

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 AT AND FOR THE YEAR ENDED
31 DECEMBER 2022**

TERAPLAST SA
Separate Financial Statements
Prepared in accordance with the
International Financial Reporting Standards
31 December 2022

CONTENTS:	PAGE:
SEPARATE STATEMENT OF COMPREHENSIVE INCOME	7– 8
SEPARATE STATEMENT OF FINANCIAL POSITION	9– 10
SEPARATE STATEMENT OF CHANGES IN EQUITY	11 – 12
SEPARATE STATEMENT OF CASH FLOWS	13 – 43
NOTES TO THE SEPARATE FINANCIAL STATEMENTS	14 – 71

TERAPLAST SA
SEPARATE STATEMENT OF COMPREHENSIVE INCOME
31 December 2022

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

Caption	Note	Financial year:	
		31 December 2022	31 December 2021
Total revenues – of which:	4	586,223,556	531,841,986
<i>Revenue from sale of finished products</i>		535,500,327	481,459,267
<i>Revenue from the sale of merchandise</i>		49,299,195	49,531,205
<i>Revenue from services</i>		1,424,034	851,514
Other operating income (including rent)	5	2,515,683	2,623,223
Income from investment subsidies	31	2,521,928	1,374,763
Changes in inventory of finished goods and work in progress		11,867,505	20,502,164
Raw materials, consumables used and merchandise	6	(426,894,615)	(382,310,546)
Employee benefit expenses	9	(54,158,678)	(50,270,015)
Transport expenses		(21,750,791)	(17,862,197)
Utilities expenses		(14,789,751)	(13,471,867)
Amortization and the adjustments for impairment of non-current assets, net	8	(21,362,631)	(16,478,026)
Impairment of current assets, net	8	(4,542,826)	1,458,200
Net provisions	23, 24	1,058,682	(2,040,212)
Gains/(Losses) from the disposal of tangible and intangible assets	7	2,045	(92,547)
Gains from fair value measurement of investment properties	16	1,922,167	1,146,641
Sponsorships, donations		(1,676,453)	(1,618,224)
Other operating expenses	11	(20,478,609)	(17,531,283)
Operating result		40,457,212	57,272,060
Interest expense, net	10	(5,785,572)	(689,316)
FX differences expenses, net	10	(554,869)	(898,160)
Other financial income, net	10	639,487	317,145
Dividends received	10	3,554,029	3,078,198
Financial result		(2,146,925)	1,807,867
Profit before tax		38,310,287	59,079,927
Income tax expense	12	(2,306,716)	(9,732,920)
Profit of business that continues its activity		36,003,571	49,347,007
Profit from sale of the Steel and Joinery Profiles businesses	30	-	274,163,434
Profit for the year		36,003,571	323,510,441

The accompanying notes are an integral part of these separate financial statements.

TERAPLAST SA
SEPARATE STATEMENT OF COMPREHENSIVE INCOME
31 December 2022

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

Caption	Note	Financial year:	
		31 December 2022	31 December 2021
Other comprehensive income:			
Other comprehensive income which are not reclassified to profit or loss in future periods (net of tax)		-	-
Revaluation of fixed assets		-	6,525,812
Impact of deferred tax		-	(1,044,130)
Other comprehensive gains, net, which are not reclassified to profit or loss in future periods		-	5,481,682
Total comprehensive income		36,003,571	328,992,123
Average number of shares		2,179,000,358	1,888,467,105
Basic and diluted earnings per share		0.0165	0.1742

Signed and approved:

