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 **PAGE**

Building a better working world

Ernst & Young Assurance Services SRL
Bucharest Tower Center Building, 21st Floor
15-17 Ion Mihalache Blvd., District 1
011171 Bucharest, Romania

Tel: +40 21 402 4000
Fax: +40 21 310 7193
office@ro.ey.com
ey.com

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.

EY
Building a better working world

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;

Building a better working world

- 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 adopted 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;

Building a better
working world

- 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.

Building a better working world

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.

Building a better
working world

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.

Building a better working world

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

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

Bucharest, Romania
27 March 2019

(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	645,282
Changes in inventories of finished goods and work in progress		5,481,277	6,239,075
Raw materials, consumables used and merchandise	8	(163,354,194)	(219,046,622)
Employee benefit expenses	10	(21,449,505)	(30,530,254)
Expenses with impairment adjustments and amortization	5	(14,241,868)	(17,729,080)
Adjustments for the depreciation of current assets, net	9	(1,806,232)	(553,598)
Provisions, net	26, 27	2,100,483	(140,383)
Gains/(Losses) from the outflow/valuation of tangible and intangible assets	7	71,278	(52,255)
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		6,307,775	2,370,720
Financial expenses	11	(3,625,616)	(8,107,600)
Financial income	11	12,081,008	35,341,426
Profit before tax		14,763,167	29,604,546
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	2,898,081	-
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		16,549,573	29,315,346
Average number of shares		598,701,558	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

TERAPLAST SA
STATEMENT OF FINANCIAL POSITION
for the financial years ended 31 December 2018
(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

Item description	Note	Financial year ended 31 December 2017	Financial year ended 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	61,130,408	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	653,216	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	(623,396)	(1,472,825)
Revaluation reserves		15,631,288	13,671,772
Legal reserve	24	8,359,015	9,919,037
Retained earnings		54,203,265	52,556,218
Total equity		190,645,995	209,082,355
Non-current liabilities			
Interest-bearing loans and borrowings	25	73,488,016	67,982,689
Employee benefit liabilities	26	258,907	630,787
Other liabilities	14, 17	21,805,000	49,022,037
Deferred tax liabilities	13	5,036,044	2,471,182
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

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

The accompanying notes from 1 to 36 are an integral part of these separate financial statements.
English translation is for information purposes only. Romanian language text is the official text for submission.

(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)	15,631,298	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	209,062,355

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)

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	56,843,266	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	56,843,266	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	85,891,097	-	27,384,726	(663,396)	15,631,268	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.

Alexandru Stanean
CEO

Ioana Birta
CFO

21 MAR. 2019

TERAPLAST SA
SEPARATE CASH FLOW STATEMENT
for the financial years ended 31 December 2018
(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	6,406,993
Interest revenues	11	(542,501)	(1,206,098)
Loss/(Gains) from the sale or disposal of fixed assets	7	(71,278)	52,206
Trade receivables value adjustments	9	(190,239)	190,517
Losses from receivables and sundry debtors	9	842,460	-
Inventories value adjustments	9	1,363,900	353,051
Amortization and depreciation of long-term assets	9	13,365,485	17,179,141
Adjustment of the value for non-current assets	9	676,380	549,947
Adjustments of risk and expense provisions, net	27	(2,129,637)	(231,477)
Loss /(gains) from the measurement of investment property	9	(144,857)	90,224
Expense with the provisions for the retirement benefits obligations	26	20,170	371,260
Investment revenues	11	(10,080,890)	(32,889,859)
Unrealized exchange rate differences		(276,463)	-
Adjustments related to liabilities concerning long-term financial investments		-	494,082
Profit before adjustments to working capital		19,916,662	20,987,791
Movements in working capital			
(Increase)/decrease of trade and other receivables		(3,286,362)	(17,182,294)
(Increase)/decrease of inventories		(14,986,367)	(6,396,165)
(Decrease)/increase of trade and other payables		11,325,025	19,079,667
Cash generated by operating activities		12,668,958	16,488,039
Interest paid		(2,301,954)	(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	10,080,890	20,574,706
Payments for acquisition of tangible and intangible assets	15, 16	(27,884,547)	(19,853,580)
Payments for financial assets	14	(50,723,105)	(7,216,405)
Payments for the acquisition of financial investments in an associate	14	(10,092,092)	-
Net loans to subsidiaries	33	(29,326,243)	-
Receipts from the sale of tangible assets	7	374,249	1,436,054
Redemption of own shares, net of option exercising	32	(150,689)	(809,525)
Gains/(losses) related to own shares as o		(31,711)	-
Net cash used in investment		(107,702,040)	(6,867,351)
Cash flows from financing activities			
Receipts from loans		98,968,471	10,050,236
Loans (reimbursement)		(14,700,402)	(12,951,499)
Lease payments		(7,616,540)	(892,602)
Net drawings from credit line		28,676,553	12,537,741
Dividends paid		(9,778,702)	(10,059,404)
Net cash generated from /(used in) finance activities		91,812,294	(109,827)
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

The accompanying notes from 1 to 35 are an integral part of these separate financial statements.
English translation is for information purposes only. Romanian language text is the official text for submission.

