

The Group has a maximum exposure of 7.05 % of the turnover for the largest client.

During 2018, the weight of receivables for one client did not exceed 1.09% of the turnover.

Similarly to the increase in revenues, the increase in expenses in 2018 as compared to 2017 has as main causes: the 100% consolidation of Depaco SRL, the development of the business in Serbia.

2. The Group's results (continued)

The structure of expenses during 2017 and, respectively, 2018 is as follows:

Expenses (RON thousand)	2017	2018
Costs with raw materials, used consumables and goods		
Costs with raw materials	257,553	462,125
Costs with consumables	15,570	24,990
Costs with goods	39,506	114,550
Used packaging	715	3,711
TOTAL	**313,344**	**605,376**
Employee entitlement expenses		
Wages	31,261	62,826
Contributions to the government social security fund	7,338	2,370
Meal tickets	1,749	3,210
TOTAL	**40,348**	**68,406**
Other expenses		
Transport costs	13,687	29,453
Expenses with utilities	6,706	9,437
Expenses with third party services	9,402	13,857
Expenses with compensations, fines and penalties	52	61
Entertainment, promotion and advertising expenses	2,416	5,156
Other general expenses	1,978	2,696
Expenses with other taxes and duties	1,171	2,107
Repair expenses	1,624	3,083
Travelling expenses	1,033	1,430
Rent expenses	691	3,824
Mail and telecommunication expenses	567	753
Insurance premium expenses	913	1,895
Sponsorship expenses	1,016	1,257
TOTAL	**41,256**	**75,010**

2. The Group's results (continued)

2.2. Evolution of the key-items of the balance sheet

The value of non-current assets, as of 31 December 2018, was of RON **294 million**, RON 45 million higher than the value registered at the beginning of the year. The main investments and disposals of assets were:

- RON 38 million – the purchase of an additional 49% investment in Depaco SRL (as of 31 December 2017, the holding was of 50%);
- RON 28 million – net investments made in 2018
- RON 20 million – the decrease of the non-current asset arising from changing the consolidation method of the Politub SA subsidiary (until 01.10.2017, it was consolidated through the equity method)

The Group's **equity** has increased in the financial year 2018 as compared to 2017 by RON 13,372 thousand.

The legal reserve amounts to RON 15,516 thousand and it represents 14.5 % of the share capital.

The Company's **total liabilities** have increased by RON 176,459 thousand, mainly as a result of the increase in trade and other payables (by RON 108,090 thousand, out of which RON 49,022 thousand in relation to the bilateral promise with the minority shareholders of Depaco SRL) and of the increase of liabilities from loans and lines of credit (by RON 61,320 thousand).

3. Risk management

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

(a) Capital risk management

The Group manages its capital to ensure continuing the operating as a going concern, at the same time, maximizing revenues for the shareholders, by optimizing the balance of liabilities and equity.

The structure of the Group's capital consists of liabilities, which include the loans, cash and cash equivalents and equity belonging to the parent company and, respectively, to the minority shareholders. Equity includes share capital, reserves and retained earnings.

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

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

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

	2017	**2018**
Total loans	133,746,440	195,065,911
Cash	(12,019,025)	(22,817,571)
Net debt	121.730.638	172,248,340
Total equity	**224,743,737**	**238,115,865**
Total equity and net debt	**346,474,375**	**410,364,205**
Gearing ratio	**35%**	**42%**

The Group companies are 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 Group companies have met this requirements and did not need any share capital increase as at 31 December 2018 and, respectively, 31 December 2017.

(b) Objectives of the financial risk management

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

3. Risk management (continued)

(c) Market risk

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

The Group 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 Group exposure to the market risks or to how the Company manages and measures its risks.

(d) Foreign exchange risk management

The Company conducts transactions in various currencies. Hence the foreign exchange risks. Exposure to foreign exchange risks is managed according to approved policies.

The Group is mainly exposed to the RON to EUR, USD, RSD and HUF exchange rate. The table below details the Group sensitivity to a 10% appreciation and, respectively, depreciation of RON against the mentioned currencies. 10% is the sensitivity rate used when the internal reporting on the foreign currency risk to the Group is done and it represents the management estimate on the reasonably possible changes in exchange rates. The main Group's exposure to the variation of the interest rate is towards the Euro.

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 foreign currency. A 10% strengthening of the RON against the foreign currency will have an equal opposite impact on profit and other equity, and the balances below will be positive. The changes are attributable to the exposure related to the loans, trade receivables and payables with foreign partners at the end of the year and, respectively, to the loans, trade receivables and payables of the companies in Serbia and Hungary.

	31 December 2017		**31 December 2018**	
Profit or (loss)	1,496,014	(1,496,014)	3,976,917	(3,976,917)

(e) Managing interest rate risk

Group's interest-bearing assets, income, as well as cash flow from operating activities are exposed to fluctuations in market interest rates. The Group's interest rate risk is apparent in its bank loans. Variable interest rate loans expose the Group to the risk of cash flow from interest. The Group companies did not resort to any hedging operation in order to lower its exposure to interest rate risks.

The Group is permanently monitoring its exposure to interest rate risks. This includes simulation of various scenarios, including refinancing, updating of existing positions, funding alternatives. Based on such scenarios, the Group is estimating the potential impact upon the profit and loss account of fluctuations defined by the interest rate. The same interest fluctuation is used for each currency in each simulation. These scenarios are prepared only for debts representing the main interest-bearing positions.

The Group is exposed to interest rate risks, considering that it takes out both fixed-rate loans and floating-rate loans. The risk is managed by maintaining a favorable balance between the fixed-rate loans and the floating-rate loans. The Group's exposures to the interest rates on the financial assets are detailed in the section on liquidity risk management of this Note.

As at 31 December 2018, in the event of a 1% increase/decrease in the interest rate on loans, with all the other variables remaining constant, the net profit for the period would fluctuate as follows, mainly as a result of the higher / lower interest expenses on floating interest loans.

	31 December 2017		**31 December 2018**	
Profit or (loss)	1,336,015	(1,336,015)	1,950,659	(1,950,659)

3. Risk management (continued)

(f) Other price-related risks

The Group is not exposed to risks related to its stock price resulting from equity investment. Equity investments are held for strategic purposes rather than trading purposes and are not significant. The Group companies do not actively trade such investment.

(g) Managing credit risk

Credit risk concerns a risk incurred by a third party's failing to comply with its contract obligations, thus causing financial losses to the Group. The Group has adopted a policy of trading only with trustworthy parties and obtaining enough guarantees, where possible, as a means to reduce risk of financial loss from failure to observe terms of contracts. Group's exposure and Third Parties' credit ratings are monitored by the Group management.

Trade receivables cover a large number of customers from various industries and geographical areas. Customers' creditworthiness is constantly evaluated in terms of their financial conditions and, if appropriate, credit insurance is made. The cash is kept in financial institutions that, at the time of deposit, are considered to have the lowest return risk. The Group's policies limit the amount of exposure for any financial institution.

The accounting value of receivables, net receivables provision plus cash and cash equivalent represent the maximum sum exposed to the credit risk. Although receivable collection could be influenced by economic factors, the Group management considers there is no significant risk of loss for the Group outside already recorded provisions.

The Group considers exposure to credit risk toward its counterparty or group of counterparties with similar features by assessing receivables individually and making depreciation adjustment along with its department of customer credit management. The Group defines the counterparties as having similar features when they are affiliates.

(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 Group on the short, medium and long-term and managing liquidities. The Group manages the liquidity risks by maintaining appropriate reserves, bank facilities and reserve loan facilities, by continuously monitoring actual cash flows and by correlating the maturity profiles of financial assets and liabilities.

(i) Fair value of financial instruments

Financial instruments in the accounting balance include trade receivables and other receivables, cash and cash equivalents, short-term loans and long-term loans and other debts, including liabilities / receivables related to derivatives. The accounting values are the maximum exposure of the Group to the credit risk related to existing receivables.
The analysis of the trade receivables and of trade notes is as follows:

	31 December 2017	31 December 2018
Not due	79,746, 379	99,968,714
Overdue, but not impaired	8,964,700	27,491,990
Impaired and provisioned in full	21,832,885	25,096,230
Total	**110,543,964**	**152,556,934**
Overdue, but not impaired		
Below 3 months	6,077,115	20,341,447
3 to 6 months	578,588	5,288,939
6 to 9 months	517,888	141,106
Above 9 months	1,791,109	1,720,498
Total	**8,964,700**	**27,491,990**
Impaired and provisioned in full		
Below 6 months	788,301	1,787,136
6 to 12 months	1,494,797	883,528
Above 12 months	19,549,787	22,425,566
Total	**21,832,885**	**25,096,230**

3. Risk management (continued)

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

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

2017	Below 1 month	1-3 months	3 months to 1 year	1-3 years	3 - 5 years	Above 5 years	Total
Non-interest bearing							
Trade payables and other liabilities	(48,044,742)	(34,555,312)	(3,584,920)	(21,805,000)	-	-	**(86,184,973)**
Interest-bearing instruments							
Short and long-term loans	(292,667)	(1,940,085)	(56,545,642)	(46,077,055)	(22,829,355)	(7,061,637)	**(133,746,440)**
Future interest	(304,799)	(716,787)	(3,012,258)	(6,073,491)	(3,147,377)	(734,006)	**(13,988,719)**
Non-interest bearing							
Cash and cash equivalents	12,015,802	-	-	-	-	-	**12,015,802**
Receivables	47,667,812	40,513,843	1,585,322	-	-	-	**89,766,981**

2018	Below 1 month	1-3 months	3 months to 1 year	1-3 years	3 - 5 years	Above 5 years	Total
Non-interest bearing							
Trade payables and other liabilities	(96,723,892)	(48,253,632)	(275,099)	(49,022,037)	-	-	**(194,274,661)**
Interest-bearing instruments							
Short and long-term loans	(24,290,899)	(13,493,867)	(84,683,731)	(53,004,077)	(19,593,338)	-	**(195,065,911)**
Future interest	(515,878)	(1,597,492)	(3,706,581)	(11,086,541)	(4,479,623)	-	**(21,386,116)**
Non-interest bearing							
Cash and cash equivalents	22,817,571	-	-	-	-	-	**22,817,571**
Receivables	78,720,055	46,253,683	2,486,967	-	-	-	**127,460,704**

4. The budget for 2019

The likely evolution of the enterprise is included in the **Revenues and Expenses Budget for 2019**:

- Turnover: RON 977,492 thousand
- Operating profit: RON 60,756 thousand

Teraplast Group has planned for 2019 an investment budget of RON 69 million.

These investments can be directed towards: equipment and dies, capital repairs, constructions and financial investments.

5. Non-financial statement

According to the legal regulation on the disclosure of non-financial information, the Group prepares and publishes a distinctive sustainability report which includes information required by the non-financial statement and which describes our initiatives regarding sustainability. The Teraplast sustainability report for 2018 will be published by 30 June 2019.

Environmental policy

We are aware of the impact that our activity and products can have on the environment. One of our goals is to mitigate the negative impact and prevent situations that can affect the environment and society. As a result, we constantly allocate resources to identify and minimize them, and we are actively involved in sustainable development.

Integrated management system

Teraplast has implemented the ISO 14001 Environmental Management System as a component of an integrated quality-environment-occupational health and safety management system. The environmental management system has been certified for the first time in Teraplast in 2009. The activities regulated by this system are maintained and continually improved, being systematically verified by internal audit and also by the certification body. Action programs are based on internal, external audits and management reviews.

Rigorous implementation of Environmental Policy

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

In order to achieve the objectives and targets, Environmental Management Plans are established and the Environmental Officer monitors the stage of their implementation during the year, according to their evolution.

When preparing Management Programs, consideration is given to introducing new technologies and to the views of stakeholders. These programs are periodically analyzed by the responsible factors to determine the stage of their implementation or are monitored directly by the Environmental Manager and brought to the attention of top management.

In the case of projects and / or developments (changes in product design, introduction of new working conditions), management programs are tailored to suit the situation and actions are set up to ensure management involvement. Changes resulting from the implementation of these projects / developments, as well as the new requirements of the applicable legal and regulatory norms, are documented so as to ensure the continued operation of the management system.

Sustainable Development

Teraplast is actively involved in the development of sustainable systems, and within the Research and Development Center, research activities are performed annually to improve the existing products and to obtain new products.

Research projects in 2017 were focused on product development aiming at obtaining higher physical and mechanical properties than existing ones and cost efficiency with raw materials. Thus, polystyrene multi-layer pipes with micronized recycled PVC were obtained from various applications. The impact of using this micronized recycled PVC is a major one, both for the environment, through its reuse in the production process and substitution of virgin PVC as well as cost optimization. Recycled PVC obtained in the form of granules was tested on the co-extruded layer of the joinery profiles. The results obtained were positive, superior to the substituted dry-blend in which the base raw material is virgin PVC. The research department studies recycled PVC in various compositions in order to identify new applications.

Suppliers of raw materials are also assessed from the point of view of complying with environmental requirements. We avoid the use of hazardous chemicals in the activities and in the supply chain.

All hazardous chemicals used in the activities are carefully monitored, accompanied by the Safety Data Sheet and their requirements are transposed into internal measures (allocation of special spaces, storage / handling, use, training, etc.).

5. Non-financial statement (continued)

Pollution prevention and control

To prevent soil contamination, all pools are properly sealed. At the same time, both the interior surfaces where the productive activities are carried out as well as part of the exterior surfaces such as the surface of the transport paths are completely concreted. The uncovered surface is partially formed of green areas. Loading and unloading of material takes place in designated areas, protected against leakage through liquid leakage or dust dispersion. In stores there are adequate quantities of absorbents suitable for controlling any accidental spillage.

Technological water is recycled to over 80% and waste water is passed through the sewage treatment plant. Wastewater quality indicators are determined quarterly.

Dangerous chemical substances and preparations are purchased in compliance with applicable legislation and only together with the safety data sheet that allows for taking all measures for environmental protection, occupational health and safety. The storage of the various dangerous chemicals and preparations is made taking into account the compatibility of the substances. The management of these substances is carried out by trained persons who know the measures to be taken in case of emergency situations.

Waste management

In the Group companies, recoverable waste (plastic waste, metal waste, paper packaging waste, cardboard, plastic packaging, wood packaging, etc.) and non-valuable waste (industrial waste, contaminated metal packaging and household waste) are generated.

The implemented environmental management system makes it necessary to minimize the quantities of waste resulting from production processes, where possible. The resulting waste in the company is collected selectively and used/disposed of by authorized economic operators.

Hazardous waste sent off-site for disposal is transported only by authorized economic operators, in compliance with the legal provisions in force. Waste is transported only from the site of activity to the disposal site without adversely affecting the environment.

Waste is packaged and labeled in accordance with the laws and regulations in force for mandatory inscriptions. During collection, recovery or disposal, all waste is temporarily stored in specially designed areas and places, properly protected against dispersion in the environment. Waste is clearly labeled and separated accordingly.

The management of all categories of waste is carried out in strict compliance with the legal provisions. Waste is collected and stored temporarily by types and categories without being mixed. These are stored separately, inert and non-hazardous waste separately from the hazardous one.

The recovery of recyclable industrial waste is carried out in compliance with the provisions of Law 211/2011 and other legal provisions in force.

Reaching recycling and collection targets is done individually through contracts with authorized recycling / collection companies.

Combating corruption and bribery

Internal compliance programs in this area focus on the following directions:
- anticompetitive practices;
- economic sanctions and embargoes;
- the fight against corruption;
- gift policies;
- conflicts of interests.

5. Non-financial statement (continued)

Conflicts of interests may arise when personal interests conflict with the ability to exercise one's duties properly and efficiently. In relation to relationships or activities that may affect or appear to affect the ability to make objective and fair decisions when carrying out activities on behalf of the Company, there is an internal procedure at the level of the Group with the aim of complying with the legal provisions in force, namely Law 24/2017 on Issuers of Financial Instruments and Market Operations, which states: "The managers of issuers whose securities are admitted to trading on a regulated market are obliged to report immediately any legal act concluded by the issuer with the directors , the employees, the controlling shareholders, as well as the persons with whom they act in concert, whose cumulative value represents at least the equivalent in RON of EUR 50,000. "(Art.82 (1) of Law 24/2017)

Sanctions and embargoes restrict transactions with certain countries, individuals and legal entities. These restrictions need to be known and analyzed before starting any transaction.

When integrating any new employee, according to the New Employee's Guide, it is clear what the Group companies are asking for the expected behaviors with respect to the issues listed above. Our employees have clearly defined limitations on the acceptance of gifts, services and benefits of any kind coming from suppliers or customers in order to facilitate commercial transactions with any of the Group companies. They are authorized to accept or offer gifts and invitations that are appropriate in the circumstances, subject to the limitations, approvals and registration requirements defined in our internal rules. No money or equivalent gift may be offered or received.

In our business relationships with public and state institutions, our employees do not solicit or accept gifts, services, favors, invitations or any other personal benefits that may affect their impartiality in the exercise the function held. No gifts or other free gifts are given to government officials or state organ representatives, except for small-value promotional items customized with the Company's logo.

Responsible procurement policy

Procurement activity is critical to the Company's competitiveness and its ability to innovate. The main objective of the procurement activity is the complete material assurance both in terms of quantity and quality, at the time, in conditions of maximum safety and with minimal cost of material resources necessary for the development of productive activities within the Company. At the same time, the activity involves proactive management of supply chain risks in order to minimize their potential impact.

The purchasing policy within Group companies is an integral part of the overall objective of the Group, to meet customer requirements, to manage production processes efficiently and to meet the requirements of the integrated management system.

An essential role in continuously improving the quality of our products and working standards lies with our suppliers who are carefully selected for the production process.

Supplier relationships are trusted, committed to their own products, and are pursuing the development of long-term partnerships. We are constantly evaluating suppliers and applying an internal qualification and acceptance system.

Group suppliers will comply with and observe local, national and international environmental regulations. They are required to hold all the environmental permits and authorizations required to conduct the business. Suppliers will systematically manage environmental impacts, including: energy, water, waste, chemicals and air pollution.

Suppliers will comply with all applicable anti-corruption laws and regulations, and will have a zero tolerance policy for any form of bribery, corruption, and misappropriation. They must carry out all transactions in a transparent manner and accurately reflect them in accounting records and books.

Selecting and accepting suppliers is based on both assessing their ability to deliver products according to our requirements, as well as: quality / price ratio, certified management systems, payment options, availability on delivery, complaint handling. The evaluation process also involves auditing and visiting suppliers in terms of compliance with environmental, occupational health and safety requirements, and social responsibility.

The Teraplast Group believes that establishing strong partnerships with suppliers ensures a positive outcome for both parties.

5. Non-financial statement (continued)

The Group's procurement policy is linked to the quality standards (SR EN ISO 9001), the environment (SR EN ISO 14001) and Occupational Health and Safety (SR OHSAS 18001), but it also contains specific requirements based on the Group's Code of Conduct.

This ensures the general conditions for:
- the quality of the products and services purchased
- product safety / chemicals management
- protecting the environment
- the code of conduct in the procurement activity

Supplier selection and evaluation follow their capacity for innovation, continuous improvement of processes and adaptation of environmental codes.

The procurement policy applies to all suppliers of raw materials, materials and services in the Group.

The list of approved vendors includes all procurement providers and we have ensured that they comply with legal and regulatory requirements both in Europe and in the areas in which they operate, with regard to: forced labor, child exploitation, discrimination, the environment, bribery and corruption, unfair competition, etc. Suppliers are visited before they start a collaboration, and periodically are re-evaluated to determine whether they can still meet the set requirements.

Responsible sales policy

The Group's sales policy is based on a transparent procedure, tailored to a normal and fair competitive environment, designed to sustain sales growth through various economic and non-economic leverage, such as: sales price, gross margin to production cost, profit conditions, transportation conditions, cashing conditions, discount quota etc.

How to use these levers forms distinct chapters of commercial policy for each business line, customer category, or product. At the same time, the Commercial Policy is correlated with the quality standards and contains specific measures and procedures based on the Group Code of Conduct, as well as measures and procedures for the prevention of corruption acts.

The Sales Department of the Group is coordinated by the Commercial Director and follows a simple structure based on both the geographical structure of the market served by the Group and the structure of the Group's portfolio on business lines. Each business line is coordinated by a Business Line Manager, who further coordinates the Regional Managers, with Sales Agents subordinate to them. Each sales agent is assigned a territory of his own, being also informed of the Commercial Policy. All sales of the Group closely follow the Commercial Policy, subject to a hierarchical approval system and with its own elements of substantiation and action either directly on sales. Changes to the fundamental elements of the Commercial Policy, for example the sale price, are reapproved at the appropriate hierarchical level before they are exposed to the market by the sales agents.