1 February 2023
Board of Administration

ALEXANDRU STANEAN
 CEO

IOANA BIRTA
 CFO

TERAPLAST SA
SEPARATE STATEMENT OF FINANCIAL POSITION

31 December 2022

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

	Note	31 December 2022	31 December 2021
ASSETS			
Non-current assets			
Property, plant and equipment	13	221,107,304	183,765,128
Investment property	16	18,226,476	16,304,309
Intangible assets	14	2,354,118	1,861,194
Right of use of the leased assets	15	17,775,451	9,515,212
Investments in subsidiaries	17	30,269,152	30,232,090
Other equity investments	17	15,400	15,400
Long-term receivables	19	26,117,832	16,505,355
Total non-current assets		315,865,733	258,198,688
Current assets			
Inventories	18	99,325,133	91,752,798
Trade and other receivables	19	136,724,452	156,965,160
Receivables representing dividends paid and share capital increase from year's profit		-	270,195,925
Prepayments		677,079	460,622
Cash and cash equivalents	28	2,578,158	2,297,805
Total current assets		239,304,822	521,672,310
Total assets		555,170,555	779,870,998
EQUITY AND LIABILITIES			
Equity			
Share capital	20	217,900,036	217,900,036
Treasury shares		(495,209)	(4,935,035)
Revaluation reserves		12,716,963	12,653,390
Legal reserve		30,997,771	29,082,256
Retained earnings		56,166,628	325,331,906
Total equity		317,286,189	580,032,553
Non-current liabilities			
Bank loans	21	15,369,845	17,092,131
Lease liabilities	22	7,213,261	6,970,598
Other non-current liabilities	25	8,371,526	9,012,908
Employee benefit liabilities	23	1,580,838	1,580,838
Investment subsidies – long-term portion	31	33,260,035	19,413,678
Deferred tax liabilities	12	1,820,809	1,717,047
Total non-current liabilities		67,616,314	55,787,200
Current liabilities			
Trade and other payables	25	62,127,438	81,777,727
Bank loans	21	101,242,033	55,815,884
Lease liabilities	22	2,741,137	2,536,051

The accompanying notes are an integral part of these separate financial statements.

TERAPLAST SA
SEPARATE STATEMENT OF FINANCIAL POSITION

31 December 2022

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

	Note	31 December 2022	31 December 2021
Investment subsidies - current portion	31	3,188,847	1,244,853
Provisions	24	915,011	1,973,693
Income tax payable		53,586	703,037
Total current liabilities		170,268,052	144,051,245
Total liabilities		237,884,366	199,838,445
Total equity and liabilities		555,170,555	779,870,998

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Board of Administration

ALEXANDRU STANEAN
CEO

IOANA BIRTA
CFO

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TERAPLAST SA
SEPARATE STATEMENT OF CHANGES IN EQUITY
for the financial year ended 31 December 2022

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

	<u>Share capital</u>	<u>Treasury shares</u>	<u>Revaluation reserves</u>	<u>Legal reserves</u>	<u>Retained earnings</u>	<u>Total</u>
Balance as at 1 January 2022	217,900,036	(4,935,035)	12,653,390	29,082,256	325,331,906	580,032,553
Net result for the year	-				36,003,571	36,003,571
Legal reserve setting (Note 20)				1,915,515	(1,915,515)	-
Dividends paid and share capital increase					(302,880,892)	(302,880,892)
Losses on sale of treasury shares bought back					(372,442)	(372,442)
Own shares bought back		(926,616)				(926,616)
Options exercised		5,366,442				5,366,442
Reserves representing revaluation surplus			63,573			63,573
Balance as at 31 December 2022	217,900,036	(495,209)	12,716,963	30,997,771	56,166,628	317,286,189

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TERAPLAST SA
SEPARATE STATEMENT OF CHANGES IN EQUITY
for the financial year ended 31 December 2022

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

	<u>Share capital</u>	<u>Treasury shares</u>	<u>Revaluation reserves</u>	<u>Legal reserves</u>	<u>Retained earnings</u>	<u>Total</u>
Balance as at 1 January 2021	174,320,048	-	10,646,907	12,420,088	42,076,598	239,463,641
Net result for the year					323,510,441	323,510,441
Legal reserve setting (Note 20)				16,662,168	(16,662,168)	-
Share capital increase from reserves (Note 20)	43,579,988					43,579,988
Dividends granted					(30,682,530)	(30,682,530)
Reserves representing revaluation surplus			2,006,483		7,089,565	9,096,048
Own shares redeemed (Note 23)		(4,935,035)				(4,935,035)
Balance as at 31 December 2021	217,900,036	(4,935,035)	12,653,390	29,082,256	325,331,906	580,032,553

From the profit registered in March 2021, TeraPlast SA distributed a special dividend in amount of RON 226,615,937 and granted a free share for 4 shares held. The dividends were paid in July 2021. The share capital increase by RON 43,579,988 representing the free shares allocated was operated in August 2021.