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 Bistrita 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 28 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 43,935,148). 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 entiries 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. Those 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 chief operating decision maker, which answers for allocating resources and assessing the performance of activity segments, was identified as being the Board of Administration, which is making the strategic decisions.

2.5.22. 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, cancelled 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 c).

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 2018 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 5.47%;
- 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	35.392,958
Revenues from other activities	65,633	20,262
Rent and royalty revenues	1,289,771	1.204.898
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	110,528,130	54,178,424	64,175,670	493,462	-	227,385,686
Expenses with sales, indirect and administrative expenses	(108,443,684)	(54,447,776)	(46,597,933)	83,888	(1,452,420)	(220,847,911)
Operating result	2,084,446	(269,352)	8,577,737	567,380	(1,452,420)	8,507,775
Operating assets	143,963,184	84,978,779	37,312,575	9,463,053	119,641,332	375,359,020
Non-current assets	71,211,722	56,719,013	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	42,587,826	8,847,011	4,525,524	-	42,558,606	98,509,967
Current liabilities	41,692,318	20,795,816	17,659,968	-	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	185,192,467	52,654,144	63,226,562	-	493,619	301,460,783
Expenses with sales, indirect and administrative expenses	(187,514,793)	(53,820,465)	(57,501,953)	-	(256,852)	(299,096,063)
Operating result	(2,322,326)	(1,266,321)	5,724,609	-	234,767	2,370,720
Operating assets	193,684,601	66,217,200	19,388,230	-	171,078,459	469,896,771
Non current assets	70,258,447	34,066,794	15,155,042	-	169,212,909	289,693,192
Current assets	123,426,155	32,150,406	23,950,499		-	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	8,369,978	2,581,214	-	95,103,835	120,902,599
Current liabilities	89,943,668	22,558,885	16,808,015	-	10,520,246	139,710,816

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 2016).

(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	8,798,398	12,375,129
Commodity expenses	22,245,986	29,748,013
Consumed packaging	592,770	905,752
Total	**163,364,194**	**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 16)	876,381	549,947
Amortization expenses (Note 15 and Note 16)	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	729,996
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**	**30,630,294**

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	1,315,801	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	8,251,474	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).

2 7 MAR 2019
Signed for identification

(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	6,479,254	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	1,303,613
Mail and telecommunication expenses	304,425	331,447
Insurance premium expenses	643,276	1,023,790
Expenses with sponsorship, donations	449,004	368,052
Other general expenses	576,805	706,006
Total	**28,270,805**	**38,023,826**

27 MAR 2019

(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)	192,536	-
Changes in impairment allowances	46,083	(8,346)
(Non-taxable) Dividend revenues	1,609,742	5,262,217
Legal reserves	105,098	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)	(3,058,038)	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	(94,158)	-	-
Fiscal loss carried forward	-	785,906	-	785,906	-	-
Reserve from Politub business transfer	(464,453)	(464,453)	-	-	(464,453)	-
Total	**(3,038,044)**	**(2,471,192)**	**122,930**	**429,884**	**(465,453)**	**136,968**

Reconciliation of deferred tax liabilities, net	**2017**	**2018**
Balance as at 1 January	**(2,895,521)**	**(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 99.89% (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 21,905,000, 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	2,113,796
Finished and residual products	2,476,486
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	6,599,553	54,778,961	173,486,479	1,367,372	4,506,536	242,758,902
Increases	-	-	987,528	-	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)	(598,425)	(2,098,785)	(11,526,635)	(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	241,448,869
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	2,589,827	13,966,780	134,022	-	16,691,035
Transfers from inventory items	-	-	49,684	-	-	49,884
Disposals and other decreases (Note 8)	-	(1,441,218)	(11,639,401)	(104,344)	-	(13,184,964)
Impairment (Note 9)	-	(133,253)	477,114	-	226,357	549,947
Balance as at 31 December 2018	691	4,322,421	116,735,868	947,951	1,191,250	123,198,180
Net carrying amount as at 1 January 2018	6,599,208	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	54,857,986	418,388	7,445,240	118,250,709