Both our clients and our employees will comply with all applicable anti-corruption laws and regulations, and will have a zero tolerance policy for any form of bribery, corruption, and misappropriation. They must carry out all transactions in a transparent manner and accurately reflect them in accounting records and books. The main documents underlying customer transactions, Sales Agreements, are also subject to an internal approval and signature procedure that minimizes the risk of unfair trading.

6. Group Management

Director`s presentation

Teraplast is managed in a unitary system by a Board of Directors composed of five members appointed by the General Meeting of Shareholders by secret vote. The length of service of the Directors is one year and the Directors can be reappointed. At the date of this Report the structure of the Board of Directors is as follows:

DOREL GOIA - Chairman

Mr. Dorel Goia is the main shareholder of Teraplast and he was elected in the in the Board of Directors in 2008.

SORIN OLARU

- Position: Independent Non-executive Director
- Occupation: economist
- Elected on the Board of Directors: 2017
- Activity: ING Bank (Treasury), Millenium Bank (Treasury& Capital markets), Cetus Capital

RĂZVAN LEFTER (RSL Capital Advisors SRL)

- Position: Non-executive Director
- Occupation: economist
- Elected on the Board of Directors: 2014
- Activity: RSL Capital Advisors, Conpet Ploiesti (Board of Directors), Mundus Services AD Bulgaria (Board of Directors)

MAGDA PALFI

- Position: Independent Non-executive Director
- Occupation: economist
- Elected on the Board of Directors: 2007
- Activity: Raiffeisen Bank (Regional Corporate Director– Cluj Corporate Center), TeraSteel SA (Board of Directors)

ALEXANDRU STÂNEAN

- Position: **Executive Director**
- Occupation: economist
- Elected on the Board of Directors: 2018
- Activity: TeraPlast SA (Chief Executive Officer)

Members of the Board of Directors are elected at the General Meeting of Shareholders on the basis of shareholders' voting in accordance with legal requirements. Therefore, there are no agreements or understandings to report in this document.

Members of the executive team

Teraplast's executive management is appointed by the Board of Directors, and at the date of this report it is delegated to the CEO and the CFO. The CEO and CFO manage the everyday activity of the company.

7. Corporate Governance

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

Governance structures

For continuation of the process of implementing the principles of the Code of Corporate Governance, the General Meeting of October 2014 approved the election of a new Board of Directors made up of five directors, one of whom is independent from other significant shareholders. Enough members have been this way ensured as to guarantee the Board's efficiency to supervise, analyze and evaluate the efficiency of Teraplast's executive management, the Board's main goal as a collective body being to promote and observe the interests of the company's shareholders.

Another step of the implementation process is the essential amendment of the Company's Memorandum of Association, endorsed by the General Meeting of Shareholders of September 2008, at which time provisions of the Memorandum were made to match regulatory documents specific to the Romanian stock market and also recommendations and principles included in Code of Corporate Governance of Bucharest Stock Exchange. One of the most important updates of the company's Charter is the amendment of chapter VI – Managers – pursuant to which the premises of a fundamental change of the company management are created, thus enabling the Board of Directors to delegate managing competencies not just to a sole manager, but to a larger number of directors, one of them being appointed general manager.

Moreover, in compliance with CGC recommendations, strict rules have been set within the company on the internal movement and disclosure to third parties of confidential documents and privileged information, a special importance being granted to data and/or information that could influence the evolution of market price of securities issued by Teraplast. In this sense starting 2008, specific confidentiality agreements were concluded, with the company management and executives as well as with employees who, based on their positions and/or responsibilities, have access to such confidential/privileged information.

7. Corporate Governance (continued)

Degree of compliance with the new BVB Corporate Governance Code as of 31 December 2018	Compliant YES/NO
A.1. Any company should hold Internal Regulations of the Board to include reference terms/ responsibilities of the Board and key management roles of the company and to apply, among others, the general principles of this Section.	**YES**
A.2. Provisions pertaining to the management of conflicts of interest should be mentioned in the Board's Regulations.	**YES**
A.3. The Board of Directors should include at least five members.	**YES**
A.4. The majority of the Board's members should hold non-executive roles. At least one member of the Board of Directors or the Supervisory Board should be independent in case of companies included in the Standard Category. Each independent member of the Board of Directors should file a statement at the time of his/her appointment for election or re-election purposes, as well as upon any change of their status, indicating the elements underlying the grounds of independence in terms of his/her character and decision.	**YES**
A.5. Other relatively permanent professional commitments and obligations of a member of the Board, including executive and non-executive positions within the Board held by non-profit companies and institutions should be disclosed to potential shareholders and investors before their appointment and during it.	**YES**
A.6. Any member of the Board should submit to the Board information on any relationship with a shareholder holding directly or indirectly shares representing over 5% of all their rights to vote.	**YES**
A.7. The company should appoint a registrar of the Board whose responsibility is supporting the Board's activity.	**YES**
A.8. The declaration on corporate governance will report on any Board evaluation under the direction of the Chairman or the appointing committee and, if so, it will resume the key measures and changes resulting from it. The company should maintain a policy/guide on the Board's evaluation on the goal, criteria and frequency of the evaluation procedure.	**NO – it is on its way to be implemented**
A.9. The declaration on corporate governance should include information on the number of meetings of the Board and committees during the past year, directors' participation (*in person* and *in absentia*) and a report of the Board and committees on their activities.	**YES**
A.10. The declaration on corporate governance should include information on the exact number of independent members of the Board of Directors.	**YES**
A.11. The companies' board in the Premium Category should establish an Appointments Committee made up of non-executive members, in charge of the procedure of appointing new members of the Committee and of making recommendations to the Committee. The majority of the members of the Appointments Committee should be independent.	**NO - TRP is of the standard category**

7. Corporate Governance (continued)

Degree of compliance with the new BVB Corporate Governance Code as of 31 December 2018	Compliant YES/NO
B.1 The Board should establish an audit committee where at least one member should be an independent non-executive director. Most of the members, including the chair, should have been proven to hold relevant qualification for the Committee's roles and responsibilities. At least one member of the audit committee should have proven and accurate auditing or accounting experience. In case of Premium companies, the audit committee should comprise at least three members and the majority of the members of the Appointments Committee should be independent.	**YES**
B.2. The chairman of the Appointments Committee should be a non-executive independent member.	**YES**
B.3. Within its responsibilities, the audit committee should carry out an annual evaluation of the internal control system.	**YES**
B.4. Evaluarea trebuie să aibă în vedere eficacitatea și cuprinderea funcției de audit intern, gradul de adecvare al rapoartelor de gestiune a riscului și de control intern prezentate către comitetul de audit al Consiliului, promptitudinea și eficacitatea cu care conducerea executivă soluționează deficiențele sau slăbiciunile identificate în urma controlului intern și prezentarea de rapoarte relevante în atenția Consiliului.	**YES**
B.5. The audit committee should assess any conflict of interest pertaining to transactions of the company and its agencies with the affiliated parties.	**YES**
B.6. The audit committee should evaluate the efficiency of the internal audit system and the risk management system.	**YES**
B.7. The audit committee should evaluate the efficiency of the internal audit system and the risk management system.	**YES - internal audit is outsourced**
B.8. Whenever the Code mentions reports or analyses initiated by the audit committee, such analyses should be followed by periodical reports (at least annual) or *ad-hoc* reports to be subsequently submitted to the Board.	**YES**
B.9. No shareholder can be given preferential treatment as compared to other shareholders in terms of transactions and agreements concluded by the company with their shareholders and affiliates.	**YES**
B.10. The Board should adopt a policy by which to ensure that any transaction of the company with any of the companies with which it maintains close relationships whose value is equal or exceeding 5% of the company's net assets (according to the latest financial report) is approved by the Board following a mandatory opinion of the audit committee.	**YES**
B.11. Internal audits should be conducted by a structurally separate division (department of internal audit) within the company or by employing an independent third party.	**YES**
B.12. For the purposes of ensuring the main roles of the internal audit department, the audit department's functional report should be to the Board by means of an audit committee. For administrative purposes and within the management's responsibility to monitor and reduce risks, the audit committee must report directly to the general manager.	**NO – internal audit is outsourced**
C.1. The company must publish on its web page its remuneration policy and include into the annual report a declaration on implementing such remuneration policy during the annual period subject to assessment. Any essential change occurred in the remuneration policy should be published on the Company's web page in time.	**YES**

7. Corporate Governance (continued)

Degree of compliance with the new BVB Corporate Governance Code as of 31 December 2018	Compliant YES/NO
D.1. The Company should organise an Investor Relations service – mentioning to the broad public the person/s in charge or the organising company. Outside the mandatory information required by the legal provisions, the company should also mention on its web page a section dedicated to the Investor Relations, in Romanian and English, with any relevant information which may be of interest to investors, including: **D.1.1.** Main corporate regulations: memorandum of association, procedures on general meetings of the company shareholders; **D.1.2.** Professional CVs of the company's management, other professional involvement of the Board members, including executive and non-executive positions in companies' Boards of directors or into non-profit organisations; **D.1.3.** Current and periodical reports (quarterly, bi-annual and annual) – at least those mentioned at D.8 above – including current reports with detailed information on incompliance with this Code; **D.1.4.** Information concerning general meetings of shareholders: the meeting agenda and information materials; procedure of electing the members of the Board; arguments supporting application proposals for elections within the Board, along with the members' professional CVs; shareholders' questions on agenda items and the company's replies, including adopted decisions; **D.1.5.** Information on corporate events, such as dividend payment and other distributions to shareholders, or other events leading to acquiring or limiting a shareholder's rights, including deadlines and principles applied to such operations. Such information shall be published within deadlines allowing investors to adopt decisions to invest; **D.1.6.** Names and contact data of a person that could supply, upon request, relevant information; **D.1.7.** Company's presentations (e.g. presentations for investors, presentations on the quarterly outcome etc.), financial situations (quarterly, bi-annual, annual), audit reports and annual reports.	YES
D.2. The company shall practice a policy on the annual distribution of dividends or other benefits to shareholders. Principles of the annual policies of distribution to shareholders shall be published on the company's web page.	YES
D.3. The company shall adopt a forecast policy, either public or not. The forecast policy is to be published on the company's web page.	YES
D.4. Rules of general meetings should not limit shareholders' participation in general assemblies and exertion of their rights. Amendments to rules and regulations shall become enforceable starting from the next shareholders' meeting at the earliest.	YES
D.5. External auditors will attend the general meeting when their reports are submitted within such meetings.	YES
D.6. The Board will present to the annual general meeting a short assessment of the systems of internal control and management of significant risks, as well as opinions on matters submitted to the general meeting's decision.	YES
D.7. Any financial specialist, consultant, expert or analyst can participate in the shareholders' meeting based on prior invitation from the Board. Authorized journalists can, too, participate in shareholders' general meeting, unless the Chairman of the Board decides otherwise.	YES
D.8. Quarterly and bi-annual reports shall include information both in Romanian and in English on key factors influencing changes in terms of sales, operational profit, net profit and other relevant financial indicators, from one term to another, as well as from one year to another.	YES
D.9. A company shall organize at least two sessions/teleconferences with analysts and investors every year. Information submitted with such occasions is to be published in the investor relations section of the company's web page on the date of the sessions/teleconferences.	YES
D.10. In the event a company displays different forms of artistic and cultural forms of expression, sports activities, educational or scientific activities and considers that their impact on the company's innovative character and competitiveness is a part of the company's development mission and strategy, it will publish its policy on such activity in the field.	YES

Director
Alexandru Stânean

Chief Financial Officer
Ioana Birta

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of TERAPLAST SA

Report on the Audit of the Financial Statements

Opinion

We have audited the standalone financial statements of Teraplast SA (the Company) with official head office in Bistrita, Romania, identified by sole fiscal registration number RO3094980, which comprise the statement of financial position as at December 31, 2018, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Basis for opinion

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

Key audit matters

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

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

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

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

1. Recoverability of the carrying value of the Company's property, plant and equipment

Teraplast manufactures various plastic and metal components for the construction industry and consequently operates significant property, plant and equipment with a carrying value of RON 116 million as at 31 December 2018. The financial year 2018 was affected by the lack of significant infrastructure projects in Romania, which was not fully offset by private construction activity, therefore the Company's results were lower than the management's expectations.

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

The impairment test is significant to our audit due to the size of the Company's property, plant and equipment, with a carrying value representing 25.1% of the balance sheet total assets as at 31 December 2018 and because the assessment process is complex, requires significant management judgment and is based on assumptions that are affected by expected future market conditions in Romania and surrounding countries. The assumptions include forecasts of sales volumes and prices, cost of raw materials and overall construction market and general economic conditions.

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

How our audit addressed the key audit matter:

Our audit procedures included, among others, the following:

- we obtained the analysis performed by management and evaluated the key assumptions underlying management's assessment of potential impairment of the cash generating units;
- we analyzed the methodology used by management to assess its compliance with IAS 36 for the method applied (value in use);
- we tested the mathematical accuracy of the impairment model used;
- we assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance;

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- we evaluated the Company's key assumptions and estimates used to determine the discount rate, the future operating cash flows, the growth rates, operating margins, working capital needs and the capital expenditure;
- we involved our valuation specialists to assist us in the evaluation of key assumptions and estimates used by the Company, including the determination of the discount rates. We also evaluated whether or not certain assumptions on which the valuation was based, individually and taken as a whole, considered: i) the economic environment of the industry, and the Company's economic circumstances; ii) existing market information; iii) the business plans of the Company including management's expectations; iv) the risks associated with the cash flows, included the potential variability in the amount and timing of cash flows and the related effect on the discount rate; v) specific requirements of IFRS;
- we performed a sensitivity analyses for the discount rates applied and the assumptions for revenue levels accepted and considered the information used to derive the most sensitive assumptions;
- We further assessed the adequacy of the Company's disclosures about the impairment testing of property, plant and equipment in the financial statements.

2. Recoverability of the investment in a new subsidiary

As disclosed in Note 19 to the financial statements, starting with 2018 the Company controls Depaco SRL, an entity in which the Company invested since the prior year. The carrying value of the cost of investment in this new subsidiary as at 31 December 2018 is of RON 105 million, which represents 23% of total assets.

The impairment test over the carrying value of the investment in Depaco is significant for our audit, because the assessment process is complex, it requires significant estimates and management judgement and is based on assumptions derived from the future evolution of the results of this subsidiary.

The Company's disclosures about investments in subsidiaries and related impairment assessment are included in Note 3 (Judgements, Estimates and Assumptions) and Note 19 (Investments in subsidiaries) to the financial statements.

Our audit procedures have focused on but were not limited to the following:

- We involved our specialists to assist us in the evaluation of the key assumptions and the methodology used by the Company in the impairment test;
- We assessed the discount rate used, including the specific components used in the determination of the rate such as the risk-free rate, country risk rate and gearing rate;
- We evaluated the key assumptions and estimates used to determine the future operating cash flows of the subsidiary (such as: revenues, costs, growth rates, operating margins, working capital needs and the capital expenditure) by analyzing the consistency of the assumptions with the specific economic environment, available market information and subsidiary's budgets and forecasts;
- We performed a sensitivity analysis for the recoverable value of the investment, in order to understand the potential impact of reasonable changes in key assumptions;

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- We assessed the reliability of management's budgets and forecasts by comparing them to actual performance;
- We tested the mathematical accuracy of the impairment model used;
- We further assessed the adequacy of the Company's disclosures about the impairment testing of investments in subsidiaries in the financial statements

Other information

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

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

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

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

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

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

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

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Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

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

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

Appointment and Approval of Auditor

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

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Consistency with Additional Report to the Audit Committee

Our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on21 March 2019.

Provision of Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Company and we remain independent from the Company in conducting the audit.
In addition to statutory audit services and services disclosed in the annual report and in the financial statements, no other services were provided by us to the Company, and its controlled undertakings.

On behalf of,

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

Registered in the electronic Public Register under No. 77

27 MAR. 2019

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

Bucharest, Romania
27 March 2019

TERAPLAST SA

SEPARATE FINANCIAL STATEMENTS

Prepared in accordance with
Minister of Public Finance Order
no. 2844/2016 approving the accounting regulations compliant with
the International Financial Reporting Standards,
as of and for the year ended
31 DECEMBER 2018

Contents

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

Description	Note	Financial year 2017	Financial year 2018
Revenues total –out of which:	**4**	**227,365,686**	**301,466,783**
Revenues from sale of finished products		198,398,808	263,858,865
Revenues from the sale of merchandise		27,611,473	36,382,958
Revenues from service rendering		1,355,405	1,224,960
Other operating revenue	5	466,801	645,262
Changes in inventories of finished goods and work in progress		5,481,277	6,239,075
Raw materials, consumables used and merchandise	6	(163,354,194)	(219,046,622)
Employee benefit expenses	10	(21,449,503)	(30,530,294)
Expenses with impairment adjustments and amortization	9	(14,241,866)	(17,729,088)
Adjustments for the depreciation of current assets, net	9	(1,806,232)	(553,598)
Provisions, net	26, 27	2,100,468	(140,383)
Gains/(Losses) from the outflow/valuation of tangible and intangible assets	7	71,276	(52,258)
Gains / (Losses) from the outflow of assets held for sale	17	-	185,891
Gains/(Losses) from the fair value measurement of investment properties	8	144,867	(90,224)
Other expenses	12	(28,270,805)	(38,023,825)
Operating result		**6,507,775**	**2,370,720**
Financial expenses	11	(3,825,616)	(8,107,600)
Financial income	11	12,081,008	35,341,426
Profit before tax		**14,763,167**	**29,604,545**
Income tax expense	13	(647,222)	429,884
Profit for the year		**14,115,945**	**30,034,429**
Other comprehensive income			
Other comprehensive income not classified in profit or loss in subsequent periods (net of tax)		-	-
Reserves from business transfer	14	2,909,081	-
Revaluation of fixed assets	15	-	(856,051)
Impact of deferred tax	13	(465,453)	136,968
Other comprehensive income, net, not classified in profit or loss in subsequent periods		**2,433,628**	**(719,083)**
Total comprehensive income		**16,559,573**	**29,315,346**
Average number of shares		699,701,558	868,046,555
Net earnings per share	**30**	**0,0237**	**0,0346**

The separate financial statements were approved by the Board of Directors and authorized for issue according to the Directors' Decision of 21 March 2019.