At 31 December 2022 and 31 December 2021, the revaluation reserves include amounts representing the surplus from the revaluation of tangible assets, land and buildings.

Signed and approved:

1 February 2023
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TERAPLAST SA
SEPARATE STATEMENT OF CASH FLOWS
for the financial year ended 31 December 2022

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

Indirect method	2022	2021
Cash flows from operating activities:		
Profit before tax	38,310,287	333,243,361
Gains from the sale of Steel division and the Joinery Profiles business	-	(274,163,434)
Interest expense, net	5,785,572	689,316
(Gains)/Losses from sale or disposal of fixed assets	(2,046)	92,547
Impairment of trade receivables	3,263,897	(318,992)
Inventory impairment	1,278,929	(1,139,208)
Impairment and amortization of non-current assets, net	21,362,630	16,478,026
Provisions, net	(1,058,682)	2,040,212
Gains from the revaluation of investment property	(1,922,168)	(2,462,458)
Expenses with provisions for employee retirement liabilities	-	374,552
Income from dividends	(3,554,029)	(3,078,198)
Operating profit before changes in working capital	63,464,390	71,755,724
Changes in working capital:		
Decrease/ (Increase) in trade and other receivables (Note 30)	16,760,355	(80,274,850)
Increase in inventories (Note 30)	(8,851,263)	(37,353,215)
Decrease/(Increase) in trade and other payables (Note 30)	(12,083,623)	24,717,253
Interest paid	(5,785,572)	(689,316)
Income tax paid (Note 30)	(2,788,833)	(10,560,479)
Income from subsidies	(2,500,946)	(1,357,195)
Cash (used in)/generated by operating activities	48,214,507	(33,762,078)
Net cash flows used for investment:		
Dividends received	3,554,029	3,078,198
Payments for acquisition of tangible and intangible assets (Note 30)	(81,778,000)	(93,725,277)
Receipts under State aid	18,291,297	8,967,836
Receipts from the sale of tangible assets (Note 30)	2,417,656	1,928,733
Sale of the Steel division and Joinery Profiles business	-	384,887,335
Net cash generated by/(used in) investing activities	(57,515,017)	305,136,825

The accompanying notes are an integral part of these separate financial statements.

TERAPLAST SA
SEPARATE STATEMENT OF CASH FLOWS
for the financial year ended 31 December 2022

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

Indirect method	2022	2021
<i>Cash flows from financing activities:</i>		
Draw-downs/(Repayment) of loans, net	43,703,862	(40,211,877)
Lease payments	(511,415)	(22,987)
Dividends paid	(32,684,967)	(226,615,937)
Buy-back of shares	<u>(926,616)</u>	<u>(4,935,035)</u>
Net cash generated by /(used in) financing activities	<u>9,580,865</u>	<u>(271,785,836)</u>
Net changes in cash and cash equivalents	<u>280,353</u>	<u>(411,089)</u>
Cash and cash equivalents at the beginning of the financial year	28 <u>2,297,805</u>	<u>2,708,894</u>
Cash and cash equivalents at the end of the financial year	28 <u>2,578,158</u>	<u>2,297,805</u>

Signed and approved:

1 February 2023
Board of Administration

ALEXANDRU STANEAN
CEO

IOANA BIRTA
CFO

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

1. GENERAL INFORMATION

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

TeraPlast produces systems for sewage, water and natural gas transport and distribution, rainwater management systems and for cable protection and PVC plasticised and rigid compounds.