17. MAR. 2019

(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	1,293,699	3,310,099	202,572,805
Increases	-	5,386,147	11,709,833	76,769	27,991,345	45,162,504
Out of which:						
Increases from the internal production of non-current assets	-	-	-	-	1,528,365	1,528,365
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	-	9,471,728	17,026,711	61,643	(26,596,297)	(36,217)
Transfers to non-current assets held for sale	(156,965)	(535,514)	-	-	-	(692,479)
Transfers from inventory items	-	-	-	-	-	-
Disposals and other decreases	-	(2,382,901)	(1,611,553)	(44,130)	(199,210)	(4,247,801)
Balance as at 31 December 2017	8,599,553	54,778,961	173,488,479	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	8,599,206	51,352,901	59,604,989	469,099	3,541,644	123,567,840

27 MAR. 2019

(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 2018. 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 1,665,560. 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 2,304,554 (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	(18,626)	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	-	340,823
Decreases	(9,232)	-	(9,232)
Corrections	58	-	58
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	10,950,083	97.95	10,950,083
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	105,061,632
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 RON	Share-part %	31 December 2018 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	1,698,915	2,323,860
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	**67,211,561**	**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

	31 December 2017	liquidity term: below 1 year	liquidity term: 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	(12,111,749)	(12,111,748)	-
Total	**102,605,932**	**63,225,961**	**39,379,971**

	31 December 2018	liquidity term: below 1 year	liquidity term: 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	738,592	-
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 4,082,481);
- 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 16).

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	(677,655)	77,250
Net revaluation of expected losses from receivables	200,000	-
31 December 2018	11,386,594	**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 21,333,463, 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	400,957,848	46.79
Viciu Emerall	39,447,752	3.68	38,004,202	4.44
Marley Magyarorszag (Gemenplast 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	57,044,034	6.66
LCS IMOBILIAR SA	38,619,285	3.61	27,222,044	3.18
Other natural persons and legal entities	227,280,843	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	16,649,650	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	44,709,260	73,078,991	67,218,258
Porsche Bank	26,443	-	7,392	-
Raiffeisen Bank-	3,741,922	14,239,615	-	-
Leasing	679,748	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 rato 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.

27. MAR. 2019

(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 2019	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	12,045,465	12,045,465	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	11,685,303	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	10,000,000	3,741,922	3,741,922	14,239,615	14,239,615	14,239,615	-	12 MONTHS
PORSCHE	investments	04.01.2018	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	128,167,153	128,167,153	58,948,895	67,218,260	

Ernst & Young Assurance Services
21 MAR. 2019
Signed for identification

(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

	1 January 2017	Movements: Reversal of provision not used	Movements: 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**

	1 January 2018	Movements: Reversal of provision not used	Movements: 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	300,951	237,279
Liabilities from the purchase of long-term assets	2,130,886	1,429,820
Contractual liabilities	373,289	697,527
Other payables	3,646,120	28,066,867
Total	**42,076,849**	**80,077,839**

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	159,293	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.

27 MAR 2019

(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)

27. MAR. 2019

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	246,735	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	1-5 years	3 - 5 years	Total
Non-interest bearing						
Trade payables and other liabilities	(18,889,409)	(22,256,561)	(930,815)	(21,005,000)	-	(63,063,888)
Interest-bearing instruments						
Short and long-term loans	(216,043)	(619,945)	(42,511,526)	(44,306,003)	(25,118,637)	(118,653,492)
Future interest	(303,414)	(712,649)	(3,008,409)	(6,520,267)	(3,149,125)	(13,221,081)
Non-interest bearing						
Cash and cash equivalents	4,504,812	-	-	-	-	4,564,912
Receivables	24,966,440	25,815,840	9,671,997	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	(25,163,663)	(30,044,540)	(24,081,511)	(40,922,007)	-	-	(120,099,676)
Interest-bearing instruments							
Short and long-term loans	(58,098)	(2,427,158)	(68,877,700)	(47,757,747)	(10,540,458)	-	(127,396,716)
Future interest	(254,430)	(1,009,405)	(2,604,519)	(5,788,527)	(387,200)	-	(10,743,780)
Non-interest bearing							
Cash and cash equivalents	9,774,167	-	-	-	-	-	9,774,167
Receivables	48,111,090	24,087,237	19,106,155	-	-	-	92,185,102

30. RELATED-PARTY TRANSACTIONS

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

<u>31 December 2017</u>

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
Dinovis Impex SRL Romania
RSL Capital Advisors SRL
KJK Caramida SRL
Eurohold AD
Compet SA
Mundus Services AD
Cetus Capital SRL

<u>31 December 2018</u>

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	130,033
Debit balances	6,080	20,800
Credit balances	40,352	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
Policolub business line transfer (Note 14)	24,714,061	-
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	1,374,848	262,973
Credit balances from the polyethylene pipes business line transfer (note 14)	21,805,000	22,898,013
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	689,701,558	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 476,247 (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 56,453,119, 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 44.263.500, 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 30,498,396 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 CEO	Ioana Birta CFO