Alexandru Stanean
CEO

Ioana Birta
CFO

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

Item description	Note	Financial year ended 31 December 2017	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	15	123,567,840	118,250,709
Investment properties	16	19,218,403	17,906,553
Intangible assets	18	1,104,406	1,232,493
Investments in subsidiaries and jointly controlled entities	19	62,023,806	127,858,650
Other financial assets	20	15,472	15,472
Long-term receivables	22, 31	39,379,885	23,429,315
Total non-current assets		**245,309,812**	**288,693,192**
Current assets			
Inventories	21	61,130,406	65,849,277
Trade and other receivables	22	63,225,961	102,185,102
Prepayments		472,615	532,577
Cash and cash equivalents	32	4,564,912	9,774,157
Total current assets		**129,393,894**	**178,341,113**
Assets classified as held for sale	**17**	**653,215**	**1,865,560**
Total assets		**375,356,922**	**468,899,865**
EQUITY AND LIABILITIES			
Equity			
Total share capital, out of which:		**85,691,097**	**107,024,527**
Issued capital	23	85,691,097	107,024,527
Share premium		27,384,726	27,384,726
Treasury shares	23, 31	(663,396)	(1,472,925)
Revaluation reserves		15,631,288	13,671,772
Legal reserve	24	8,399,015	9,919,037
Retained earnings		54,203,265	52,555,218
Total equity		**190,645,995**	**209,082,355**
Non-current liabilities			
Interest-bearing loans and borrowings	25	73,498,016	67,982,699
Employee benefit liabilities	26	258,907	630,767
Other liabilities	14, 17	21,805,000	49,022,037
Deferred tax liabilities	13	3,038,044	2,471,192
Total non-current liabilities		**98,599,967**	**120,106,695**
Current liabilities			
Trade and other payables	28	42,078,849	80,077,639
Deferred income		184,143	8,926
Interest-bearing loans and borrowings	25	43,155,476	59,214,016
Income tax payable		50,781	-
Provisions	27	641,711	410,234
Total current liabilities		**86,110,960**	**139,710,815**
Total liabilities		**184,710,927**	**259,817,510**
Total equity and liabilities		**375,356,922**	**468,899,865**

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Alexandru Stanean
CEO

Ioana Birta
CFO

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

2018

	Issued capital	Share premium	Treasury shares (Note 23)	Revaluation reserves	Legal reserve	Retained earnings	Total
Balance as at 1 January 2018	**85,691,097**	**27,384,726**	**(663,396)**	**15,631,288**	**8,399,015**	**54,203,265**	**190,645,995**
Net result for the period	-	-	-	-	-	30,034,429	**30,034,429**
Other comprehensive income (Note 13, 15)	-	-	-	(719,083)	-	-	**(719,083)**
Total comprehensive income	**-**	**-**	**-**	**(719,083)**	**-**	**30,034,429**	**29,315,346**
Legal reserve setting (Note 24)	-	-	-	-	1,520,022	(1,520,022)	**-**
Share capital increase from reserves (Note 23)	21,333,430	-	-	-	-	(21,333,430)	**-**
Dividends granted	-	-	-	-	-	(10,069,404)	**(10,069,404)**
Losses related to own shares sale	-	-	-	-	-	(53)	**(53)**
Own shares redemption (Note 23)	-	-	(809,529)	-	-	-	**(809,529)**
Realized revaluation reserve (Note 15)	-	-	-	(1,240,343)	-	1,240,343	**-**
Balance as at 31 December 2018	**107,024,527**	**27,384,726**	**(1,472,925)**	**13,671,772**	**9,919,037**	**52,555,218**	**209,082,355**

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2017

	Issued capital	Other equity items (Note 22)	Share premium	Treasury shares (Note 22)	Revaluation reserves	Legal reserve	Retained earnings	Total
Balance as of 31 December 2016	**56,643,266**	**450,980**	**27,384,726**	**-**	**17,547,152**	**7,737,863**	**74,558,526**	**184,322,513**
Own shares disclosure reclassification (Note 23)	-	-	-	(512,707)	-	-	512,707	**-**
Balance as at 1 January 2017	**56,643,266**	**450,980**	**27,384,726**	**(512,707)**	**17,547,152**	**7,737,863**	**75,071,233**	**184,322,513**
Net result for the period	-	-	-		-	-	14,115,945	**14,115,945**
Other comprehensive income (Note 14)	-	-	-	-	-	-	2,443,628	**2,443,628**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**16,559,573**	**16,559,573**
Legal reserve setting (Note 24)	-	-	-	-	-	661,152	(661,152)	**-**
Share capital increase from reserves (Note 23)	29,047,831	-	-	-	-	-	(29,047,831)	**-**
Dividends granted	-	-	-	-	-	-	(9,572,696)	**(9,572,696)**
Losses related to own shares sale	-	-	-	61,727	-	-	(61,727)	**-**
Own shares redemption (Note 23)	-	-	-	(663,396)	-	-	-	**(663,396)**
Option exercising (Note 33)	-	(450,980)	-	450,980	-	-	-	**-**
Realized revaluation reserve (Note 15)	-	-	-	-	(1,915,884)	-	1,915,884	**-**
Balance as at 31 December 2017	**85,691,097**	**-**	**27,384,726**	**(663,396)**	**15,631,288**	**8,399,015**	**54,203,265**	**190,645,995**

On 31 December 2017, the Company bought the Politub business for RON 21,805,000. The reserve from business line transfer is the difference between the transaction cost and the fair value of the net non-transferred assets. See Note 14 for details.

The separate financial statements were approved by the Board of Directors and authorized for issue according to the Directors' Decision of 21 March 2019.

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

	Note	2017	2018
Cash flows from operating activities			
Profit before tax	13	14,763,167	29,604,545
Interest expense	11	2,301,964	6,496,993
Interest revenues	11	(542,601)	(1,285,099)
Loss/(Gains) from the sale or disposal of fixed assets	7	(71,276)	52,258
Trade receivables value adjustments	9	(190,239)	190,517
Losses from receivables and sundry debtors	9	642,489	-
Inventories value adjustments	9	1,353,980	363,081
Amortization and depreciation of long-term assets	9	13,365,485	17,179,141
Adjustment of the value for non-current assets	9	876,380	549,947
Adjustments of risk and expense provisions, net	27	(2,120,637)	(231,477)
Loss /(gains) from the measurement of investment property	8	(144,867)	90,224
Expense with the provisions for the retirement benefits obligations	26	20,170	371,860
Investment revenues	11	(10,060,890)	(32,888,859)
Unrealized exchange rate differences		(276,463)	-
Adjustments related to liabilities concerning long-term financial investments		-	494,662
Profit before adjustments to working capital		**19,916,662**	**20,987,791**
Movements in working capital			
(Increase)/decrease of trade and other receivables		(3,286,352)	(17,182,254)
(Increase)/decrease of inventories		(14,986,367)	(6,396,165)
(Decrease)/increase of trade and other payables		11,025,025	19,079,667
Cash generated by operating activities		**12,668,968**	**16,489,039**
Interest paid		(2,301,964)	(5,391,835)
Income tax paid		(602,311)	(50,781)
Net cash generated by operating activities		**9,764,693**	**11,046,423**
Net cash generated from investment			
Interest received		-	124
Dividends received	11	10,060,890	20,574,756
Payments for acquisition of tangible and intangible assets	15, 18	(27,884,347)	(19,653,360)
Payments for financial assets	14	(50,723,105)	(7,215,405)
Payments for the acquisition of financial investments in an associate	14	(10,092,092)	-
Net loans to subsidiaries	30	(29,225,243)	-
Receipts from the sale of tangible assets	7	374,249	1,436,064
Redemption of own shares, net of option exercising	32	(150,689)	(809,529)
Gains/(losses) related to own shares sale		(61,711)	-
Net cash used in investment		**(107,702,048)**	**(5,667,351)**
Cash flows from financing activities			
Receipts from loans		88,968,471	10,956,236
Loans (reimbursement)		(14,706,402)	(12,951,499)
Lease payments		(1,546,546)	(692,902)
Net drawings from credit line		28,875,553	12,587,741
Dividends paid		(9,778,782)	(10,069,404)
Net cash generated from /(used in) finance activities		**91,812,294**	**(169,827)**
Net variation of cash and cash equivalents		**(6,125,061)**	**5,209,245**
Cash and cash equivalents at the beginning of the financial year	**32**	**10,689,973**	**4,564,912**
Cash and cash equivalents at the end of the financial year	**32**	**4,564,912**	**9,774,157**

The separate financial statements were approved by the Board of Directors and authorized for issue according to the Directors' Decision of 21 March 2019.

Alexandru Stanean
CEO

Ioana Birta
CFO

1. GENERAL INFORMATION

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

The Company's main activities include the production of PVC pipes and profiles, plasticized and rigid granules, polypropylene pipes, fittings and the trading of cables, polyethylene pipes, steel parts.

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

As at 31 December 2018, TeraPlast SA has investments in the companies: TeraSteel Bistrița and TeraSteel Serbia (manufacturers of sandwich panels and zincate metallic structures), TeraGlass (producer of windows and PVC doors), TeraPlast Logistic (during June 2016 – September 2018, the company has coordinated the logistic activities of the Group; starting October 2018, this activity was reintegrated into the parent), TeraPlast Hungary (distributor), Politub (producer of polyethylene pipes), and Depaco (producer of metallic tiles).

Until September 2017, the Company held 50% of the Politub SA ("Politub") shares, controlling Politub jointly with the other shareholder New Socotub. Therefore, until 30 September 2017, Politub was a joint venture, consolidated according to the equity method. In August 2017, the Company bought from New Socotub 49.99% of the Politub shares, for EUR 2.5 million. On 28 September 2017, the Company received the Competition Council approval for the sole control of Politub; therefore, Politub is consolidated starting 1 October 2017. As at 31 December 2017, the Politub business was bought by the Company (see Note 14). Politub SA 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 2017, the Company became the majority shareholder of Terasteel SA (Terasteel). Terasteel main activity is the production of heat insulating panels with polyurethane foam for the construction of warehouses. Starting 31 December 2015, the percentage held by Teraplast SA in Terasteel SA is 97.95%.

The Company holds another subsidiary, Teraglass Bistrita SRL having as main activity the production and trading of windows and doors from PVC and aluminum. In March 2015, Teraplast SA transferred to Teraglass Bistrita SRL the business consisting in the production and trading of heat insulation glass, windows and doors from PVC and aluminum.

Starting 2015, Teraplast SA became the sole shareholder with a 51% shareholding in Teraplast Group Moldova, a legal entity registered in the Republic of Moldova.

In 2017, the Board of Directors approved the disposal of the Company shares in Teraplast Group (Moldova) at a nominal value MDL 2,754, to the other shareholders of this company and also, the set-up of a trading company in Hungary (Teraplast Hungary), where Teraplast SA is the sole shareholder.

On 26 November 2015, a Board of Directors Decision approved the participation of Teraplast SA, in capacity of shareholder, to the set-up of a limited-liability company in Romania, Teraplast Logistic SRL. The shareholding of Teraplast SA in this company is 99%. Teraplast Logistic has undertaken the logistic activity of the Group.

On 29 September 2016, a Board of Directors Decision approved the participation of Teraplast SA, in capacity of sole shareholder, to the set-up of a limited-liability company in Hungary.

Teraplast Hungary distributes the Company products, specifically joinery profiles on this market.

In January 2017, the Board of Directors approves the setup of a subsidiary (100% shareholding by Teraplast SA) in Serbia. Until 30 June 2017, the Company called up and paid in full the share capital of EUR 10,000.

1. GENERAL INFORMATION (continued)

Starting October 2017, Terasteel Serbia has been producing and trading of polyurethane foam sandwich panels in Serbia and the neighboring countries.

On 1 March 2017, Teraplast signed a contract with the shareholders of Depaco SRL for the acquisition of 50% of its shares. The transaction was finalized after its approval by the Teraplast SA General Shareholders Meeting and receiving the approval from the Romanian Competition Council.

Subsequently, Teraplast acquired another 17% of the Depaco SRL shares, and the value paid in 2017 for this additional investment was disclosed in the Statement of Financial Position under Other long-term financial assets.

As at 31 December 2017, this shareholding was not recorded with the Trade Register. Therefore, control over Depaco is joint with the other shareholders.

Following the approval from the Competition Council for the sole control over Depaco, in January 2018, the 67% shareholding in Depaco was recorded with the Trade Register. Therefore, the Company is consolidating Depaco starting 2018.

Depaco is the second player on the Romanian metallic tile market with the Wetterbest brand.

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).

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. 2844/2016 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. 2844/2016 (as aligned with the EU IFRS principles). The main accounting policies are presented below.

2.3. Going concern

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As of 31 December 2018, the Company's current assets exceed its current liabilities by RON 41,291,763 (2017: RON 43,936,149). In 2018, the Company recorded profit RON 30,034,429 (2017: RON 14,115,945) and cash flows from operating activities (before changes in working capital) RON 20,987,791 (2017: RON 19,916,662).

As detailed in Note 29a), the Company's degree of indebtedness is of 36% (31 December 2017: 37%). The Company relies on the financing banks, as also described in Note 25.

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

2.4. Standards, amendments and new interpretations of the standards

A) First time adoption of new or revised standards

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

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

In addition, the Company has adopted the following standards with initial application starting 1 January 2018:

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**
  The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Management has assessed that this standard has no impact on the Company's financial statements, as the share-based payment exclusively depends on the performance prior to granting the shares; the granting is not revocable.

- **IAS 40: Transfers to Investment Property (amendments)**
  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Management has assessed this standard will not have an impact on the Company's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **IFRIC 22 INTERPRETATION: Foreign Currency Transactions and Advance Consideration**
  The interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation addresses transactions in foreign currency for which the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income. The Interpretation provides that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established by the entity for each payment or receipt. The Company's practice was compliant with the Interpretation and, consequently, it has no effects on the financial statements.

- **The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle,** which is a collection of amendments to IFRSs.

  - **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments):** The Amendments clarify that the option to measure at fair value through profit and loss an investment in an associate or in a joint venture which is held by an entity representing a joint venture or by another entity that qualifies, is available for each investment in an associate or joint venture for each separate investment, upon initial recognition.

- **IFRS 9 Financial Instruments**

The final version of IFRS 9 *Financial Instruments* reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9.

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The new impairment model provides that the adjustments for impairment are recognized according to the expected losses from receivables and not according to the model of effective losses from receivables, as provided by IAS 39. According to IFRS 9, the Company recognizes adjustments for impairment according to the expected losses for the instruments which are not accounted for at fair value through profit and loss and for the contractual assets resulting from client contracts. In general, applying the model concerning the expected losses from receivables implies the early registration of losses from receivables for the relevant items. Losses from receivables are calculated based on a three-stage model, using credit risk swap, internal or external counterparty ratings and the related probability of default. For certain financial instruments, such as trade receivables, impairment losses are estimated based on a simplified approach, recognizing expected losses from receivables during their useful life. The related impact, net of income tax, on Teraplast equities following the initial application of IFRS 9 is of RON 0.2 million (see Note 22).

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

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

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

The Standard replaces:

- IAS 11 Construction contracts;
- IAS 18 Revenue;
- IFRIC 13 Customer loyalty programs;
- IFRIC 15 Agreements for the construction of real estate;
- IFRIC 18 Transfers of assets from customers; and
- SIC-31 Revenue – Barter transactions involving advertising services.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

B) New or revised standards, but not yet mandatory

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

- **IFRS 16: Leases**

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The most important aspect is that the Company will recognize new assets and liabilities for its operating leases, applying the exemptions permitted by IFRS 16: certain commitments concerning short-term leases and those concerning small value assets will be included as exceptions. No significant impact on the existing finance lease contracts is expected.

The recognition of a right of use as an asset and of a lease liability for the operating lease contracts is expected to lead to an increase in the value of tangible assets and of liabilities of approximately RON 3.2 million as of 1 January 2019. In the statement of assets and liabilities, expenses with amortization and expenses with interests will be reported, instead of lease expenses. This will lead to an increase in the operating result, which will be counterbalanced by large interest expenses. The net estimated impact on the result of 2019 is of approximately RON 39 thousand.

The estimated impact of adopting this standard is determined based on the measurements made until that date. The actual impacts can also be amended until the date when the Company will present the financial statements which include the date of initial application.

Teraplast will apply IFRS 16 starting 1 January 2019, using for transition the modified retrospective method, without retreating the comparative values for the prior period presented. In exchange, the Company will recognize the cumulated effect from the application of the new standard as an adjustment to the opening balance of retained earnings at the date of initial application, at the lease liability value, adjusted through advance or estimated payments. Teraplast will take into account the possibilities that facilitate the transition to IFRS 16 in practice. For example, Teraplast will not recognize any right of using the assets and liabilities from the lease related to the contracts that expire in 2019.

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

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

- **IFRS 9: Prepayment features with negative compensation (Amendment)**
  The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. The Company is in progress of assessing the impact of adopting this amendment on the financial statements and it does not expect it to be significant.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- **IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments**
  The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The Company is in progress of assessing the impact of adopting this amendment on the financial statements and it does not expect it to be significant.

- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU. The Company is in progress of assessing the impact of adopting these amendments on the financial statements and it does not expect it to be material.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)**
The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. These Amendments have not yet been endorsed by the EU. The Company is in progress of assessing the impact of adopting these amendments on the financial statements and it does not expect it to be significant.

- The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU.

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

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

2.5. Summary of accounting and valuation principles

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

2.5.1. Cash and cash equivalents

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

2.5.2. Revenue recognition

Revenues from contracts with customers

Teraplast SA operates in the field of production and trading of PVC pipes and profiles, plasticized and rigid granules, polypropylene and polyethylene pipes, fittings, and the trading of cables and, polyethylene pipes, steel parts.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

Assets and liabilities related to the contract

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

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

2.5.3. Dividend and interest revenues

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For all financial instruments measured at amortized 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.

2.5.4. Revenues from rent and royalties

Revenues related to the rendering services are recognized as the services are provided. Royalties are recognized according to the accrual basis of accounting, depending on the economic substance of the related contracts.

2.5.5. Lease

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

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

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

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

2.5.6. 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:

	31 December 2017	31 December 2018
EUR 1	4.6597	4.6639
USD 1	3.8915	4.0736
CHF 1	3.9900	4.1404

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5.7. Costs related to long-term borrowings

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. 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.

The depreciated cost for all financial assets and liabilities is computed using the effective interest rate method. The computation takes into account any premium or discount upon acquisition and includes the costs of the transaction and fees that are an integrant part of the effective interest rate.

2.5.8. Government grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions related to these grants and until the grants are received.

Other government grants are recognized systematically as revenues in the same period as the costs it intends to compensate.

2.5.9. 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, between 2 and 3,5 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.

2.5.10. 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.

2.5.11. Taxation

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

Current tax

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.5.12. Tangible assets

Tangible assets, less land and buildings, are stated at cost, net of accumulated depreciation and 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 revaluated value of the asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

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

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

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

2.5.13. Investment properties

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5.14. 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:

	Years
Licenses	1 - 5

2.5.15. 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.

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, except for revalued assets for which there is a revaluation that can be decreased with the impairment loss.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5.16. Inventories

The inventories are registered at the lowest value between cost and the net realizable value. The net realizable value is the selling price estimated for the inventories minus all estimated costs for completion and the costs related to the sale. Costs, including 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. 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.

2.5.17. Investments in subsidiaries and jointly controlled entities

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

Jointly controlled entities are those entities in which a Group company holds the power to govern the financial and operating policies together with one or several entities outside the Group.

These investments are initially recognized as purchase price and subsequently at purchase cost less accumulated impairment losses. IFRS 9 allows for an exemption in case of those interests held in subsidiaries, associates and joint ventures which are accounted for in accordance with IFRS 10 Consolidated financial statements, IAS 27 Separate financial statements or IAS 28 Investments in associates and joint ventures. Teraplast applies this exemption and continues to assess the interests held in subsidiaries and associates at cost minus any impairment losses.

At each financial statements date, the Company assesses whether there are indications of impairment of the investments in subsidiaries and jointly controlled units. These indications refer to important changes that occurred in the economic environment in which the respective entities operate or to important changes in the evolution of the financial position or, respectively, of the financial performance of the entities in which the Company holds interests.

If there are any indications of impairment, the Company carries out an impairment test and it computes the value of the impairment losses as difference between the recoverable value and the net book value.

Except for the assets the value of which will be recovered through a sale transaction rather than by use, for all the impairment tests carried out, the recoverable value was based on the value of use. Its measurement requires different estimates and hypothesis, depending on the nature of the activity, such as the discount rates, the increase rates, the gross margins.

The impairment loss resulted from the impairment tests represents an expense of the current year and it is recognized in profit and loss.

Acquisition of activities from controlled entities

When the Company acquires activities / lines of business from controlled entities, it records the assets and liabilities undertaken at the carrying amount in the Group consolidated financial statements, and the difference between the value of the net assets undertaken and the price agreed between the parties for the transfer is charged directly under Other comprehensive income, net, which is not classified in profit or loss in subsequent periods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5.18. 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.

2.5.19. 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.

2.5.20. 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.

2.5.21. Segment reporting

Segment reporting is done consistently with the internal reporting to the chief operating decision maker. The chef 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.

2.5.22. 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 and receivables

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

Borrowings and liabilities

Borrowings are initially recognized at fair value, minus the costs incurred for the concerned operation. Subsequently, they are recorded at amortized cost. Any difference between the addition value and the reimbursement value is recognized through profit or loss over the period of the borrowings, using the effective interest rate method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Impairment of financial assets

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

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

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

The provisions of IFRS 9 concerning the recognition and measurement of financial assets were applied retrospectively without restating the values of the comparative period, which continue to be reported according to the accounting standard applicable previously to financial instruments, IAS 39. The financial assets recognition and measurement differences between IFRS 9 and IAS 39 are disclosed in Notes 2.4 and 21.

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.

2.5.23. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Company's management, in conjunction with the Company's external evaluators, 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.

2.5.24. 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 property

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 for the head office), located in Str. Romana, Bistrita. In January 2012, the management decided that the final purpose of the land was to be held in order to obtain an increase in its value and to be subsequently materialized through sale. As a result, the land was classified in January 2012 as an investment property.
- In December 2012 the assets previously transferred to Teracota Bistrita SRL were reversed. The management decided that the final purpose of the reversed land was to be held in order to obtain an increase in its value and to be subsequently materialized through sale. As a result, the land was classified in December 2012 as an investment property, being valued at fair value as of that date.
- The Company holds land and buildings (previously used as regional warehouses) in Oradea and Constanta. In 2013, the management decided that the final purpose of the land was to be held in order to obtain an increase in its value and to be subsequently materialized through sale. As a result, the land and buildings were classified in 2013 as investment properties, when they were measured at fair value.
- On 30 September 2018, the space in Oradea which, in December 2017, was in the "Investment property" balance sheet item was reclassified in "Tangible assets" as a result of the fact that the Company decided to recommence the operating activity in this location. As a result, the "Investment property" balance sheet item decreased by approximately RON 1,200 thousand;
- Starting 31 March 2015, the buildings and land located in Bistrita, str. Tarpiului 27A, which were the object of a premises rental contract concluded with Teraglass Bistrita SRL, were reclassified as investment properties.
- As of 31 December 2017 and 31 December 2018, the fair value of investment property is based on the valuation report prepared by an independent appraiser and the impact of this valuation was registered in profit and loss. The valuation methods used are in accordance with the International Valuation Standards.