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

At 31 December 2022, TeraPlast SA has the following subsidiaries:

- Teraglass Bistrita SRL - manufacturer of PVC windows and doors,
- TeraPlast Recycling SA – PVC recycler,
- TeraBio Pack SRL – manufacturer of biodegradable polyethylene packaging,
- Teraplast Magyarország – distributor of TeraPlast's products in Hungary,
- Somplast SA – the Company holds production halls that it leases to TeraBioPack and TeraPlast Recycling. At 31 December 2022, the Company does not register any more production, since the production of installations is integrated in TeraPlast and the production of flexible polyethylene packaging is integrated in TeraBio Pack. TeraPlast exercises control of the company and consolidates the financial statements of Somplast as of 1 April 2021.
- TeraGreen Compound – inactive company.

TeraPlast SA sold its shares in TeraSteel Romania and Serbia and Wetterbest to the Kingspan group, based on a contract concluded on 24 July 2020. The transaction was completed on 26 February 2021, when TeraPlast received a price of RON 375 million. TeraPlast used the money to pay the special dividend and for investments.

- TeraPlast Hungaria Kft. (distributor) along with the joinery profiles business of TeraPlast SA were sold to Dynamic Selling Group.

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

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with the provisions of Order no. 2844/2016 approving the Accounting regulations compliant with the International Financial Reporting Standards applicable to trading companies whose securities are admitted to trading on a regulated market, as subsequently amended and clarified ("**OMFP 2844/2016**"). These provisions are compliant with the provisions of the International Financial Reporting Standards adopted by the European Union ("**EU IFRS**").

2.2. Basis of accounting

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

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

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

2.3. Going concern

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

At 31 December 2022, the Company's current assets exceed the current liabilities by RON 69,036,770 (31 December 2021: RON 377,621,067). In 2022, registered profit of RON 36,003,571 (2021: RON 323,510,441) and cash flows from operating activities (before changes to working capital) of RON 63,464,390 (2021: RON 71,755,724). The Company depends on the financing of banks, as mentioned in Note 21.

The budget prepared by the Company management and approved by the Board of Administration for 2022 indicates positive cash flows from operating activities, an increase in sales and profitability which contributes directly to improving liquidity and allows the Company to fulfil its contractual clauses with the financing banks. Company management believes that the support from banks is sufficient for the Company to continue its activity in the ordinary course of business, as a going concern.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4. Standards, amendments and new interpretations of the standards

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Company as of 1 January 2022.

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

The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) are effective for the current reporting period:

- **Amendments to IAS 16 "Property, Plant and Equipment"** - Proceeds before Intended Use adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** - Onerous Contracts - Cost of Fulfilling a Contract adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IFRS 3 "Business Combinations"** - Reference to the Conceptual Framework with amendments to IFRS 3 adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2018 -2020)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 28 June 2021 (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated).

The adoption of these amendments to the existing standards has not led to any material changes in the financial statements of Teraplast Group.

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

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

- **IFRS 17 "Insurance Contracts"** including amendments to IFRS 17 issued by IASB on 25 June 2020 - adopted by the EU on 19 November 2021 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IFRS 17 "Insurance contracts"** - Initial Application of IFRS 17 and IFRS 9 – Comparative Information, adopted by the EU on 8 September 2022 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Disclosure of Accounting Policies adopted by the EU on 2 March 2022 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Accounting Estimates adopted by the EU on 2 March 2022 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 12 "Income Taxes"** - Deferred Tax related to Assets and Liabilities arising from a Single Transaction adopted by the EU on 11 August 2022 (effective for annual periods beginning on or after 1 January 2023).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4. Standards, amendments and new interpretations of the standards

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

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

- **Amendments to IAS 1 "Presentation of Financial Statements"** - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Non-current Liabilities with Covenants (effective for annual periods beginning on or after 1 January 2024),
- **Amendments to IFRS 16 "Leases"** - Lease Liability in a Sale and Leaseback (effective for annual periods beginning on or after 1 January 2024),
- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).