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

Acquisition of Politub business

In October 2017, the Company acquired most of the Politub SA shares. In December 2017, the Company transferred the Politub subsidiary activity within Teraplast and, on this occasion, it also transferred most of the Politub assets. In order to account for this business transfer between jointly controlled entities, which is not covered by IFRS 3 *Business Combinations,* the management chose to record the assets undertaken from Politub at their value disclosed in the Teraplast consolidated financial statements (RON 24.1 million, which approximates their fair value) The difference between the price paid for asset acquisition (a gain RON 2.9 million) was recorded under reserves. Management has adopted this accounting policy because it generates accounting values similar to those recorded at group level and considered that the disclosure of the gain under reserves gives a fairer view than the recording under the result account, because it derives from a transaction with a controlled entity.

If the Company chose to record the difference mentioned above under the result account, the Company profit for the financial year 2017 would have been RON 2.9 million higher.

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

The acquisition of the additional investment in Depaco SRL

On 1 March 2017, Teraplast signed a contract with the shareholders of Depaco SRL for the acquisition of 50% of its shares. The transaction was finalized after its approval by the Teraplast SA General Shareholders Meeting and receiving the approval from the Romanian Competition Council in January 2018, as mentioned below.

Also in 2017, the Company has concluded agreements for the purchase of an additional investment of 17% din Depaco. TeraPlast took control of Depaco in January 2018, after obtaining the favorable approval of the Competition Council and registering the 67% investment with the Trade Register.

Teraplast has concluded a sale-purchase promise with the minority shareholders of Depaco, for the rest of their investment up to 100% of the company. The transaction will be carried out within 4 years at most, for a price correlated with Depaco's results in the following years.

As of 31 December 2017, this option was not reflected in the Company's balance sheet, because its exercising is also conditioned by the approval by the Competition Council for sole control.

The Company recognized under "Long-term liabilities" balance sheet item the fair value of the purchase price agreed with the promissory-sellers and under the "Investments in subsidiaries and jointly controlled entities" balance sheet item the equivalent value of the capital shares it is entitled to according to the Promise in November 2017 (Notes 11 and 19).

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 separate financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Revaluation of property, plant and equipment and investment properties

The Company carries its investment properties at fair value, with changes in fair value being recognized in the statement of profit or loss. In addition, it measures land and buildings at revalued amounts with changes in fair value being recognized in other comprehensive income. The Company engaged independent valuation specialists to assess fair value as at 31 January 2016 for land and buildings and for investment properties, this action was performed on an annual basis, including 31 December 2017 and, respectively 31 December 2018. Investment properties (land and buildings) and land and buildings (recorded as non-current assets) were valued by reference to market-based information, using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

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 of disposal 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.

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

In the current economic context, the Company analyzed the internal and external sources of information and reached the conclusion that there are no indications concerning the impairment of assets, except for the cash generating units below. 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 has decided to estimate the recoverable amount of the tangible assets, in accordance with IAS 36. Therefore, an allowance for asset impairment proved not to be necessary.

The impairment testing performed by the Company is based on the determination of the value in use considering the present value of the cash flow. The cash flows have been determined based on the budget for 2019 and of the forecasts for the following four years. The terminal value was determined based on the cash flows forecasted for 2024, using a 2.5% growth rate.

The cash generating units identified are:

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

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

For 2019, the Group 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 considered average increase rates of the Group have been used as follows:

- For the cash generating unit Installations and arrangements, management estimates a turnover increase, due to the extension of the distribution network, and, in the following four years, the annual growth rate will be on average 5.42%;
- For the cash generating unit Granules, management has estimated an annual average growth for the following five years 9.87% by increasing competitiveness as a result of developing new networks and increasing the presence on the neighboring markets;
- For the cash generating unit PVC Joinery Profiles, the annual growth rate for the turnover over the projection period is estimated to be 4.83% per year, following the implementation of new co-extrusion technologies for profiles, which increases competitiveness, and also, the inventory policy revision.

Impairment of investments in subsidiaries and jointly controlled entities

In order to determine the necessity of recognizing an impairment loss related to an investment in subsidiaries or jointly controlled units, the Company performs an impairment test which requires significant judgment.

As of 31 December 2017, the Company concluded there are no indicators determining the performance of an impairment test for investments in subsidiaries or, respectively, in jointly controlled units.

As of 31 December 2018, the Company has analyzed the internal and external sources of information and concluded there are no indications of impairment of the investments in subsidiaries and jointly controlled entities, except for the investment in Depaco SRL. Therefore, the Company decided to estimate the recoverable value of the investment in Depaco SRL, according to IAS 36. As a result of the exercise carried out, it resulted that it is not necessary to record a provision for impairment.

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

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

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

Cash flows were determined based on the budget for 2019 and the forecast for the following 5 years, which had an average EBITDA increase of 1.78%, an average increase of future investments in non-current assets of 1.5% and, respectively, a net working capital increase of 9% in 2019 followed by an increase directly proportional to the EBITDA increase of 1.78% during the remaining period.

The terminal value was set based on the cash flows forecast for 2024, using a perpetuity increase rate of 1.78%.

The discount rate used was of 8.42%, rate corresponding to the degree of risk and capital structure of the subsidiary. This was determined starting from the long-term interest rate of the Romanian sovereign bonds ("free risk rate") adjusted with items specific to subsidiary risk (beta specific, equity premium).

Any changes occurred in the economic conditions may influence can influence the estimates used for determining the value in use, so that the actual results may differ in the end.

The impairment analysis is most sensitive to changes in the assumptions used for determining the discount rate. For estimating it, we have used a long-term interest rate of the Romanian sovereign bonds ("free risk ratio") of 3.01% and a risk premium of 5.41%. The Beta of Teraplast Company and the expected market return were estimated based on the information available on the market. An increase in the risk premium to 5.81% would lead to reaching the profitability threshold.

4. REVENUES

An analysis of the Company revenues from contracts with customers is detailed below:

	Year ended 31 December 2017	Year ended 31 December 2018
Sales from own production	200,967,716	267,429,927
Income from sale of goods	27,611,473	36,382,958
Revenues from other activities	55,633	20,262
Rent and royalty revenues	1,299,771	1,204,698
Commercial discounts granted	(2,568,908)	(3,571,061)
Total	**227,365,686**	**301,466,783**

Geographical analysis

	Year ended 31 December 2017	Year ended 31 December 2018
Sales on the internal market (Romania)	203,581,906	276,503,435
Sales on the foreign market	23,783,780	24,963,348
Total	**227,365,686**	**301,466,783**

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

4. REVENUES (continued)

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

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

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

Year ended 31 December 2017	Installations and arrangements	Joinery profiles	Granules	Insulated joinery	Non-allocated amounts	Total
Total revenues	**118,528,130**	**54,178,424**	**54,175,670**	**483,462**	**-**	**227,365,686**
Expenses with sales, indirect and administrative expenses	(116,443,680)	(54,447,776)	(48,597,933)	83,898	(1,452,420)	**(220,857,911)**
Operating result	**2,084,448**	**(269,352)**	**5,577,737**	**567,360**	**(1,452,420)**	**6,507,775**
Operating assets	**143,963,184**	**64,976,779**	**37,312,575**	**9,463,053**	**119,641,332**	**375,356,920**
Non-current assets	71,211,722	36,719,013	16,741,510	9,463,053	111,174,516	**245,309,811**
Current assets	72,751,462	28,257,766	20,571,065	-	8,466,816	**130,047,109**
Operating liabilities	**84,260,145**	**29,642,827**	**22,186,493**	**-**	**48,621,463**	**184,710,927**
Long-term liabilities	42,667,826	8,847,011	4,526,524	-	42,558,606	**98,599,967**
Current liabilities	41,592,318	20,795,816	17,659,969	-	6,062,857	**86,110,960**

Year ended 31 December 2018	Installations and arrangements	Joinery profiles	Granules	Insulated joinery	Non-allocated amounts	Total
Total revenues	**185,192,457**	**52,554,144**	**63,226,562**	**-**	**493,619**	**301,466,783**
Expenses with sales, indirect and administrative expenses	(187,514,793)	(53,820,465)	(57,501,953)	-	(258,852)	**(299,096,063)**
Operating result	**(2,322,335)**	**(1,266,321)**	**5,724,609**	**-**	**234,767**	**2,370,720**
Operating assets	**193,684,601**	**66,217,200**	**19,389,230**	**-**	**171,078,469**	**469,695,771**
Non-current assets	70,258,447	34,066,794	15,155,042	-	169,212,909	**288,693,192**
Current assets	123,426,155	32,150,406	23,560,459		-	**179,137,019**
Non-current assets	-	-	-	-	1,865,560	**1,865,560**
Operating liabilities	**103,791,342**	**31,028,762**	**19,389,230**	**-**	**106,404,081**	**260,613,415**
Long-term liabilities	13,847,674	8,369,876	2,581,214	-	96,103,835	**120,902,599**
Current liabilities	89,943,668	22,658,886	16,808,015	-	10,300,246	**139,710,815**

The non-allocated expenses for 2017 are costs not recorded for the acquisition of financial assets during the year, namely, Depaco SRL, Terasteel Doo and Politub SA.

The non-allocated non-current assets relate to investment properties, investments in subsidiaries and other financial assets, which include the long-term portion of the loan granted by Teraplast to Terasteel Serbia. The non-allocated current assets relate to the short-term portion of the loan granted by Teraplast to Terasteel Serbia and the short-term loan granted by Teraplast to Teraplast Hungaria Kft. The non-allocated liabilities relate to the bank loans contracted by Teraplast for the shareholdings in Depaco and Politub and the financing of Terasteel Doo.

In 2018, Company management decided to present the *Insulation joinery* segment under *Non-allocated amounts*, as a result of the fact that there is no actual segment in Teraplast to this effect (the Insulation joinery business line was transferred to the Teraglass Bistrita SRL subsidiary in 2015).

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

4. REVENUES (continued)

The amounts presented in 2017 refer to revenues from rents registered in the account of the space lease contract with the Teraglass Bistrita SRL subsidiary and occasional expenses related to the leased spaces and the assets leased to the subsidiary (non-current assets).

5. OTHER OPERATING INCOME

	Year ended 31 December 2017	Year ended 31 December 2018
Compensations, fines and penalties	16,804	304,426
Other revenues	449,997	340,836
Total	**466,801**	**645,262**

6. RAW MATERIALS, CONSUMABLES USED AND COMMODITIES

	Year ended 31 December 2017	Year ended 31 December 2018
Raw material expenses	131,727,040	176,017,728
Consumable expenses	8,788,398	12,375,129
Commodity expenses	22,245,986	29,748,013
Consumed packaging	592,770	905,752
Total	**163,354,194**	**219,046,622**

7. GAINS AND LOSSES FROM THE DERECOGNITION OF ASSETS

	Year ended 31 December 2017	Year ended 31 December 2018
Revenues from the sale of assets	374,249	1,436,064
Net book value of derecognized assets (Note 15)	(302,973)	(1,488,322)
Total	**71,276**	**(52,258)**

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

	Year ended 31 December 2017	Year ended 31 December 2018
Gain from the fair value measurement of investment properties	144,532	155,328
Gain / (Loss) on the fair value measurement of investment properties	335	(245,552)
Total	**144,867**	**(90,224)**

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

9. ALLOWANCE FOR ASSET IMPAIRMENT AND AMORTIZATION

	Year ended 31 December 2017	Year ended 31 December 2018
Allowance for receivables impairment		
Receivables transferred to expenses during the year	642,489	590,814
Increase recognized in profit and loss	2,522,182	731,246
(Decrease) recognized in profit and loss	(1,227,937)	(1,131,542)
Total	**1,936,735**	**190,517**
Allowance for inventories		
Increase recognized in profit and loss	2,443,058	4,462,779
(Decrease) recognized in profit and loss	(2,573,561)	(4,099,699)
Total	**(130,503)**	**363,081**
Total allowances for current assets impairment	**1,806,232**	**553,598**

	Year ended 31 December 2017 RON	Year ended 31 December 2018 RON
Expenses with assets impairment, net (Note 15 and Note 18)	876,381	549,947
Amortization expenses (Note 15 and Note 18)	13,365,485	17,179,141
Total allowances for depreciation, amortization and impairment of tangible and intangible assets	**14,241,866**	**17,729,088**

The increase of amortization expenses has as main causes the taking over the fixed assets in Politub as a result of transferring the business line in December 2017 (approx. RON 2.7 million) and the investments in 2017 and 2018.

10. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December 2017 RON	Year ended 31 December 2018 RON
Wages	16,444,274	28,089,279
Contributions to the public social security fund	3,788,627	629,996
Other taxes and contributions related to the salaries	38,473	-
Social aid within the limit of 5% of the salary fund	212,616	369,079
Meal tickets	965,513	1,441,940
Total	**21,449,503**	**30,530,294**

In 2018, total salary expenses have registered in 2018 an increase of approximately 42% as compared to the period ended 31 December 2017 as a result of taking the Politub personnel as part of the business line transfer from December 2017 and of the reintegration into Teraplast SA of the logistic activities in Teraplast Logistic SRL starting October 2018.

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

10. EMPLOYEE BENEFIT EXPENSES (continued)

The average number of employees during the reporting year was as follows:

	Year ended 31 December 2017	Year ended 31 December 2018
Production staff	213	280
Administrative personnel	87	104
Management	18	17
TOTAL	**318**	**401**

11. FINANCIAL COSTS AND REVENUES

	Year ended 31 December 2017	Year ended 31 December 2018
Finance costs		
Interest expense	2,301,964	6,496,993
Expenses with exchange rate differences	1,523,652	1,115,946
Other financial expenses	-	494,662
Total	**3,825,616**	**8,107,601**

The increase by RON 4.2 million of interest costs arises from: RON 1.1 mil interest owed to Politub SA, computed based on the business line transfer contract and RON 3.1 mil represent interest for loans and credit lines contracted in 2017 and 2018.

Other financial expenses represent the discounting, by applying a specific index, of the liability Teraplast committed to pay to the minor shareholders of Depaco within the bilateral Promise in November 2017.

	Year ended 31 December 2017	Year ended 31 December 2018
Financial revenues		
Interest revenues	542,601	1,285,099
Revenues from exchange rate differences	1,315,601	1,115,366
Dividend revenues	10,060,890	32,888,859
Other financial revenues	161,916	52,101
Total	**12,081,008**	**35,341,426**
Financial result	**6,251,474**	**27,233,825**

Other financial expenses for 2018 include the amount of RON 51,001 (2017: RON 161,739) representing the adjustment of the difference between the nominal value and the present value of the receivable to Teraglass Bistrita SRL, as resulting from the transfer of the insulated joinery business line.

Dividend revenues include dividends received and cashed in from Terasteel amounting to RON 32,813,658 (2017: RON 9,166,726), from Politub in an amount of RON 0 (2017: RON 813,119) and from CERTIND in amount RON 75,200 (2017: RON 81,045).

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

12. OTHER OPERATING EXPENSES

	Year ended 31 December 2017	Year ended 31 December 2018
Transport costs	8,479,294	13,173,735
Expenses with utilities	4,986,992	8,040,177
Expenses with third party services	8,222,560	8,422,523
Expenses with compensations, fines and penalties	24,315	1,788
Entertainment, promotion and advertising expenses	1,142,845	1,635,253
Expenses with other taxes and duties	980,091	1,163,105
Repair expenses	768,449	1,399,238
Travelling expenses	340,287	437,198
Rent expenses	635,923	1,303,513
Mail and telecommunication expenses	304,425	331,447
Insurance premium expenses	643,276	1,023,790
Expenses with sponsorship, donations	449,004	386,052
Other general expenses	576,805	706,006
Total	**28,270,805**	**38,023,825**

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

13. INCOME TAX

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

	31 December 2017	31 December 2018
Current income tax	(770,152)	-
Deferred tax (expense)/income	122,930	429,884
Total income tax – revenue/(expense)	**(647,222)**	**429,884**

The reconciliation of the net deferred tax is as follows:

	2017	2018
Deferred tax, net, as at 1 January	(2,695,521)	(3,038,044)
Deferred tax, net, as at 31 December	(3,038,044)	(2,471,192)
Changes in deferred tax	**(342,523)**	**566,852**
out of which, deferred income tax (expense) /revenue	-	-
recognized in the comprehensive income	(465,453)	136,968
out of which, income deferred tax (expense) /revenue	-	-
recognized in the statement of revenues and expenses	122,930	429,884
Reconciliation		
Profit before tax	**14,763,167**	**29,604,545**
Applicable tax rate	16,00%	16,00%
Income tax expense according to the tax rate	**(2,362,107)**	**(4,736,727)**
Tax cred (sponsorship)	192,538	-
Changes in impairment allowances	46,083	(8,346)
(Non-taxable) Dividend revenues	1,609,742	5,262,217
Legal reserves	105,096	243,204
Fiscal impact from the fair value measurement of investment properties	23,179	(14,436)
Fiscal impact of other (non-deductible) / taxable items	(261,754)	(316,028)
Income tax (expense) / revenue recognized in the statement of revenues and expenses	**(647,222)**	**429,884**

The tax rate applied for the reconciliation mentioned above related to 2017 and 2018 is 16% and is payable by Romanian legal entities.

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

13. INCOME TAX (continued)

The components of the net deferred tax liabilities

	Statement of financial position		Recorded in the income statement		Recorded in other comprehensive income	
	2017	**2018**	**2017**	**2018**	**2017**	**2018**
Tangible assets and investment properties	(3,067,326)	(3,058,035)	111,219	(127,680)	-	136,968
Investments in subsidiaries	392,000	-	-	(392,000)	-	-
Employee benefit liability	41,425	100,923	3,227	(59,498)	-	-
Trade and other payables	61,310	155,468	8,484	(94,159)	-	-
Fiscal loss carried forward	-	795,906	-	795,906	-	-
Reserve from Politub business transfer	(464,453)	(464,453)	-	-	(464,453)	-
Total	**(3,038,044)**	**(2,471,192)**	**122,930**	**429,884**	**(465,453)**	**138,968**

Reconciliation of deferred tax liabilities, net	2017	2018
Balance as at 1 January	**(2,695,521)**	**(3,038,044**
Revenues from / (expenses with) the tax during the period recognized in the profit and loss statement	122,930	429,884
Revenues from / (expenses with) the tax during the period recognized in other comprehensive income	(464,453)	136,968
Closing balance at 31 December	**(3,038,044)**	**(2,471,192)**

The deferred income tax, net as of 31 December 2018, consists in the liability concerning the deferred income tax amounting to RON 2,471,192 (2017: RON 3,038,044).

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

14. THE TRANSFER OF THE POLYETHYLENE PIPES BUSINESS FROM POLITUB SA

Starting with 31 December 2017, TeraPlast SA took over the activity of Politub SA, as a whole, including the know-how, the ownership right over the buildings, equipment and other assets belonging to Politub, except for the land, at the market value from that date. TeraPlast took over all Politub employees, starting with January 2018. Politub's commercial relations were also taken over by TeraPlast.

Following this takeover, Politub has become TeraPlast's polyethylene pipes division, within the Installations and Improvements segment.

The sale price of Politub SA's business (without the contribution consisting in land which remains the property of Politub SA), amounting to RON 21,805,000, was determined through the income approach, determined by an independent valuer.

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

14. THE TRANSFER OF THE POLYETHYLENE PIPES BUSINESS FROM POLITUB SA (continued)

As of 31 December 2017, the following patrimony items were taken over in the Company's balance sheet, at fair value, based on a report for the distribution of the purchase price, prepared by an independent valuer:

	The fair value of the net transferred assets as of 31 December 2017
NON-CURRENT ASSETS	**16,095,369**
Buildings	5,386,147
Equipment	10,658,700
Intangible assets	50,522
INVENTORIES	**5,716,674**
Raw materials and consumables	2,113,786
Finished and residual products	2,476,496
Merchandise	1,126,392
NET TRADE RECEIVABLES AND CASH	**2,901,988**
NET ASSETS	**24,714,030**

At the transfer date, the fair value of intangible assets, inventories, receivables and payables was equal with their book value registered by Politub SA.

Buildings and equipment were transferred at the market value.

Total trade receivables, trade payables and cash on balance as of 31 December 2017, will be settled within Politub and the difference will be settled in cash with the receivable related to Teraplast. Teraplast continues the commercial relations with Politub's clients and suppliers in new contracts.

The difference of RON 2,909,030 between the transferred net assets amounting to RON 24,714,030 and the value of the transferred business of RON 21,805,000, was included in reserves.

The following intangible assets have also been transferred:

- The free right of superficies over the land;
- The PT Politub brand;
- The client database;

Since the value of the Politub business was lower than the value of the transferred patrimonial assets, these intangibles were recognized at the transfer date as being nil.

The transfer price will be settled in June 2019 and, therefore, the liability to Politub SA was disclosed in 2017 under "Long-term liabilities" and as of December 2018 under "Current liabilities".

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

15. PROPERTY AND EQUIPMENT

	Land	Buildings	Tools and equipment	Installations and furniture	Tangible assets in progress	Total
COST						
Balance as at 1 January 2018	**8,599,553**	**54,778,961**	**173,486,479**	**1,387,372**	**4,506,536**	**242,758,902**
Increases	-	-	987,529	-	13,935,314	**14,922,842**
Out of which: Increases from the internal production of non-current assets	-	-	-	-	1,018,220	**1,018,220**
Transfers in/from non-current assets in progress	-	770,670	8,896,598	127,408	(9,805,360)	**(10,684)**
Transfers in/from other fixed assets classes	-	-	-	-	-	**-**
Transfers from inventory items	-	-	49,884	-	-	**49,884**
Valuation decrease prior to the classification as assets held for sale, with an impact in reserves	(522,189)	(333,862)	-	-	-	**(856,051)**
Transfers from investment property (Note 16)	599,425	622,201	-	-	-	**1,221,626**
Transfers to assets held for sale (Note 17)	(1,137,491)	(826,853)	-	-	-	**(1,964,344)**
Disposals and other decreases (Note 8)	(599,425)	(2,098,785)	(11,826,635)	(148,441)	-	**(14,673,286)**
Balance as at 31 December 2018	**6,940,401**	**52,912,333**	**171,593,584**	**1,366,339**	**8,636,490**	**241,448,889**
ACCUMULATED DEPRECIATION						
Balance as at 1 January 2018	**346**	**3,426,060**	**113,881,489**	**918,273**	**964,893**	**119,191,062**
Depreciation recorded during the year (Note 9)	346	2,589,887	13,966,780	134,022	-	**16,691,035**
Transfers from inventory items	-	-	49,884	-	-	**49,884**
Disposals and other decreases (Note 8)	-	(1,441,218)	(11,639,401)	(104,344)	-	**(13,184,964)**
Impairment (Note 9)	-	(153,253)	477,114	-	226,357	**549,947**
Balance as at 31 December 2018	**691**	**4,322,421**	**116,735,866**	**947,951**	**1,191,250**	**123,198,180**
Net carrying amount as at 1 January 2018	**8,599,208**	**51,352,901**	**59,604,989**	**469,099**	**3,541,643**	**123,567,840**
Net carrying amount as at 31 December 2018	**6,939,181**	**48,589,911**	**54,857,988**	**418,388**	**7,445,240**	**118,250,709**

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

15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land	Buildings	Tools and equipment	Installations and furniture	Tangible assets in progress	Total
COST						
Balance as at 1 January 2017	**8,756,518**	**42,849,503**	**146,362,486**	**1,293,599**	**3,310,699**	**202,572,805**
Increases	-	5,386,147	11,708,833	76,269	27,991,345	45,162,594
Out of which: Increases from the internal production of non-current assets	-	-	-	-	1,526,365	**1,526,365**
Increases from taking over the Politub business line (Note 14)	-	5,386,147	10,605,223	53,527	-	**16,044,897**
Transfers in/from non-current assets in progress	-	9,471,726	17,026,711	61,643	(26,596,297)	**(36,217)**
Transfers to non-current assets held for sale	(156,965)	(535,514)	-	-	-	**(692,478)**
Transfers from inventory items	-	-	-	-	-	**-**
Disposals and other decreases	-	(2,392,901)	(1,611,553)	(44,138)	(199,210)	**(4,247,801)**
Balance as at 31 December 2017	**8,599,553**	**54,778,961**	**173,486,479**	**1,387,372**	**4,506,536**	**242,758,902**
ACCUMULATED DEPRECIATION						
Balance as at 1 January 2017	**-**	**4,067,588**	**104,332,385**	**843,917**	**-**	**109,243,888**
Depreciation recorded during the year (Note 9)	346	2,103,872	10,835,531	116,232	-	**13,055,981**
Transfers to non-current assets held for sale	-	(39,263)	-	-	-	**(39,263)**
Transfers from inventory items	-	-	-	-	-	**-**
Disposals and other decreases	-	(2,342,257)	(1,561,792)	(41,875)	-	**(3,945,924)**
Impairment (Note 9)	-	(363,877)	275,365	-	964,893	**876,381**
Balance as at 31 December 2017	**346**	**3,426,060**	**113,881,489**	**918,273**	**964,893**	**119,191,062**
Net carrying amount as at 1 January 2017	**8,756,518**	**38,781,916**	**42,030,101**	**449,682**	**3,310,699**	**93,328,916**
Net carrying amount as at 31 December 2017	**8,599,208**	**51,352,901**	**59,604,989**	**469,099**	**3,541,644**	**123,567,840**

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

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant and equipment include vehicles and equipment used as part of finance leases with values detailed below:

	31 December 2017	31 December 2018
Net value – vehicles	1,256,844	874,662
Net value – equipment	1,266,228	367,310
Total	**2,523,072**	**1,241,972**

As at 31 December 2018, the Company had pledged in favor of financial institutions non-current assets and investment properties with a net carrying amount RON 56,463,119 (31 December 2017: RON 65,863,587):

- Land, buildings and investment property in amount of RON 30,693,232 (2017: RON 38,910,655);
- Equipment, machinery in amount of RON 25,769,887 (2017: RON 26,952,931).

Land and buildings were revalued as of 31 December 2016. Company management has determined that they are only one class of assets for fair value revaluation purposes according to IFRS 13. This analysis took into account the associated characteristics and risks of the revalued properties.

The Company has concluded a sale promise regarding some assets held in Galati (land and buildings) having a net book value of RON 653,215. According to IFRS 5, these assets were reclassified as of 31 December from tangible assets to assets held for sale and they were valued at reclassification date at the lowest between the net book value and the value less costs of sale.

The Company concluded a sale promise for assets held in Oradea (land and buildings) with a net book value of RON 1,865,560. According to IFRS 5, these assets were reclassified as of 31 December 2018 from tangible assets to assets held for sale and they were measured at reclassification date at the lowest between the net book value and the fair value less the costs of sale.

The impairment adjustments set during 2018 refer to non-current assets not used. As of 31 December 2018, the Company had registered adjustments for the specific impairment of tangible assets amounting to RON 2,304,854 (2017: RON 3,083,857).

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

16. INVESTMENT PROPERTIES

Investment properties include the following items:

- The Company holds a piece of land located in Str. Romana, Bistrita (previously, the Company head office was located on this land). Starting 2012, the final purpose of the land was to be held in order to obtain an increase in its value and to be subsequently materialized through sale. As a result, the land was classified in January 2012 as an investment property. As of that date, the carrying amount of the land approximated its fair value, and no additional value adjustment was needed (according to IAS 16 and IAS 40), and the subsequent changes in value were charged to the profit and loss statement.
- The piece of land took over from SC Teracota Bistrita SRL (after it became bankrupt) is held in order to obtain an increase in its value and to be subsequently materialized through sale. As a result, the land was classified in December 2012 as an investment property, being valued at fair value as of that date. The increase in the fair value was charged to the revaluation reserves (according to IAS 16 and IAS 40).
- The Company holds land and buildings (previously used as regional warehouses) in Constanta. In January 2013, the management decided that the final purpose of these land and buildings was to be held in order to obtain an increase and value and to be subsequently materialized through sale. As a result, the land and buildings were classified in 2013 as investment properties. The revaluations as at 31 December 2013 were recognized in the profit and loss statement, in accordance with IFRS.
- Starting 31 March 2015, the buildings and land located in Bistrita, str. Tarpiului 27A, which were the object of a premises rental contract concluded with Teraglass Bistrita SRL, were reclassified as investment properties. On the initial recognition date - 31 March 2015, the revaluation results were recorded according to IAS 16 and as at 31 December 2015, they were charged to the income statement, as appropriate.

As at 31 December 2018 and 2017, the fair value of investment properties is based on the valuation report prepared by an independent appraiser and the impact of these valuations was charged to the income statement. The valuation methods used are in accordance with the International Valuation Standards.

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

Price per square meter for land	Range 15 – 135 EUR/sq. m.

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

Rent for industrial and commercial premises	EUR 2.5 – 5.5 /sq. m.
Non occupancy rate for logistic and industrial premises	10 – 15%
Average rate of return for city industrial premises Cat. 1	9 – 10%
Rent for industrial and commercial premises Cat. 2	9.5 – 10.5%

	31 December 2017	31 December 2018
Opening balance at 1 January	**19,037,319**	**19,218,403**
Increases/(Reductions)	36,217	(1,221,626)
Net loss from valuation of investment properties at fair value	144,867	(90,224)
Closing balance at 31 December	**19,218,403**	**17,906,553**

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

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

16. INVESTMENT PROPERTIES (continued)

	31 December 2017	31 December 2018
Rental revenues from investment properties	483,462	493,619
Direct operational expenses	(133,687)	(119,723)
Net profit resulting from investment properties recorded at fair value	**349,775**	**373,896**

17. ASSETS HELD FOR SALE

	31 December 2017	31 December 2018
Opening balance as of 1 January	**-**	**653,215**
Inflows by transfer from tangible assets	653,215	1,865,560
Outflows by sale	-	653,215
Closing balance as of 31 December	**653,215**	**1,865,560**

In 2017, the Company has reclassified the assets held in Galati (land and buildings) having a net book value of RON 653,215 from tangible assets into assets held for sale and they were valued at the reclassification date at the lowest between the net book value and the fair value less the costs generated by the sale. These assets were sold in 2018, generating a profit of RON 185,891.

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

18. OTHER INTANGIBLE ASSETS

	Licenses	Intangible assets in progress	Total
Cost			
Balance as at 1 January 2017	**4,442,637**	**-**	**4,442,637**
Increases, out of which	267,540	287,110	554,650
Politub business line transfers	50,522	-	50,522
Transfers	287,110	(287,110)	-
Disposals and other decreases	(17,542)	-	(17,542)
Balance as at 31 December 2017	**4,979,745**	**-**	**4,979,745**
Accumulated amortization			
Balance as at 1 January 2017	**3,583,377**	-	**3,583,377**
Amortization expense	309,504	-	309,504
Decreases	(17,542)	-	(17,542)
Balance as at 31 December 2017	**3,875,339**	-	**3,875,339**
Net carrying amount as at 1 January 2017	**859,260**	**-**	**859,260**
Net carrying amount as at 31 December 2017	**1,104,405**	**-**	**1,104,405**

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

18. OTHER INTANGIBLE ASSETS (continued)

	Licenses	Intangible assets in progress	Total
Cost			
Balance as at 1 January 2018	**4,979,745**	**-**	**4,979,745**
Increases	296,431	309,134	605,566
Transfers	29,312	(18,628)	10,684
Disposals and other decreases	(9,232)	-	(9,232)
Balance as at 31 December 2018	**5,296,256**	**290,507**	**5,586,762**
Accumulated amortization			
Balance as at 1 January 2018	**3,875,339**	**-**	**3,875,339**
Amortization expense	488,106	-	340,623
Decreases	(9,232)	-	(9,232)
Corrections	56	-	56
Balance as at 31 December 2018	**3,583,377**	-	**4,354,270**
Net carrying amount as at 1 January 2018	**1,104,406**	**-**	**1,104,406**
Net carrying amount as at 31 December 2018	**941,986**	**290,507**	**1,232,493**

19. INVESTMENTS IN SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

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

Subsidiary	Country	Investment share	31 December 2017	Investment share	31 December 2018
		%	RON	%	RON
Terasteel S.A. Bistrita	Romania	97.95	10,960,083	97.95	10,960,083
Teraglass Bistrita SRL	Romania	100	50,000	100	50,000
Politub SA	Romania	99.99	11,677,250	99.99	11,677,250
Teraplast Logistic SRL	Romania	99	990	99	990
Teraplast Hungaria	Hungary	100	43,167	100	43,167
Depaco SRL	Romania	50	39,246,960	99	105,081,832
Terasteel DOO Serbia	Serbia	100	45,271	100	45,271
		-	**62,023,721**	**-**	**127,858,650**

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

On 1 March 2017, Teraplast has concluded a contract with the shareholders of Depaco SRL to purchase 50% of its capital shares. The transaction was completed after its approval by the Shareholders' General Meeting of Teraplast SA and after receiving the approval of the Romanian Competition Council.

Subsequently, Teraplast acquired another 17% of the Depaco SRL shares, the investment being disclosed in the Statement of Financial Position under Other financial assets. As at 31 December 2017, this shareholding was not recorded with the Trade Register; therefore control over Depaco is joint with the other shareholders.

Following the approval from the Competition Council for the sole control over Depaco, in January 2018, the 67% shareholding in Depaco was recorded with the Trade Register. Therefore, the Company will consolidate Depaco starting 2018.

Depaco is the second player on the Romanian metallic tile market with the Wetterbest brand.

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

19. INVESTMENTS IN SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES (continued)

Starting October 2017, Teraplast SA has become the major shareholder of Politub SA, holding 99.99%.

After taking control over Politub SA, company handling 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, the Group can provide the entire range of pipes for constructions and infrastructure.

In November 2017, Teraplast has concluded a sale-purchase promise with the minority shareholders of Depaco, for the rest of their investment up to 99% of the company. The transaction will be carried out within 4 years at most, for a price correlated with Depaco's results in the following years.

As of 31 December 2017, this option was not reflected in the Company's balance sheet, because its exercising was also conditioned by the approval by the Competition Council for sole control.

As of 31 December 2018, the Company recognized, under the "Investments in subsidiaries and jointly controlled entities" balance sheet item the equivalent value of the capital shares it is entitled to according to the Promise concluded in November 2017 and in the "Long-term liabilities" balance sheet item the discounted value of the liability the Company undertook to pay according to this long-term agreement.

20. OTHER FINANCIAL ASSETS

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

Investment description	Country	Share-part	31 December 2017	Share-part	31 December 2018
		%	RON	%	RON
CERTIND SA	Romania	7.50	14,400	7.5	14,400
Sustainable development partnership	Romania	7.14	1,000	7.14	1,000
Tera Tools SRL	Romania	24	72	24	72
		-	**15,472**	**-**	**15,472**

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.

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

21. INVENTORIES

	31 December 2017	31 December 2018
Finished goods	30,331,734	33,944,576
Raw materials	27,149,418	19,563,702
Commodities	5,387,789	8,365,253
Consumables	1,898,915	2,323,890
Inventory items	97,842	86,253
Semi-finished goods	711,610	2,561,593
Residual products	285,829	894,626
Goods to be purchased	1,212,587	3,539,791
Packaging	135,858	1,013,849
Inventories – gross value	**67,211,581**	**72,293,532**
Value adjustments on raw materials and materials	(1,278,499)	(1,557,006)
Value adjustments for finished products	(3,957,165)	(4,022,478)
Value adjustments for commodities	(845,511)	(864,771)
Total	**61,130,406**	**65,849,277**

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 probability to use them in the future. The categories of inventories with no movements in the past year are depreciated in full.

The Company inventories are pledged in favor of financing banks.

22. TRADE AND OTHER RECEIVABLES

		liquidity term	
	31 December 2017	below 1 year	above 1 year
Trade receivables	59,462,275	59,462,275	-
Advances paid to suppliers of non-current assets	2,153,666	2,153,666	-
Advances paid to suppliers of inventories and services	2,684,589	2,684,589	-
Loans granted to subsidiaries (Note 30)	30,519,491	5,483,751	25,035,740
Other receivables from affiliates (Note 30)	8,332,252	4,611,154	3,721,097
Other receivables	11,565,408	942,274	10,623,134
Adjustments for trade and other receivables impairment	(12,111,748)	(12,111,748)	-
Total	**102,605,932**	**63,225,961**	**39,379,971**

		liquidity term	
	31 December 2018	below 1 year	above 1 year
Trade receivables	77,308,377	77,308,377	-
Advances paid to suppliers of non-current assets	6,306,541	6,306,541	-
Advances paid to suppliers of inventories and services	738,596	738,596	-
Loans granted to subsidiaries (Note 30)	31,983,744	11,162,418	20,820,982
Other receivables from affiliates (Note 30)	18,888,061	16,855,058	2,033,003
Other receivables	1,700,549	1,125,219	575,330
Adjustments for trade and other receivables impairment	(11,711,451)	(11,711,451)	-
Total	**125,614,417**	**102,185,102**	**23,429,315**

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

22. TRADE AND OTHER RECEIVABLES (continued)

Trade receivables and advances paid to suppliers of inventories and services presented above also include the following:

- Trade receivables towards affiliates and other related parties amounting to RON 3,402,742 (2017: RON 4,062,481);
- Advances paid to affiliates amounting to RON 6,260 (2017: RON 1,680,672);

The "Other receivables from affiliates" line presented above also includes the receivable concerning dividends to be received from Terasteel amounting to RON 12,243,903 (2017: RON 0).

For further details concerning the balances to affiliates and other related parties, see Note 30.

As of 31 December 2017, the long-term portion of other receivables represents advance payments for the purchase of the capital shares in Depaco (Note 18).

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

	Trade receivables	Other receivables
1 January 2018, according to IAS 39	**11,864,249**	**247,499**
(Revenue) / expense in profit and loss	(677,555)	77,258
Net revaluation of expected losses from receivables	200,000	-
31 December 2018	**11,386,694**	**423,750**

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, but they are not related to each other.

The Company receivables are pledged in favor of the banks.

23. SHARE CAPITAL AND RESERVES

	31 December 2017	31 December 2018
Share capital called-up and paid in full	85,691,097	107,024,527
Total	**85,691,097**	**107,024,527**

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

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

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

23. SHARE CAPITAL AND RESERVES (continued)

On 3 March 2017, the Financial Supervisory Authority has issued the Security Registration Certificate no. AC-3420-5/3.07.2017 related to the share capital increase approved through the decision of the Shareholders' General Extraordinary Meeting of Teraplast SA no. 1 from 27 April 2017, with the amount of RON 29,047,831, through the issuance of 290,478,310 new shares, having a nominal value of RON 0.1 / share.

Shareholding structure

	31 December 2018		31 December 2017	
	Number of shares	% ownership	Number of shares	% ownership
Goia Dorel	501,197,059	46.83	400,957,648	46.79
Viciu Emanoil	39,447,752	3.69	38,004,202	4.44
Marley Magyarorszag (Gemencplast Szekszard)	84,858,730	7.93	67,886,984	7.92
KJK BALKAN HOLDING S.a.r.l.	107,530,688	10.05	-	-
KJK Fund II Sicav-SIF	-	-	86,024,551	10.04
FONDUL DE PENSII ADMINISTRAT PRIVAT NN/NN PENSII S.A.F.P.A.P. S.A.	71,305,117	6.66	57,044,094	6.66
LCS IMOBILIAR SA	38,619,285	3.61	27,222,044	3.18
Other natural persons and legal entities	227,286,643	21.24	179,771,447	20.98
Total	**1,070,245,274**	**100**	**856,910,970**	**100**

Treasury shares

	thousand	RON
As of 31 December 2017	**1,663**	**663,396**
Repurchase of own shares	1,908	809,529
As of 31 December 2018	**3,571**	**1,472,925**

The benefits in the form of shares granted in each year were settled using the Company's treasury shares. The reduction of the equity component represented by treasury shares is equal to the cost incurred to purchase the shares. Any surplus between the cash received from employees and the reduction of treasury shares is registered in retained earnings. In 2018, the Company did not grant shares to the shareholders.

For further details related to share-based benefits see Note 33.

24. LEGAL RESERVE

	31 December 2017	31 December 2018
Opening balance	7,737,863	8,399,015
Set during the period	661,152	1,500,532
Total	**8,399,015**	**9,899,547**

According to the Romanian legislation, the legal reserve set during the year 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.