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

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

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

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

Revenue recognition

Revenues from contracts with customers

Teraplast SA produces and sells PVC pipes and compounds, polypropylene and polyethylene pipes. The Company also sells related products for the water, sewer and gas systems, which it does not produce internally.

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

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

If the consideration promised in a contract includes a variable component, the Company estimates the value of the consideration it would be entitled to, in exchange for the transfer of the goods or services promised to a customer. The value of a consideration may vary as a result of discounts.

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

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

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

Assets and liabilities related to the contract

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

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

Dividend and interest income

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

The interest income presented on the face of the separate statement of comprehensive income is similar to interest income and is included in finance income in the statement of profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

The Company as lessee

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

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

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

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

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

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.
- The Company did not make any such adjustments during the periods presented.

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

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

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company as lessor

The Company enters into lease agreements as a lessor with respect to some of its investment properties.

Leases for which the Company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. As of December 31, 2019, the Company analysed the terms of the leases where the Company is a lessor and concluded that all are operating leases, as the lease terms do not transfer substantially all the risks and rewards of ownership to the lessee.

When the Company is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. There was no such case for the year ended 31 December 2021 or 31 December 2020.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

When a contract includes lease and non-lease components, the Company applies IFRS 15 to allocate the consideration under the contract to each component.

The Company rents some of its property to the subsidiary, TeraGlass Bistrita SRL under operating lease. Rent is of a fixed amount, at market price, as determined by an independent valuator.

Foreign currency transactions

The Company operates in Romania, and the functional currency is the Romanian leu (RON).

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

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

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

	31 December	31 December
	2022	2021
EUR 1	4.9474	4.9481
USD 1	4.6346	4.3707
CHF 1	5.0289	4.7884

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Costs related to long-term borrowings

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset until they are ready for its intended use or for sale.

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

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

Government grants

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

The Government grants the main condition of which is that the Group acquire, build or obtain otherwise long-term assets are recognized as deferred income in the separate statement of financial position and presented as 'investment subsidies'. The deferred income is amortized in the profit and loss statement systematically and reasonably over the useful life of the related assets or at the time the assets acquired from the subsidy are retired or disposed of.

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

Based on the collective labour contract, the Group is under the obligation to pay retirement benefits to its employees depending on their seniority within the Company, amounting to 2 - 3.5 salaries. The Company also grants jubilee bonuses as a fixed amount on work anniversaries.

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

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

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

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

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

The adjustments resulting from the annually review of the jubilee provisions are recognized in the separate statement of comprehensive income.

The retirement benefits provision is reversed in the separate statement of comprehensive income when the Company settles the obligation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Short-term employee benefits

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

Taxation

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

Current tax

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

Deferred tax

Deferred tax is recognized over the difference between the carrying amount of assets and liabilities in the financial statements and the corresponding fiscal bases used in the computation of taxable income and it is determined by using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, while deferred tax assets are recognized for deductible temporary differences as well as tax losses and credits carried forward in the extent in which it is likely to have taxable income over which to use those temporary deductible differences. Such assets and liabilities are not recognized if the temporary difference arises from initial recognition (other than from a business combination) of other assets and liabilities in a transaction that affects neither the taxable income, nor the accounting income (and this is assumed as applicable for example in case of initial recognition of a lease contract by a lessee). In addition, a deferred tax liability is not recognised if the temporary difference arises from the initial recognition of goodwill.

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

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

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

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

Current tax and deferred tax is recognized as income or expense in the separate statement of comprehensive income, 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.

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Company depreciates them separately based on their specific useful lives. Likewise, when a major repair is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the separate statement of comprehensive income as incurred.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

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

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

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

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

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

Constructions in progress for production or administrative purposes is registered at historical cost, less depreciation. The depreciation of these assets starts when the assets are ready to be used.

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the separate statement of comprehensive income in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual evaluation performed by an accredited external independent valuator applying a valuation model recommended by the International Valuation Standards Committee.

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

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

Intangible assets

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

Following initial recognition, intangible assets, which have finite useful lives, are carried at cost or initial fair value less accumulated amortisation and accumulated impairment losses.