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

25. LOANS AND FINANCE LEASE LIABILITIES

	Short-term		Long-term	
	31 December 2017	**31 December 2018**	**31 December 2017**	**31 December 2018**
Investment loans	12,764,124	16,649,550	73,084,383	67,218,258
Credit line	29,711,604	42,299,345	-	-
Lease liabilities	679,748	265,121	413,632	764,442
Total	**43,155,476**	**59,214,016**	**73,498,015**	**67,982,699**

Bank loans are classified as follows:

	Short-term		Long-term	
	31 December 2017	**31 December 2018**	**31 December 2017**	**31 December 2018**
Banca Transilvania	38,707,362	44,709,280	73,076,991	67,218,258
Porsche Bank	26,443	-	7,392	-
Raiffeisen Bank-	3,741,922	14,239,615	-	-
Leasing	679,749	265,121	413,633	764,442
Total	**43,155,476**	**59,214,016**	**73,498,015**	**67,982,699**

Through the financing loans concluded with Banca Transilvania, the Company undertook to meet the following financial ratios, computed based on the consolidated financial statements as of 31 December 2018:

- Indebtedness degree (total financial liabilities/ adjusted EBITDA) of 3.75 at most, computed based on the consolidated IFRS financial statements;
- Debt service (DSCR), computed as EBITDA realized at consolidated level – income tax for the period – dividends declared to be distributed outside the Group in the year when the verification is made – CAPEX at Group level estimated to be covered from own sources in the year when the verification is made/DS (debt service) of at least 1.2 (DS = the current portion of financial banking and non-banking liabilities);
- Current rate of at least 1.2 (at consolidated level);
- Equity rate (equity / total assets) of at least 35% (at consolidated level);

As of 31 December 2018 and 31 December 2017, the Company's consolidated indicators were within the limits of these financial ratios and the other obligations committed towards the financing banks.

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

25. LOANS AND FINANCE LEASE LIABILITIES (continued)

Bank loans as of 31 December 2018 and, respectively, 31 December 2017 are the following:

Financing bank	Financing type	Date granted	Currency	Maximum amount granted	On balance as of 31 December 2017		On balance as of 31 December 2018		Short-term as of 31 December 2018	Long-term as of 31 December 2018	Period
					in contract currency	RON equivalent	in contract currency	RON equivalent			
BANCA TRANSILVANIA	working capital	07.06.2017	RON	41,200,000	25,969,682	25,969,682	28,059,730	28,059,730	28,059,730	-	12 MONTHS
BANCA TRANSILVANIA	investments	20.04.2017	RON	27,500,000	12,043,485	12,043,485	15,035,639	15,035,639	2,769,495	12,266,144	84 MONTHS
BANCA TRANSILVANIA	investments	07.06.2017	RON	32,900,000	32,900,000	32,900,000	28,200,000	28,200,000	4,700,000	23,500,000	84 MONTHS
BANCA TRANSILVANIA	investments	19.07.2017	RON	15,663,934	15,663,934	15,663,934	14,411,254	14,411,254	2,663,304	11,747,950	84 MONTHS
BANCA TRANSILVANIA	investments	24.07.2017	RON	4,630,000	4,644,469	4,644,469	3,824,857	3,824,857	1,101,327	2,723,529	60 MONTHS
BANCA TRANSILVANIA	investments	31.07.2017	RON	11,885,363	10,730,255	10,730,255	8,345,754	8,345,754	2,403,072	5,942,682	60 MONTHS
BANCA TRANSILVANIA	investments	07.11.2017	RON	9,775,000	9,832,529	9,832,529	7,820,000	7,820,000	1,955,000	5,865,000	60 MONTHS
RAIFFEISEN	working capital	01.07.2017	RON	19,000,000	3,741,922	3,741,922	14,239,615	14,239,615	14,239,615	-	12 MONTHS
PORSCHE	investments	04.04.2018	RON	6,392,000	-	-	6,230,304	6,230,304	1,057,351	5,172,953	48 MONTHS
PORSCHE	investments	31.03.2015	RON	111,596	33,835	33,835	-	-	-	-	48 MONTHS
TOTAL				**-**	**115,560,110**	**115,560,110**	**126,167,153**	**126,167,153**	**58,948,895**	**67,218,258**	

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

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 2017	31 December 2018	31 December 2017	31 December 2018
Present value of minimum lease payments	-	-	-	-
Amounts payable in one year	702,642	309,143	679,749	265,121
More than one year but less than five years	441,246	829,902	413,633	764,442
Total lease liabilities	**1,143,888**	**1,139,045**	**1,093,382**	**1,029,562**
Minus future financial expenses	50,506	109,483	-	-

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

	2017	2018
Short-term loans	RON 679,749	RON 265,121
Long-term loans	RON 413,633	RON 764,442

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 discount rate is the interest rate curve of the RON interest, without adjustments, as provided by EIOPA in December 2018. Future salary increases are estimated on the long term at 0.5% and, in the first 6 years, at 1% for the remainder.

The latest actuarial valuations were performed on 31 December 2018 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 2018, the Company set provisions amounting to RON 371,860 (2017: RON 20,169) related to the rights to compensate employees, based on the actuarial calculation, for the amounts granted to the employees on retirement; these amounts are provided under the collective labor agreement.

Employee benefits	31 December 2017	31 December 2018
Opening balance	238,738	258,907
(Decreases) / increases	20,169	371,860
Closing balance	**258,907**	**630,767**

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

27. PROVISIONS

		Movements			
	1 January 2017	**Reversal of provision not used**	**Reversal of provision used**	**Provision in addition**	**31 December 2017**
Provisions for environmental expenses	1,803,508	(1,483,599)	-	39,958	359,867
Provisions for litigation	557,711	(547,711)	-	-	10,000
Other provisions	401,130	(155,061)	-	25,774	271,843
Closing balance	**2,762,349**	**(2,186,370)**	**-**	**65,732**	**641,710**

		Movements			
	1 January 2018	**Reversal of provision not used**	**Reversal of provision used**	**Provision in addition**	**31 December 2018**
Provisions for environmental expenses	359,867		-	35,487	395,354
Provisions for litigation	10,000	(10,000)	-	-	-
Other provisions	271,844	(256,964)	-	-	14,880
Closing balance	**641,711**	**(266,964)**	**-**	**35,487**	**410,234**

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

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

28. TRADE AND SIMILAR LIABILITIES

	31 December 2017	**31 December 2018**
Trade payables	35,625,473	49,646,145
Trade notes payable	300,981	237,279
Liabilities from the purchase of long-term assets	2,130,986	1,429,820
Contractual liabilities	373,289	697,527
Other payables	3,648,120	28,066,867
Total	**42,078,849**	**80,077,639**

Contractual liabilities reflect the Company's obligation to transfer goods or services to a customer from whom it received the equivalent value of the goods/services or from whom the amount receivable is due.

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

28. TRADE AND SIMILAR LIABILITIES (continued)

Other payables	31 December 2017	31 December 2018
Salary-related payables to employees and social security payables	2,119,633	3,906,484
VAT payable	679,547	743,890
Unclaimed employee rights	87,930	87,706
Sundry creditors	205,801	22,933,427
Dividends	159,296	235,149
Commercial guarantees received	106,579	106,579
Other taxes payable	289,334	53,632
Total	**3,648,120**	**28,066,867**

The significant increase of "Sundry debtors" results from the liability related to the transfer of the Politub business which will be settled in June 2019 (in 2017, it was presented under "Long-term liabilities", see Note 14).

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), operating risks and legal risks. The main objectives of the financial risk management activity are to determine the risk limits and then to ensure that the exposure to risks is maintained between these limits. The management of operating and legal risks is aimed at guaranteeing the good functioning of the internal policies and procedures for minimizing operating and legal risks.

(a) Capital risks management

The Company manages its capital to ensure the going concern principle and, at the same time, maximize revenues for the shareholders, by optimizing the balance of liabilities and equity.

The structure of the Company's capital consists of liabilities, which include the loans presented in note 25 (these loans include bank loans and finance lease liabilities), cash and cash equivalents and equity belonging to the parent-entity equity holders. Equity includes share capital, reserves and retained earnings, as presented in notes 23 and 24.

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

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

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

29. FINANCIAL INSTRUMENTS (continued)

The degree of indebtedness as at 31 December 2017 and 2018 was as follows:

	2017	2018
Total loans	116,653,492	127,196,715
Cash	(4,564,912)	(9,774,157)
Net debt	112,088,580	117,422,558
Total equities	**190,645,995**	**209,082,355**
Total equity and net debt	**302,734,575**	**326,999,575**
Gearing ratio	**37%**	**36%**

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 current 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 requirements and needed no share capital increase as at 31 December 2018 and 31 December 2017.

(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.

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, trade receivables and payables with foreign partners, and denominated in EUR at the end of the year.

	31 December 2017		**31 December 2018**	
	RON	**RON**	**RON**	**RON**
Profit or (loss)	503,092	(503,092)	1,938,335	(1,938,335)

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

(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 it borrows funds both at fixed, and at floating interest rates. The risk is managed by the Company by maintaining a favorable balance between fixed rate and floating rate interest loans.

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

As at 31 December 2018 and, respectively, 31 December 2017, 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.

	31 December 2017		**31 December 2018**	
Profit or (loss)	1,166,535	(1,166,535)	1,270,397	(1,270,397)

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, a credit insurance is concluded.

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

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

The Company considers the exposure to the credit risk in relation to a counterparty or a 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 carrying amounts represent the maximum exposure of the Company to the credit risk related to the existing receivables.

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

29. FINANCIAL INSTRUMENTS (continued)

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

	31 December 2017 RON	31 December 2018 RON
Not payable	58,724,965	95,678,136
Overdue, but not impaired	4,500,996	6,506,966
Impaired and provisioned in full	12,061,266	11,711,451
Total	**75,287,227**	**113,896,553**
Overdue, but not impaired		
Below 3 months	1,853,832	5,668,564
3 to 6 months	377,518	78,689
6 to 9 months	436,930	572,897
Above 9 months	1,832,716	186,815
Total	**4,500,996**	**6,506,965**
Impaired and provisioned in full		
Below 6 months	245,735	306,590
6 to 12 months	1,370,420	484,532
Above 12 months	10,445,111	10,920,329
Total	**12,061,266**	**11,711,451**

Receivables overdue for more than 9 months, but not impaired, are insured and the collection procedure is in progress.

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.

2017	Below 1 month	1-3 months	3 months to 1 year	1-3 years	3 - 5 years	Total
Non-interest bearing						
Trade payables and other liabilities	(18,888,469)	(22,259,861)	(930,519)	(21,805,000)	-	**(63,883,866)**
Interest-bearing instruments						
Short and long-term loans	(215,648)	(819,945)	(42,111,929)	(44,386,033)	(29,119,937)	**(116,653,492)**
Future interest	(303,414)	(712,849)	(3,003,405)	(6,058,267)	(3,143,126)	**(13,221,061)**
Non-interest bearing						
Cash and cash equivalents	4,564,912	-	-	-	-	**4,564,912**
Receivables	24,866,110	25,815,640	9,571,997	2,922,772	49,442	**63,225,961**

2018	Below 1 month	1-3 months	3 months to 1 year	1-3 years	3 - 5 years	Over 5 years	Total
Non-interest bearing							
Trade payables and other liabilities	(25,168,669)	(30,844,540)	(24,061,511)	(49,022,037)	-	-	**(129,099,676)**
Interest-bearing instruments							
Short and long-term loans	(48,036)	(2,427,158)	(56,577,780)	(47,757,747)	(19,543,459)	-	**(127,196,715)**
Future interest	(354,430)	(1,009,405)	(2,604,516)	(5,788,127)	(987,280)	-	**(10,743,760)**
Non-interest bearing							
Cash and cash equivalents	9,774,157	-	-	-	-	-	**9,774,157**
Receivables	48,111,080	34,967,837	19,106,186	-	-	-	**102,185,102**

30. RELATED-PARTY TRANSACTIONS

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

31 December 2017

Subsidiaries and jointly controlled entities

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

Related entities (shareholding/joint decision-maker)

ACI Cluj SA Romania
Ferma Pomicola Dragu SRL Romania
La Casa Ristorante Pizzeria Pane Dolce SA Romania
Omniconstruct SA Romania
Magis Investment SRL
Ischia Invest SRL
Ischia Activholding SRL
Info sport SRL
Agrolegumicola Dragu SRL
New Croco Pizzerie SRL
Parcserv SRL
Ditovis Impex SRL Romania
RSL Capital Advisors SRL
KJK Caramida SRL.
Eurohold AD
Compet SA
Mundus Services AD
Cetus Capital SRL

31 December 2018

Subsidiaries

Teraglass Bistrita SRL
Terasteel SA
Politub SA
Teraplast Logistic SRL
Teraplast Hungaria Kft
Depaco SRL
Terasteel Doo Serbia

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

30. RELATED-PARTY TRANSACTIONS (continued)

Related entities (shareholding/joint decision-maker)

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

Transactions and balances with related parties	31 December 2017	31 December 2018
Sales of goods and services	9,311	22,084
Purchases of goods and services	194,336	136,033
Debit balances	6,090	20,900
Credit balances	40,332	15,572

Transactions and balances with affiliates	31 December 2017	31 December 2018
	RON	RON
Sales of goods and services	9,695,646	9,984,905
Re-invoice	1,720,744	994,347
Politub business line transfer (Note 14)	24,714,081	-
Purchases of goods and services	20,089,215	18,264,011
Purchases of fixed assets	902,458	339,322
Debit balances current activity	5,731,273	3,425,634
Debit balances from the insulation joinery line	5,430,264	3,742,170
Debit balances – polyethylene pipes business line transfer (Note 14)	2,901,988	2,901,988
Debit balances related to dividends receivable	-	12,243,903
Credit balances current activity	1,374,846	262,973
Credit balances from the polyethylene pipes business line transfer (note 14)	21,805,000	22,888,013
Affiliates borrowing balance	30,519,491	31,983,744

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

30. RELATED-PARTY TRANSACTIONS (continued)

The price for selling the insulation joinery line to Teraglass Bistrita amounted to RON 9,181,000 and the account balance as of 31 December 2018 is RON 3,742,170 which will be collected by the Company in monthly installments until April 2021. The long-term portion (RON 2,033,003) is disclosed under non-current asset receivables and the short-term portion (RON 1,709,167) is disclosed as trade and other receivables.

Loans granted to affiliates

During 2018, loan contracts granted by the Company to the below subsidiaries and associates were in force:

a) Terasteel Doo: a loan for the maximum amount of EUR 6.25 million, the due date being December 2024;
b) Teraplast Logistic SRL: a loan amounting to RON 0.4 million, paid in full by the end of 2018;
c) Teraplast Hungaria: addendum to the loan contract from 2017 amounting to EUR 0.2 million, amending the due date into 21 February 2019.

The loan granted to Terasteel Doo has the purpose to fund a purchase of buildings and equipment to manufacture polyurethane foam core sandwich panels. The loan is not guaranteed and it can be reimbursed in quarterly installments until December 2024. A 4.25% interest is applied.

Interest income related to loans granted to affiliates in 2018 have amounted to RON 1,284,780 (2017: RON 541,610).

Compensations to the members of senior management

The remuneration of the directors, other members of senior management and executive personnel amounts to RON 3,945,582 (2017: RON 3,122,718) is determined by the shareholders, according to the persons' performance and market 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.

	31 December 2017	31 December 2018
Profit attributable to the Company shareholders	14,115,945	30,034,429
Average number of shares	699,701,558	868,046,555
Earnings per share	**0.0237**	**0.0346**

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

(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:

	31 December 2017	31 December 2018
Cash in bank	4,508,739	9,680,354
Cash on hand	38,490	54,307
Cash equivalents	17,683	39,496
Total	**4,564,912**	**9,774,157**

The Company's cash and cash equivalents are pledged in favor of the financing banks.

33. SHARE-BASED PAYMENT

During 2015, the Company decided to implement a „stock compensation plan" type of remuneration for those employees having a significant contribution to the results of 2015, who will be distributed shares, as part of the General Share Options Plan (GSPO). As a result, the amount RON 950,500 was going to be settled in shares and was included in the reserve of share-based benefits as at 31 December 2015. The total value of the performance bonus for 2015 was RON 1,328,000.

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

In May 2016, a part of this program was carried out and 840,947 shares amounting to RON 499,520 have been issued, the value of the shares at the purchase price being of RON 478,247 (RON 0.56 price / share).

In February 2017, the repurchase and the awarding of a total number of 1,159,053 shares related to the 2015 plan was finalized, the value of the shares at purchase price being RON 512,707.

In November 2017, through the BD decision, the commencement of a new „stock compensation plan" type of program was approved. In 2017, no benefits in the form of shares were given to the Teraplast employees related to this plan.

In December 2018, an amount of RON 552,925 representing benefits granted to employees in the form of own shares within Teraplast SA was registered in Teraplast, which will be settled at a subsequent date.

34. COMMITMENTS AND CONTINGENT LIABILITIES

The Company has a ceiling contract for bank letters of guarantee amounting to RON 1,750,000. Within the ceiling, as of 31 December 2018, a good performance bank letter of guarantee is in force in favor of ROMPETROL DOWNSTREAM amounting to RON 400,000 valid between 28 June 2018 and 28 June 2019.

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

34. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

As of 31 December 2018, tangible assets and investment properties, in a net carrying amount of RON 56,463,119, are set as a security for credits and credit lines. For the loans from banks, the Company guaranteed by means of all current and future cash, the merchandise and product inventories, either current or future, and assigned the current and future rights of debt, and their accessories arising from current and future contracts with its clients, 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.

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

In 2017, the Company has granted to Banca Transilvania a guarantee through which it answers jointly with Terasteel SA for the reimbursement of the loans having a balance of RON 44,269,500, which Terasteel has contracted from Banca Transilvania.

As of 31 December 2018, the Company has unused credit facilities amounting to RON 18,794,869 and unused investment loans of RON 0 (as of 31 December 2017: RON 30,488,396 and investment loans not used amounting to RON 15,493,535).

The Company signed in November 2018 a financing agreement for an investment project of RON 28,987 thousand, within the State aid scheme for stimulating investments having a major impact on the economy, 50% of the project value is funded through state aid. The Teraplast SA project aims at offering a new product in the granules field and endowing a line which will allow extending the production capacity of the polypropylene systems.

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

Potential tax liabilities

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

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

Environmental matters

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

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

34. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Transfer pricing

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

Auditor fees

During 2018, Ernst & Young Assurance Services SRL had a contractual fee for the statutory audit of EUR 73,200 (for the statutory audit of the separate and consolidated annual financial statements of the Company and of its subsidiaries and associates). The services contracted with the statutory auditor, other than the audit services, amounted to EUR 1,500, representing fees for services other than assurance services, which are not forbidden by Article 5(1) of the Regulation (EU) No. 537/2014 of the European Parliament and of the Council.

35. EVENTS AFTER THE BALANCE SHEET DATE

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

These separate financial statements were approved by the Board of Directors on 21 March 2019.

Alexandru Stanean	**Ioana Birta**
CEO	CFO
______________________	______________________

The Board of Directors report on the stand alone financial statements of Teraplast SA for 2018

Headquarters: Saratel village, Sieu-Magherus commune, DN 15A, km 45 + 500, Bistrita-Nasaud county

Sole registration number at the Trade Register Office:3094980

Trade Register No:J06/735/1992

Regulated market on which the issued shares are traded: Bucharest Stock ExchangeSubscribed and paid share capital: RON 107,024,527Main features of securities issued by the trading company: 1,070,245,274 nominative shares with a nominal value of RON 0.1/share

The Board of Directors of Teraplast SA, appointed by the General Meeting of Shareholders, has drawn up for fiscal year 2018 this report on the balance sheet, profit and loss statement, statement of changes in shareholders' equity, cash flow statement and accounting policy, as well as explanatory notes included in the 2018 individual financial statements.

These financial statements are submitted along with the Audit Report and this Directors Report and refer to:

Equity	**RON 209,082 thousands**
Turnover	**RON 301,467 thousands**
Net result – profit	**RON 30,034 thousands**

Our company is submitting financial statements drawn up in accordance with Ordinance no. 2844/2016 for the approval of accounting Regulations compliant with the International Financial Reporting Standards, applicable to trading companies whose securities are admitted to trading on a regulated market, with any subsequent amendments and clarifications.

The Company's financial statements have been audited by the independent auditor Ernst & Young Assurance Services SRL, who issued an unqualified opinion.

Content

About TeraPlast

The history of TeraPlast started in 1896, with the ceramic tile production workshop in Bistrita. Today, in over 12 decades, the TeraPlast Group is one of the world's leading manufacturers of building materials. These achievements are the natural result of more than a century of continuous development and innovation, all done for one objective: providing efficient solutions for people and the environment.

As of 2 July 2008, TeraPlast SA – has been listed on the Bucharest Stock Exchange under the symbol TRP. TeraPlast shares are covered by BET-BK, BET-XT, BET-XT-TR si BET-Plus index range.

Today, TeraPlast is operating in TeraPlast Industrial Park, with an area of over 200,000 square meters.

The product portfolio of TeraPlast SA is structured on three business lines:
• PVC, polyethylene and polypropylene installations
• PVC joinery Profiles
• Plasticized and rigid granules

Starting 2018, the company started its activity in the recycling section of rigid PVC waste. The department has an annual processing capacity of 12,000 tons.

Installations

The Installations business line includes external sewage systems, internal sewage, water and gas transport and distribution, rainwater and domestic water management, telecommunication, electrical networks, individual utilities connections.
TeraPlast is the leader of the PVC pipe market and the second player on the Romanian market.

According to the sustainable development strategy "Romania 2025", the total investment needs for the rehabilitation of the public water supply and sewerage infrastructure are 12.5 billion euros, and the annual average of the required investments is 625 million euros per year. As regards the connection of the population to water and sewage, in 2017 in Romania, 50.8% of the resident population is connected to the sewage systems, while the percentage of connection to the resident population of the sewage systems provided with sewage treatment plants is 49.4%.

For 2014-2020, € 11 billion was earmarked under the POEM. Of this amount, payments totaled 2.3 billion euros to date and contracts worth 9.7 billion euros were signed. In this context, demand is expected to increase over the next 2 years as a result of reaching the execution stage of these projects.

TeraPlast constantly invests in developing the solutions it offers. This implies obtaining systems with functionalities that meet the needs of the clients, but also responsible development - one of the main directions of the Society in this area. In 2018, Politub PE-100RC launched the latest generation polyethylene, which provides a lifetime of up to 100 years, ease of installation and superior properties.

The Group also envisages investments in product categories that do not address the infrastructure market within the development strategy. For example, under the state aid scheme, TeraPlast is investing in a new technique for the production of polypropylene sewer pipes. These are a superior quality alternative to PVC pipes and, following the investment, the company will offer multilayer polypropylene pipes for indoor sewerage.

Joinery profiles

The joinery profiles business line serves over 200 clients producing thermal insulating joinery. On the domestic market, the best-selling system is the 4-room, while for export the demand is predominant for 6 and 7-room systems.

Starting 2019, TeraPlast offers a new range of joinery profiles with a new co-extruded gasket that offers superior thermal and sound insulation as well as new glaze variants for the existing range of systems.

Granules

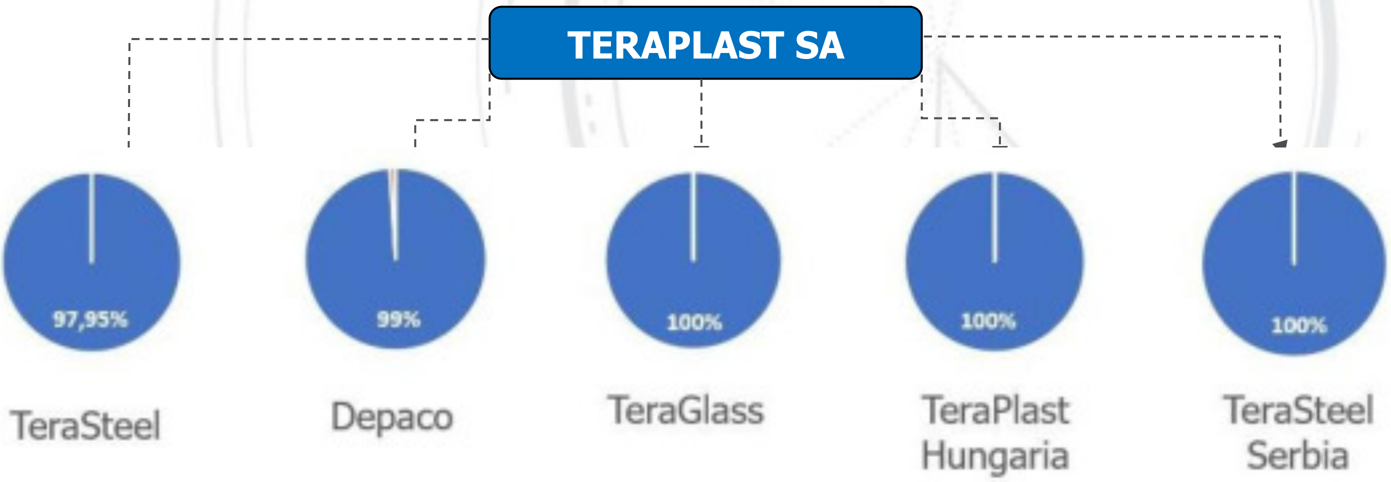
With a market share of more than 34%, TeraPlast is the leader in the granular market in Romania and the main supplier of PVC granules for the cable industry in Romania. The portfolio includes plasticized granules and rigid granules, with applications in the extrusion and injection industry.

The state aid project through which TeraPlast SA invests a total of EUR 6.2 million also targets this line of business. As a result of the investment, the company will bring an innovation on the Romanian grain market - halogen-free, fire resistant granules (HFFR).

Financial investments

On 31 December 2018 and 31 December 2017, the Company holds investments as follows:

Subsidiary	Country	Participation quota	31 December 2017	Participation quota	31 December 2018
		%	RON	%	RON
Terasteel S.A. Bistrita	Romania	97.95%	10,960,083	97.95%	10,960,083
Teraglass Bistrita SRL	Romania	100%	50,000	100%	50,000
Politub SA	Romania	99.99%	11,677,250	99.99%	11,677,250
Teraplast Logistic SRL	Romania	99%	990	99%	990
Teraplast Hungaria	Hungary	100%	43,167	100%	43,167
Depaco SRL	Romania	50%	39.246.960	99%	105,081,832
Terasteel DOO Serbia	Serbia	100%	45,271	100%	45,271
		-	**62,023,806**	-	**127,858,650**



Company`s results

Profit and loss account (RON thousand)	2017	2018
Net turnover	227,366	301,467
Operating result	6,508	2,371
Net profit	14,116	30,034

From the increase in **turnover**, RON 37,730 thousand was generated by the polyethylene systems, through the Politub brand, business taken over by the Group starting January 2018;

The company recorded an organic growth of plant segments and granules.

Over 90% of the Company sales are on the domestic market. Teraplast has a sales system that includes its own network of rented or owned storehouses opened in: Otopeni, Brasov, Oradea, Deva, Piatra-Neamt and Iasi, as well as partnerships with the distributors, construction companies, plasticized and rigid PVC processors, as well as with the manufacturers of doors and windows all over the country, roof carpenters.

Considering that Teraplast operates on construction materials market, seasonality is a major factor in the monthly evolution of sales. In these circumstances, the peak activity covers about 6 months (May to October). The distribution policy targets mainly specialist customers in the installation and construction fields, and the distribution channels are:

- Sales through distributors and resellers (internal market and partially exports);
- Sales by specialized networks (DIY) (internal market and exports);
- Sales to general contractors and constructors (tenders for infrastructure projects);
- Direct sales to cable manufacturers or other profiles (internal market and exports);

The Group has a maximum exposure of 7.05 % of the turnover for the largest client. During 2018, the weight of receivables for one client did not exceed 1.09% of the turnover.

In 2018, Teraplast SA received dividends from Terasteel SA in the amount of RON 32,813,658 (2017: RON 9,166,726).

Company`s results (continued)

Expenses:

Expenses (RON thousand)	**2017**	**2018**
Costs with raw materials, used consumables and goods		
Costs with raw materials	131,727	176,018
Costs with consumables	8,788	12,375
Costs with goods	22,246	29,748
Used packaging	593	906
TOTAL	**163,354**	**219,047**
Employee entitlement expenses		
Wages	16,444	28,089
Contributions to the government social security fund	3,789	630
Other salary taxes and contributions	251	369
Meal tickets	965	1,442
TOTAL	**21,450**	**30,530**
Other expenses		
Transport	8,479	13,174
Electricity	4,987	8,040
Third party services	8,223	8,423
Compensations, fines and penalties ,	24	2
Entertainment, promotion and advertising expenses ,	1,143	1,635
Other general expenses	1,742	1,092
Other taxes and charges	980	1,163
Repairs	768	1,399
Travel	340	437
Rents	636	1,304
Mail and telecommunication expenses	304	331
Insurance premiums	643	1,024
TOTAL	**28,271**	**38,024**

The value of fixed assets as of 31 December 2018 amounted to RON 289 mio, RON 44 mio higher than the value registered at the beginning of the year. The main investments and asset disposals were:

• RON 49 mil - the additional participation of 32% in Depaco according to the bilateral promise of November 2017;

• RON 15 mil - investments for maintenance, equipment for rotoform products and recycling department

• RON 1.3 mil - decrease in the “Investment Properties” balance sheet position as a result of the sale of the space in Galati and the financial revaluation of December 2018;

The company's **own capital** increased in the financial year 2018 compared to 2017 by RON 18,436 thousand.

The **legal reserve** is RON 9,919 thousand and represents 9.27% of the share capital.

The **total debts** of the Company increased by RON 75,107 thousand, mainly due to the increase in trade and other payables (by RON 65,216 thousand, of which RON 49,022 thousand in connection with the bilateral promise with the minority shareholders of Depaco SRL) and the increase in liabilities from short-term loans and lines of credit (by RON 16,059 thousand).

Production capacity of the Group

The **PVC plant** has a processing capacity of 50 thousand tons / year.
• 4 dosing / mixing plants, 100% automatic;

• 6 PVC pipe extrusion lines for indoor and outdoor sewers as well as for water supply;

• 14 PVC profile extrusion lines;

• 4 granulators for the production of plasticized granules (especially for the production of electric cables) and rigid (for the production of fittings or other injected parts;

The **Polyolefine Factory** has a production capacity of 2,500 tons / year of extruded, injected and rotoformed polyethylene, polypropylene and PVC products, for internal sewage, external sewerage (fireplaces and some fittings), water supply (bins), liquid storage (tanks) as well as water treatment solutions (septic tanks, purification micro-plants) and comprises:

• 7 injection machines for the production of PP and PVC fittings

• 1 line of polypropylene pipe;

• 1 rotoforming machine;

The **Polyethylene pipe factory**, with a production capacity of 12,000 t / y, produces high density polyethylene pipes for transmission and distribution networks of water, natural gas, but also for telecommunication, sewerage or irrigation, as well as polyethylene pipes of medium and high density with structured walls.

• 5 lines of pressure pipe extrusion for water and gas feeds;

• 1 line for corrugated pipe production for sewerage and cable protection.

In November 2017, the Company set up a complex PVC recycling facility both post-industrial and post-consumer with an automatic sorting cycle, grinding washing and color separation of recycled materials with a processing capacity of over 10,000 tons / year , thus entering the top 10 rigid PVC recyclers at European level.

The Group's employees

During 2018, the employees' structure was as follows:

	2017	2018
Directors	2	2
Managers	16	15
Administrative staff	87	104
Production staff	213	280
Total	**318**	**401**

According to the applicable collective agreement, Group's minimum pay rates are above the national minimum wage. Teraplast group aims to hire and retain the best professionals in the labor market, so as to continuously improve operations and create added value.

The HR strategy is integrated into the business strategy and aims to respond to the requirements of business objectives through actions on human resources field such as organization, recruitment and selection, performance, and development. In this respect, the Group has specific internal procedures for each of these stages.

Guidelines for policy implementation are:

- recruiting and employing staff based on competencies;

- quick integration of new employees;

- developing adequate training and improvement programs with the objectives of each organization in the Company;

- developing incentive plans designed to encourage efficient achievements with reduced costs;

- elaboration of non-financial stimulation systems;

- development of career programs and succession plans;

- the standardization of human resources policies at the TeraPlast Group level.

We aim to provide a trained and motivated workforce that contributes, by continually improving individual and team performance, to achieving the goals of the group companies. We know that each member of the team is important and can bring added value to the group, which is why we are trying to always have the right person in the right place.

Our values are: quality, seriousness, performance. These values have been embedded in our organizational culture and have been incorporated into the ongoing improvements of group companies.

The Group's employees (continued)

The human resources policy focuses on the following directions:

- ensuring the needed trained personnel in the context of competition resulting from the free movement of labor within the European Community area and achieving a balanced distribution of human resources at group level;

- increasing the level of professional competence of the employees;

- Strengthening its own system of promoting staff with potential for performance;

- Anticipating fluctuations in staff shortages or surpluses;

- covering the operational needs of the organization through the efficient use of human resources;

- observance of the financial forecasts, respectively the sizing of the human resources at the level of the need established in the organizational chart;

The Group's responsibility towards employees means ensuring a safe and healthy work environment, offering professional and personal development opportunities, and establishing a permanent dialogue to monitor their satisfaction and expectations.

Each employee has the responsibility to maintain a safe and healthy job for all employees, following health and safety regulations and practices in work and by reporting accidents, injuries, and equipment, practices and unsafe conditions.

The main strategic directions for Occupational Health and Safety Management that TeraPlast aims and is committed to accomplish are: to continually prevent and reduce the risks of injury and occupational disease, to create the conditions necessary for the continuous improvement of the occupational health and safety performance and the involvement of all in achieving the proposed objectives.

Effective solutions for people and the environment

Responsibility towards the environment and the community in which we operate is an important part of the principles we guide our activity after. We are constantly allocating resources to identify and minimize the negative impact that our work can have on the environment and we are actively involved in the community.
Effective management of the impact that our work has on the environment means:

• Waste monitoring, recycling and keeping the percentage of waste / ton of finished product below 1%
• Maintaining under control the consumption of electricity, water and natural gas
• Monitoring environmental factors

TeraPlast has implemented and certified, at each company level, the Quality-Environment-Health and Occupational Safety Integrated Management System according to ISO 9001: 2015, ISO 14001: 2015 and OHSAS 18001: 2007.

The materialization of this responsible attitude towards sustainability is translated by the TeraPlast rigid PVC recycling unit, which has an annual processing capacity of 12,000 tons, which places us on the 1st place in Romania and in the top 10 in Europe.

In addition, the partnership with E.ON Energie at the end of 2018 requires the construction of a photovoltaic power plant, which will partially generate our own electricity, saving up to 11.45% of the total energy required today. The energy systems will be installed in the halls of TeraPlast Industrial Park and, in the long run, make it possible to reduce CO2 emissions by up to 600,000 tons per year.

Community involvement means supporting initiatives in sport, social and education areas, both locally and nationally.

Risk management

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), operating risks and legal risks. The main objectives of the financial risk management activity are to determine the risk limits and then to ensure that the exposure to risks is maintained between these limits. The management of operating and legal risks is aimed at guaranteeing the good functioning of the internal policies and procedures for minimizing operating and legal risks.

(a) Capital risks management

The Company manages its capital to ensure continuing the operating as a going concern, at the same time, maximizing revenues for the shareholders, by optimizing the balance of liabilities and equity.

The structure of the Company's capital consists of liabilities, which include the loans, cash and cash equivalents and equity belonging to the parent company. Equity includes share capital, reserves and retained earnings.

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

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

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

	2017	**2018**
Total loans	116,653,492	127,196,715
Cash	(4,564,912)	(9,774,157)
Net debt	112,088,580	117,422,558
Total equity	**190,645,995**	**209,082,355**
Total equity and net debt	**302,734,575**	**326,504,912**
Gearing ratio	**37%**	**36%**

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 has met this requirement and did not need any share capital increase as at 31 December 2018 and, respectively, 31 December 2017.

(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's 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.

Risk management (continued)

(c) Market risk

The Company's 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 exchange risk management

The Company conducts transactions in various currencies. Hence the foreign exchange risks. Exposure to foreign exchange risks is managed according to approved policies.

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, trade receivables and payables with foreign partners, and denominated in EUR at the end of the year.

	31 December 2017		**31 December 2018**	
	LEI	**LEI**	**LEI**	**LEI**
Profit or (loss)	503,092	(503,092)	1,938,335	(1,938,335)

The Company obtains revenues in EUR based on the contracts signed with foreign clients.

(e) Managing interest rate risk

The Company's interest-bearing assets, income, as well as cash flow from operating activities are exposed to fluctuations in market interest rates. The Company's interest rate risk is apparent in its bank loans. Variable interest rate loans expose the Company to the risk of cash flow from interest. The Company did not resort to any hedging operation in order to lower its exposure to interest rate risks.

The Company is permanently monitoring its exposure to interest rate risks. This includes simulation of various scenarios, including refinancing, updating of existing positions, funding alternatives. Based on such scenarios, the Company is estimating the potential impact upon the profit and loss account of fluctuations defined by the interest rate. The same interest fluctuation is used for each currency in each simulation. These scenarios are prepared only for debts representing the main interest-bearing positions.

The Company is exposed to interest rate risks, considering that it takes out both fixed-rate loans and floating-rate loans. The risk is managed by the Company by maintaining a favorable balance between the fixed-rate loans and the floating-rate loans.

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

As at 31 December 2018, in the event of a 1% increase/decrease in the interest rate on loans, with all the other variables remaining constant, the net profit for the period would fluctuate as follows, mainly as a result of the higher / lower interest expenses on floating interest loans.

	31 December 2017		**31 December 2018**	
Profit or (loss)	1,166,535	(1,166,535)	1,270,397	(1,270,397)

Risk management (continued)

(f) Other price-related risks

The Company is not exposed to risks related to its stock price resulting from equity investment. Equity investments are held for strategic purposes rather than trading purposes and are not significant. The Company does not actively trade such investment.

(g) Managing credit risk

Credit risk concerns a risk incurred by a third party's failing to comply with its contract obligations, thus causing financial losses to the Company. The Company has adopted a policy of trading only with trustworthy parties and obtaining enough guarantees, where possible, as a means to reduce risk of financial loss from failure to observe terms of contracts. The Company's exposure and Third Parties' credit ratings are monitored by the management.

Trade receivables cover a large number of customers from various industries and geographical areas. Customers' creditworthiness is constantly evaluated in terms of their financial conditions and, if appropriate, credit insurance is made.

The cash is kept in financial institutions that, at the time of deposit, are considered to have the lowest return risk. The Company's policies limit the amount of exposure for any financial institution.

The accounting value of receivables, net receivables provision plus cash and cash equivalent represent the maximum sum exposed to the credit risk. Although receivable collection could be influenced by economic factors, the Company management considers there is no significant risk of loss for the Company outside already recorded provisions.

The Company considers exposure to credit risk toward its counterparty or group of counterparties with similar features by assessing receivables individually and making depreciation adjustment along with its department of customer credit management. The Company defines the counterparties as having similar features when they are affiliates.

(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.

Risk management (continued)

(i) Fair value of financial instruments

Financial instruments in the accounting balance include trade receivables and other receivables, cash and cash equivalents, short-term loans and long-term loans and other debts, including liabilities / receivables related to derivatives. The accounting values are the maximum exposure of the Company to the credit risk related to existing receivables.

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

	31 December 2017	31 December 2018
	RON	RON
Not due	58,724,965	95,678,136
Overdue, but not impaired	4,500,996	6,506,966
Impaired and provisioned in full	12,061,266	11,711,451
Total	**75,287,227**	**113,896,553**
Overdue, but not impaired		
Below 3 months	1,853,832	5,668,564
3 to 6 months	377,518	78,689
6 to 9 months	436,930	572,897
Above 9 months	1,832,716	186,815
Total	**4,500,996**	**6,506,965**
Impaired and provisioned in full		
Below 6 months	245,735	306,590
6 to 12 months	1,370,420	484,532
Above 12 months	10,445,111	10,920,329
Total	**12,061,266**	**11,711,451**

Risk management (continued)

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

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

2017	Below 1 month	1-3 months	3 months to 1 year	1-3 years	3 - 5 years	Total
Non-interest bearing						
Trade payables and other liabilities	(18,888,469)	(22,259,861)	(930,519)	(21,805,000)	-	**(63,883,866)**
Interest-bearing instruments						
Short and long-term loans	(215,648)	(819,945)	(42,111,929)	(44,386,033)	(29,119,937)	**(116,653,492)**
Future interest	(303,414)	(712,849)	(3,003,405)	(6,058,267)	(3,143,126)	**(13,221,061)**
Non-interest bearing						
Cash and cash equivalents	4,564,912	-	-	-	-	**4,564,912**
Receivables	24,866,110	25,815,640	9,571,997	2,922,772	49,442	**63,225,961**

2018	Below 1 month	1-3 months	3 months to 1 year	1-3 years	3 - 5 years	Total
Non-interest bearing						
Trade payables and other liabilities	(25,168,669)	(30,844,540)	(24,061,511)	(49,022,037)	-	**(129,099,676)**
Interest-bearing instruments						
Short and long-term loans	(48,036)	(2,427,158)	(56,577,780)	(47,757,747)	(19,543,459)	**(127,196,715)**
Future interest	(354,430)	(1,009,405)	(2,604,516)	(5,788,127)	(987,280)	**(10,743,760)**
Non-interest bearing						
Cash and cash equivalents	9,774,157	-	-	-	-	**9,774,157**
Receivables	48,111,080	34,967,837	19,106,186	-	-	**102,185,102**

The budget for 2019

The likely evolution of the enterprise is included in the **Revenues and Expenses Budget for 2019**:

- Turnover: RON 341,907 thousand
- Operating profit: RON 13,701 thousand

Teraplast SA has planned for 2019 an investment budget of RON 69 million. These investments can be directed towards: equipment and dies, capital repairs, constructions and financial investment.