Amortization is computed through the straight line basis over the useful life. The estimated useful lives, the residual values and the amortization method are reviewed at the end of each year, and adjusted as necessary, having as effect changes in future accounting estimates.

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

	<u>Years</u>
Licenses	1 – 5

Impairment of tangible and intangible assets

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

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

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

If the recoverable value of an asset (or of a cash generating unit) is estimated as being lower than its carrying amount, the carrying amount of the asset (of the cash generating unit) is reduced to the recoverable amount.

An impairment loss is recognized immediately in the separate statement of comprehensive income, except for revalued assets for which there is a revaluation that can be decreased with the impairment loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets (continued)

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 the statement of comprehensive income.

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.

Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount is recovered through a sale transaction, rather than through continued use. This condition is considered to be met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its current state.

Management must engage in the sale, which should qualify for recognition as completed sale within one year of the date of classification.

When the Company commits to a sale plan that involves the loss of control of a subsidiary, all assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Company will retain a controlling interest or not in its former subsidiary, after the sale.

Inventories

The inventories are registered at the lowest value between cost and the net realizable value. The net realizable value is the selling price estimated for the inventories minus all estimated costs for completion and the costs related to the sale. Costs, including a portion related to fixed and variable indirect costs are allocated to inventories held through the method most appropriate for the respective class of inventories.

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

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

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

An impairment allowance is made, where necessary, in all inventory categories for obsolete, slow moving and defective items.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in subsidiaries

Investments in subsidiaries represent shares owned in these entities.

These investments are initially recognized as purchase price and subsequently at purchase cost less accumulated impairment losses. IFRS 9 allows for an exemption in case of those interests held in subsidiaries, 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.

These indications refer to important changes that occurred in the economic environment in which the respective entities operate or to important changes in the evolution of the financial position or, respectively, of the financial performance of the entities in which the Company holds interests.

If there are any indications of impairment, the Company carries out an impairment test and it computes the value of the impairment losses as difference between the recoverable value and the net book value.

Except for the assets the value of which will be recovered through a sale transaction rather than by use, for all the impairment tests carried out, the recoverable value was based on the value of use. Its measurement requires different estimates and hypothesis, depending on the nature of the activity, such as the discount rates, the increase rates, the gross margins.

The impairment loss resulted from the impairment tests represents an expense of the current year and it is recognized in profit and loss.

Acquisition of activities from controlled entities

When the Company acquires activities / lines of business from controlled entities, it records the assets and liabilities undertaken at the carrying amount in the Company 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 in Equity.

Share capital

Common shares are classified in equity.

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

Dividends

Dividends related to ordinary shares are recognized as liability to the shareholders in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends on ordinary shares are recognized when they are paid.

Provisions

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment reporting

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

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

Installations for infrastructure projects are sold to contractors and installations for residential buildings are sold through a distribution network.

Financial instruments

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

(a) Financial assets

Initial recognition and measurement

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

A financial asset is classified as measured at amortized cost or fair value with any movement being reflected through other comprehensive income or the statement of comprehensive income.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through the separate statement of comprehensive income, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in Section 2 Recognition of revenues.

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

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

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

Subsequent measurement

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

- Financial assets at amortized cost (debt instruments). The Company's financial assets at amortized cost includes trade receivables and long term receivable.
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets at fair value through the separate statement of comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent measurement (continued)

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

The classification of the investments depends on their nature and purpose and it is determined as of the initial recognition. Financial liabilities include finance lease liabilities, interest bearing bank loans, overdrafts and trade and other payables.

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

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

Impairment of financial assets

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

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

Significant increase in credit risk

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant increase in credit risk (continued)

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

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

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

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

Definition of default

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

- when there is a payment incident reported; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Company).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Any recoveries made to doubtful receivables are recognised in the separate statement of comprehensive income, together with the reversal of the allowance.

Write-off policy

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

Measurement and recognition of expected credit losses

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

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

The Company recognises an impairment gain or loss in the separate statement of comprehensive income for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance accounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of assets and liabilities

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

The Company derecognizes financial liabilities only if the Company's liabilities have been significantly modified, paid, cancelled or they have expired.

The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the separate statement of comprehensive income. Similarly, the Company accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability.

It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification is recognised in the separate statement of comprehensive income as the modification gain or loss within other gains and losses.

Fair value measurement

An entity measures financial instruments and non-financial assets, such as investment property, at fair value at each balance sheet date. Also, the fair values of financial instruments measured at amortized cost are presented in Note 26 j).

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

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

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

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

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

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

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

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

Use of estimates

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

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Judgments

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

Impairment of intangible and tangible assets

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

The Company analysed the internal and external sources of information and reached the conclusion that there are no indications concerning the impairment of assets, except for goodwill related to the roof tiles business. When reviewing for indicators of impairment, the Company considers, among other factors:

- the relationship between its market capitalization and its book value
- the operating performance, for which the group used EBITDA as KPI, remained at 14%, the same compared to the prior year, while revenue increased on all business lines, through organic growth
- utilization of production capacity increased on all CGUs

As a result, the Company decided not to carry an impairment analysis for the recoverable amount of tangible assets, under IAS 36. Therefore, an allowance for asset impairment proved not to be necessary.

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

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

Estimates and assumptions

The main assumptions regarding future sources and other key sources of uncertainty in the estimates at the reporting date, which present a significant risk of causing a significant adjustment to the carrying amounts of assets and liabilities in the next financial year, are described below. The Company based its assumptions and estimates on the parameters available in preparing the separate financial statements. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances beyond the Company's control. Such changes are reflected in the assumptions when they occur.

Revaluation of property, plant and equipment and investment property

The Company measures investment property at fair value, with changes in fair value being recognised in the statement of comprehensive income.

The Company measures land and buildings at revalued amounts with changes in fair value being recognized in other comprehensive income.

Investment property and land and buildings were valued by reference to market-based information, using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

Property, plant and equipment (land and buildings) were revalued at 31 December 2021 by an external valuer, member of ANEVAR. The valuation methods used for such assets were the market comparison for land and the net replacement cost impacted by the results of the application of the income-based approach and the market comparison.

4. REVENUE AND OPERATING SEGMENTS

Geographical analysis

	Year ended 31 December 2022	Year ended 31 December 2021
Sales on the domestic market (Romania)	549,260,435	490,244,160
Sales on the foreign market	<u>36,963,121</u>	<u>41,597,826</u>
Total	<u>586,223,556</u>	<u>531,841,986</u>

4. REVENUE AND OPERATING SEGMENTS (continued)

The information to the people in charge of the operational 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 Group have been determined according to:

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

The portfolio of products of Teraplast that continue their activity is structured on two business lines: **installations and compounds**.

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

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

BUSINESS LINES

Installations

The complete systems for installations are made of PVC, PP (polypropylene) and PE (polyethylene) and are part of the portfolio of TeraPlast SA. They comprise systems for: indoor sewer system, outdoor sewer system, transport and distribution of water and natural gas, rainwater management, cable protection and floor heating.

The products in the Installations portfolio are mainly intended for the infrastructure market, but also for the residential and non-residential building market. TeraPlast is the leader of the PVC outdoor sewer market and is ranked top 3 on the other segments of the Romanian installations market.

The company has a long history of market innovations:

- The Company was the first producer of approved polyethylene pipes in Romania
- The Company was the first producer of multi-layered PVC pipes for outdoor sewer
- The Company is the only Romanian producer that holds a patent for the production of multi-layered PVC pipes (with recycled core) for outdoor sewer

The development of the range of products also includes objectives related to their sustainability. Therefore, we have developed over the years solutions such as the multi-layered PVC pipes or the PE 100-RC pipe resistant to crack propagation and a useful life of almost 100 years according to PAS 1075.