Non-financial statement

According to the legal regulation on the disclosure of non-financial information, the Group prepares and publishes a distinctive sustainability report which includes information required by the non-financial statement and which describes our initiatives regarding sustainability. The Teraplast sustainability report for 2018 will be published by 30 June 2019.

Environmental policy

We are aware of the impact that our activity and products can have on the environment. One of our goals is to mitigate the negative impact and prevent situations that can affect the environment and society. As a result, we constantly allocate resources to identify and minimize them, and we are actively involved in sustainable development.

Integrated management system

Teraplast has implemented the ISO 14001 Environmental Management System as a component of an integrated quality-environment-occupational health and safety management system. The environmental management system has been certified for the first time in Teraplast in 2009. The activities regulated by this system are maintained and continually improved, being systematically verified by internal audit and also by the certification body. Action programs are based on internal, external audits and management reviews.

Rigorous implementation of Environmental Policy

In order to fulfill the Policy, the commitment undertaken and the achievement of the environmental objectives and targets, management programs (annual or long-term) are established, which include general and specific objectives, deadlines and means of accomplishment, responsibilities and authorities designated for the relevant functions.
In order to achieve the objectives and targets, Environmental Management Plans are established and the Environmental Officer monitors the stage of their implementation during the year, according to their evolution.
When preparing Management Programs, consideration is given to introducing new technologies and to the views of stakeholders. These programs are periodically analyzed by the responsible factors to determine the stage of their implementation or are monitored directly by the Environmental Manager and brought to the attention of top management.
In the case of projects and / or developments (changes in product design, introduction of new working conditions), management programs are tailored to suit the situation and actions are set up to ensure management involvement. Changes resulting from the implementation of these projects / developments, as well as the new requirements of the applicable legal and regulatory norms, are documented so as to ensure the continued operation of the management system.

Sustainable Development

Teraplast is actively involved in the development of sustainable systems, and within the Research and Development Center, research activities are performed annually to improve the existing products and to obtain new products.
Research projects in 2017 were focused on product development aiming at obtaining higher physical and mechanical properties than existing ones and cost efficiency with raw materials. Thus, polystyrene multi-layer pipes with micronized recycled PVC were obtained from various applications. The impact of using this micronized recycled PVC is a major one, both for the environment, through its reuse in the production process and substitution of virgin PVC as well as cost optimization. Recycled PVC obtained in the form of granules was tested on the co-extruded layer of the joinery profiles.

The results obtained were positive, superior to the substituted dry-blend in which the base raw material is virgin PVC.
The research department studies recycled PVC in various compositions in order to identify new applications.
Suppliers of raw materials are also assessed from the point of view of complying with environmental requirements. We avoid the use of hazardous chemicals in the activities and in the supply chain.
All hazardous chemicals used in the activities are carefully monitored, accompanied by the Safety Data Sheet and their requirements are transposed into internal measures (allocation of special spaces, storage / handling, use, training, etc.).

Pollution prevention and control

To prevent soil contamination, all pools are properly sealed. At the same time, both the interior surfaces where the productive activities are carried out as well as part of the exterior surfaces such as the surface of the transport paths are completely concreted. The uncovered surface is partially formed of green areas. Loading and unloading of material takes place in designated areas, protected against leakage through liquid leakage or dust dispersion. In stores there are adequate quantities of absorbents suitable for controlling any accidental spillage.

Technological water is recycled to over 80% and waste water is passed through the sewage treatment plant. Wastewater quality indicators are determined quarterly.

Dangerous chemical substances and preparations are purchased in compliance with applicable legislation and only together with the safety data sheet that allows for taking all measures for environmental protection, occupational health and safety. The storage of the various dangerous chemicals and preparations is made taking into account the compatibility of the substances. The management of these substances is carried out by trained persons who know the measures to be taken in case of emergency situations.

Waste management

In the Group companies, recoverable waste (plastic waste, metal waste, paper packaging waste, cardboard, plastic packaging, wood packaging, etc.) and non-valuable waste (industrial waste, contaminated metal packaging and household waste) are generated.
The implemented environmental management system makes it necessary to minimize the quantities of waste resulting from production processes where possible. The resulting waste in the company is collected selectively and used/disposed of by authorized economic operators.
Hazardous waste sent off-site for disposal is transported only by authorized economic operators, in compliance with the legal provisions in force. Waste is transported only from the site of activity to the disposal site without adversely affecting the environment.
Waste is packaged and labeled in accordance with the laws and regulations in force for mandatory inscriptions. During collection, recovery or disposal, all waste is temporarily stored in specially designed areas and places, properly protected against dispersion in the environment. Waste is clearly labeled and separated accordingly.
The management of all categories of waste is carried out in strict compliance with the legal provisions. Waste is collected and stored temporarily by types and categories without being mixed. These are stored separately, inert and non-hazardous waste separately from the hazardous one.

Non-financial statement (continued)

The recovery of recyclable industrial waste is carried out in compliance with the provisions of Law 211/2011 and other legal provisions in force.
Reaching recycling and collection targets is done individually through contracts with authorized recycling / collection companies.

Combating corruption and bribery

Internal compliance programs in this area focus on the following directions:

- *anticompetitive practices;*
- *economic sanctions and embargoes;*
- *the fight against corruption;*
- *gift policies;*
- *conflicts of interests.*

Conflicts of interests may arise when personal interests conflict with the ability to exercise one's duties properly and efficiently. To the extent possible, relationships or activities that may affect or appear to affect the ability to make objective and fair decisions when doing business on behalf of the Company are avoided.

Sanctions and embargoes restrict transactions with certain countries, individuals and legal entities. These restrictions need to be known and analyzed before starting any transaction.
When integrating any new employee, according to the New Employee's Guide, it is clear what the Group companies are asking for the expected behaviors with respect to the issues listed above. Our employees have clearly defined limitations on the acceptance of gifts, services and benefits of any kind coming from suppliers or customers in order to facilitate commercial transactions with any of the Group's companies. They are authorized to accept or offer gifts and invitations that are appropriate in the circumstances, subject to the limitations, approvals and registration requirements defined in our internal rules. No money or equivalent gift may be offered or received.
In our business relationships with public and state institutions, our employees do not solicit or accept gifts, services, favors, invitations or any other personal benefits that may affect their impartiality in the exercise the function held. No gifts or other free gifts are given to government officials or state organ representatives, except for small-value promotional items customized with the Company's logo.

Responsible procurement policy

Procurement activity is critical to the Company's competitiveness and its ability to innovate. The main objective of the procurement activity is the complete material assurance both in terms of quantity and quality, at the time, in conditions of maximum safety and with minimal cost of material resources necessary for the development of productive activities within the Company. At the same time, the activity involves proactive management of supply chain risks in order to minimize their potential impact.
The purchasing policy within Group companies is an integral part of the overall objective of the Group, to meet customer requirements, to manage production processes efficiently and to meet the requirements of the integrated management system.
An essential role in continuously improving the quality of our products and working standards lies with our suppliers who are carefully selected for the production process.
Supplier relationships are trusted, committed to their own products, and are pursuing the development of long-term partnerships. We are constantly evaluating suppliers and applying an internal qualification and acceptance system.
Group suppliers will comply with and observe local, national and international environmental regulations. They are required to hold all the environmental permits and authorizations required to conduct the business. Suppliers will systematically manage environmental impacts, including: energy, water, waste, chemicals and air pollution.

Responsible procurement policy (continued)

Suppliers will comply with all applicable anti-corruption laws and regulations, and will have a zero tolerance policy for any form of bribery, corruption, and misappropriation. They must carry out all transactions in a transparent manner and accurately reflect them in accounting records and books.
Selecting and accepting suppliers is based on both assessing their ability to deliver products according to our requirements, as well as: quality / price ratio, certified management systems, payment options, availability on delivery, complaint handling. The evaluation process also involves auditing and visiting suppliers in terms of compliance with environmental, occupational health and safety requirements, and social responsibility.

Teraplast believes that establishing strong partnerships with suppliers ensures a positive outcome for both parties.
The Group's procurement policy is linked to the quality standards (SR EN ISO 9001), the environment (SR EN ISO 14001) and Occupational Health and Safety (SR OHSAS 18001), but it also contains specific requirements based on the Group's Code of Conduct.
This ensures the general conditions for:

- the quality of the products and services purchased
- product safety / chemicals management
- protecting the environment
- the code of conduct in the procurement activity

Supplier selection and evaluation follow their capacity for innovation, continuous improvement of processes and adaptation of environmental codes.
The procurement policy applies to all suppliers of raw materials, materials and services in the Company.
The list of approved vendors includes all procurement providers and we have ensured that they comply with legal and regulatory requirements both in Europe and in the areas in which they operate, with regard to: forced labor, child exploitation, discrimination, the environment, bribery and corruption, unfair competition, etc. Suppliers are visited before they start a collaboration, and periodically are re-evaluated to determine whether they can still meet the set requirements.

Company Management

Director`s presentation

Teraplast is managed in a unitary system by a Board of Directors composed of five members appointed by the General Meeting of Shareholders by secret vote. The length of service of the Directors is one year and the Directors can be reappointed. At the date of this Report the structure of the Board of Directors is as follows:

DOREL GOIA - Chairman
Mr. Dorel Goia is the main shareholder of Teraplast and he was elected in the in the Board of Directors in 2008.

SORIN OLARU

- Position: Independent Non-executive Director
- Occupation: economist
- Elected on the Board of Directors: 2017
- Activity: ING Bank (Treasury), Millenium Bank (Treasury& Capital Market), Cetus Capital

RĂZVAN LEFTER (RSL Capital Advisors SRL)

- Position: Non-executive Director
- Occupation: economist
- Elected on the Board of Directors: 2014
- Activity: RSL Capital Advisors, Conpet Ploiesti (Board of Directors), Mundus Services AD Bulgaria (Board of Directors)

MAGDA PALFI

- Position: Independent Non-executive Director
- Occupation: economist
- Elected on the Board of Directors: 2007
- Activity: Raiffeisen Bank (Regional Corporate Director – Cluj Corporate Center), TeraSteel SA (Board of Directors)

ALEXANDRU STÂNEAN

- Position: Executive Director
- Occupation: economist
- Elected on the Board of Directors: 2018
- Activity: TeraPlast SA (Chief Executive Officer)

Members of the Board of Directors are elected at the General Meeting of Shareholders on the basis of shareholders' voting in accordance with legal requirements. Therefore, there are no agreements or understandings to report in this document.

Members of the executive team

Teraplast's executive management is appointed by the Board of Directors, and at the date of this report it is delegated to the CEO and the CFO. The CEO and CFO manage the everyday activity of the company.

Corporate Governance

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

Governance structures

For continuation of the process of implementing the principles of the Code of Corporate Governance, the General Meeting of October 2014 approved the election of a new Board of Directors made up of five directors, one of whom is independent from other significant shareholders. Enough members have been this way ensured as to guarantee the Board's efficiency to supervise, analyze and evaluate the efficiency of Teraplast's executive management, the Board's main goal as a collective body being to promote and observe the interests of the company's shareholders.

Another step of the implementation process is the essential amendment of the Company's Memorandum of Association, endorsed by the General Meeting of Shareholders of September 2008, at which time provisions of the Memorandum were made to match regulatory documents specific to the Romanian stock market and also recommendations and principles included in Code of Corporate Governance of Bucharest Stock Exchange. One of the most important updates of the company's Charter is the amendment of chapter VI – Managers – pursuant to which the premises of a fundamental change of the company management are created, thus enabling the Board of Directors to delegate managing competencies not just to a sole manager, but to a larger number of directors, one of them being appointed general manager.

Moreover, in compliance with CGC recommendations, strict rules have been set within the company on the internal movement and disclosure to third parties of confidential documents and privileged information, a special importance being granted to data and/or information that could influence the evolution of market price of securities issued by Teraplast. In this sense starting 2008, specific confidentiality agreements were concluded, with the company management and executives as well as with employees who, based on their positions and/or responsibilities, have access to such confidential/privileged information.

Degree of compliance with the new BVB Corporate Governance Code as of 31 December 2018	Compliant YES/NO
A.1. Any company should hold Internal Regulations of the Board to include reference terms/ responsibilities of the Board and key management roles of the company and to apply, among others, the general principles of this Section.	**YES**
A.2. Provisions pertaining to the management of conflicts of interest should be mentioned in the Board's Regulations.	**YES**
A.3. The Board of Directors should include at least five members.	**YES**
A.4. The majority of the Board's members should hold non-executive roles. At least one member of the Board of Directors or the Supervisory Board should be independent in case of companies included in the Standard Category. Each independent member of the Board of Directors should file a statement at the time of his/her appointment for election or re-election purposes, as well as upon any change of their status, indicating the elements underlying the grounds of independence in terms of his/her character and decision.	**YES**
A.5. Other relatively permanent professional commitments and obligations of a member of the Board, including executive and non-executive positions within the Board held by non-profit companies and institutions should be disclosed to potential shareholders and investors before their appointment and during it.	**YES**
A.6. Any member of the Board should submit to the Board information on any relationship with a shareholder holding directly or indirectly shares representing over 5% of all their rights to vote.	**YES**
A.7. The company should appoint a registrar of the Board whose responsibility is supporting the Board's activity.	**YES**
A.8. The declaration on corporate governance will report on any Board evaluation under the direction of the Chairman or the appointing committee and, if so, it will resume the key measures and changes resulting from it. The company should maintain a policy/guide on the Board's evaluation on the goal, criteria and frequency of the evaluation procedure.	**NO – it is on its way to be implemented**
A.9. The declaration on corporate governance should include information on the number of meetings of the Board and committees during the past year, directors' participation (in person and in absentia) and a report of the Board and committees on their activities	**YES**
A.10. The declaration on corporate governance should include information on the exact number of independent members of the Board of Directors.	**YES**
A.11. The companies' board in the Premium Category should establish an Appointments Committee made up of non-executive members, in charge of the procedure of appointing new members of the Committee and of making recommendations to the Committee. The majority of the members of the Appointments Committee should be independent.	**NO - TRP is of the standard category**

Degree of compliance with the new BVB Corporate Governance Code as of 31 December 2018	Compliant YES/NO
B.1 The Board should establish an audit committee where at least one member should be an independent non-executive director. Most of the members, including the chair, should have been proven to hold relevant qualification for the Committee's roles and responsibilities. At least one member of the audit committee should have proven and accurate auditing or accounting experience. In case of Premium companies, the audit committee should comprise at least three members and the majority of the members of the Appointments Committee should be independent.	**YES**
B.2. The chairman of the Appointments Committee should be a non-executive independent member.	**YES**
B.3. Within its responsibilities, the audit committee should carry out an annual evaluation of the internal control system.	**YES**
B.4. The evaluation should consider the efficiency and extent of the internal audit role, the degree of adequacy of risk management reports and internal audit submitted to the audit committee of the Board, the accuracy and promptness with which the Company executives settle deficiencies or weaknesses identified following the internal audit and submitting relevant reports to the Board's attention.	**YES**
B.5. The audit committee should assess any conflict of interest pertaining to transactions of the company and its agencies with the affiliated parties.	**YES**
B.6. The audit committee should evaluate the efficiency of the internal audit system and the risk management system.	**YES**
B.7. The audit committee should evaluate the efficiency of the internal audit system and the risk management system.	**YES - internal audit is outsourced**
B.8. Whenever the Code mentions reports or analyses initiated by the audit committee, such analyses should be followed by periodical reports (at least annual) or *ad-hoc* reports to be subsequently submitted to the Board.	**YES**
B.9. No shareholder can be given preferential treatment as compared to other shareholders in terms of transactions and agreements concluded by the company with their shareholders and affiliates.	**YES**
B.10. The Board should adopt a policy by which to ensure that any transaction of the company with any of the companies with which it maintains close relationships whose value is equal or exceeding 5% of the company's net assets (according to the latest financial report) is approved by the Board following a mandatory opinion of the audit committee.	**YES**
B.11. Internal audits should be conducted by a structurally separate division (department of internal audit) within the company or by employing an independent third party.	**YES**
B.12. For the purposes of ensuring the main roles of the internal audit department, the audit department's functional report should be to the Board by means of an audit committee. For administrative purposes and within the management's responsibility to monitor and reduce risks, the audit committee must report directly to the general manager.	**NO – internal audit is outsourced**
C.1. The company must publish on its web page its remuneration policy and include into the annual report a declaration on implementing such remuneration policy during the annual period subject to assessment. Any essential change occurred in the remuneration policy should be published on the Company's web page in time.	**YES**

Degree of compliance with the new BVB Corporate Governance Code as of 31 December 2018	Compliant YES/NO
D.1. The Company should organise an Investor Relations service – mentioning to the broad public the person/s in charge or the organising company. Outside the mandatory information required by the legal provisions, the company should also mention on its web page a section dedicated to the Investor Relations, in Romanian and English, with any relevant information which may be of interest to investors, including: **D.1.1.** Main corporate regulations: memorandum of association, procedures on general meetings of the company shareholders; **D.1.2.** Professional CVs of the company's management, other professional involvement of the Board members, including executive and non-executive positions in companies' Boards of directors or into non-profit organisations; **D.1.3.** Current and periodical reports (quarterly, bi-annual and annual) – at least those mentioned at D.8 above – including current reports with detailed information on incompliance with this Code; **D.1.4.** Information concerning general meetings of shareholders: the meeting agenda and information materials; procedure of electing the members of the Board; arguments supporting application proposals for elections within the Board, along with the members' professional CVs; shareholders' questions on agenda items and the company's replies, including adopted decisions; **D.1.5.** Information on corporate events, such as dividend payment and other distributions to shareholders, or other events leading to acquiring or limiting a shareholder's rights, including deadlines and principles applied to such operations. Such information shall be published within deadlines allowing investors to adopt decisions to invest; **D.1.6.** Names and contact data of a person that could supply, upon request, relevant information; **D.1.7.** Company's presentations (e.g. presentations for investors, presentations on the quarterly outcome etc.), financial situations (quarterly, bi-annual, annual), audit reports and annual reports.	**YES**
D.2. The company shall practice a policy on the annual distribution of dividends or other benefits to shareholders. Principles of the annual policies of distribution to shareholders shall be published on the company's web page.	**YES**
D.3. The company shall adopt a forecast policy, either public or not. The forecast policy is to be published on the company's web page.	**YES**
D.4. Rules of general meetings should not limit shareholders' participation in general assemblies and exertion of their rights. Amendments to rules and regulations shall become enforceable starting from the next shareholders' meeting at the earliest.	**YES**
D.5. External auditors will attend the general meeting when their reports are submitted within such meetings.	**YES**
D.6. The Board will present to the annual general meeting a short assessment of the systems of internal control and management of significant risks, as well as opinions on matters submitted to the general meeting's decision.	**YES**
D.7. Any financial specialist, consultant, expert or analyst can participate in the shareholders' meeting based on prior invitation from the Board. Authorized journalists can, too, participate in shareholders' general meeting, unless the Chairman of the Board decides otherwise.	**YES**
D.8. Quarterly and bi-annual reports shall include information both in Romanian and in English on key factors influencing changes in terms of sales, operational profit, net profit and other relevant financial indicators, from one term to another, as well as from one year to another.	**YES**
D.9. A company shall organize at least two sessions/teleconferences with analysts and investors every year. Information submitted with such occasions is to be published in the investor relations section of the company's web page on the date of the sessions/teleconferences.	**YES**
D.10. In the event a company displays different forms of artistic and cultural forms of expression, sports activities, educational or scientific activities and considers that their impact on the company's innovative character and competitiveness is a part of the company's development mission and strategy, it will publish its policy on such activity in the field.	**YES**

Director
Alexandru Stanean

Chief Financial Officer
Ioana Birta

We confirm to the best of our knowledge that the individual and consolidated financial statements give a true and fair view of the financial position of TeraPlast and the Group as of December 31, 2018, its financial performance and cash flows for the year then ended, in accordance with applicable accounting standards, and that the Board of Directors' report gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties associated with the expected development of the Group.

Bistrita, April 25th, 2019

The Executive Board

General Manager	**Financial Manager**
Alexandru Stanean	Ioana Birta

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