The Recovery and Resilience Plan for Romania ("PNRR") has a EUR 5 billion budget for investment projects, which directly influences the demand for TeraPlast products and offers growth opportunities for the Group's businesses.

Compounds

The PVC compounds business line is part of the portfolio of TeraPlast SA and comprises plasticized and rigid compounds. They are used in extrusion and injection processes in the processing industry. Further to an investment project co-funded under the State aid scheme, our company introduces an innovation on the Romanian compound market: fireproof halogen-free compounds (HFFR). They are waiting homologation with the clients.

TeraPlast is the leader of the Romanian PVC compound market, with a market share of over 34%.

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

4. REVENUE AND OPERATING SEGMENTS (continued)

The Company's reporting segments are aggregated by the main types of activities and are presented below:

Year ended 31 December 2022	<u>Installations</u>	<u>Compounds</u>	<u>Unallocated amounts</u>	<u>Total</u>
Total income, including other operating income and income from subsidiaries	474,784,916	116,476,250	-	591,261,167
Expenses with indirect sales and administrative	(443,894,725)	(106,909,230)	-	(550,803,955)
Operating result	30,890,191	9,567,020	-	40,457,212
Financial result	(4,992,056)	(708,898)	3,554,029	(2,146,925)
Profit before tax	25,898,136	8,858,122	3,554,029	38,310,287
Operating assets	423,990,322	56,566,773	74,613,460	555,170,555
Non-current assets	217,234,255	24,018,018	74,613,460	315,865,733
Current assets	206,756,067	32,548,755	-	239,304,822
Operating liabilities	206,080,304	31,804,062	-	237,884,366
Non-current liabilities	60,898,748	6,717,566	-	67,616,314
Current liabilities	145,181,556	25,086,496	-	170,268,052
Additions of fixed assets	54,328,334	4,834,573		59,162,907

Unallocated non-current assets represent investment property, buildings leased to the buyer of the Joinery profiles business, investments in subsidiaries, and other financial assets including the loan granted by TeraPlast to TeraBio Pack.

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

4. REVENUE AND OPERATING SEGMENTS (continued)

Year ended 31 December 2021	<u>Installations</u>	<u>Compounds</u>	<u>Unallocated amounts</u>	<u>Total</u>
Total income, including other operating income and income from subsidiaries	401,026,000	134,813,973	-	535,839,972
Expenses with indirect sales and administrative	(367,054,502)	(111,513,410)	-	(478,567,912)
Operating result	33,971,498	23,300,563	-	57,272,060
Financial result	(1,514,094)	243,763	277,241,632	275,971,300
Profit before tax	32,457,403	23,544,326	277,241,632	333,243,361
Operating assets	381,036,914	67,066,630	331,767,454	779,870,998
Non-current assets	172,623,024	24,004,135	61,571,529	258,198,688
Current assets	208,413,890	43,062,495	270,195,925	521,672,310
Operating liabilities	160,638,584	39,199,861	-	199,838,445
Non-current liabilities	46,898,584	8,888,616	-	55,787,200
Current liabilities	113,740,000	30,311,245	-	144,051,245
Additions of fixed assets	62,865,946	1,880,704	-	64,746,649

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 unallocated 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, but also investment in the Steel division classified as short-term for sale.

The unallocated liabilities relate to the bank loans contracted by Teraplast for the shareholdings in Wetterbest and Politub and the financing of Terasteel Doo.

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

5. OTHER OPERATING REVENUES

The Company as a lessor

Disclosure required by IFRS 16

Operating leases, in which the Company is the lessor, relate to investment property owned by the Company with lease terms of between 1 to 7 years, with one year extension option. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

The unguaranteed residual values do not represent a significant risk for the Company, as they relate to property which is located in a location with a constant value over the last years. The Company did not identify any indications that this situation will change.

Income from the lease of properties obtained in 2022 were in amount of RON 1,917,642 (2021: RON 1,578,767). Such annual income will be maintained in the following years, assuming that no changes will be made to the lease contract between TeraPlast and TeraGlass, the subsidiary that leases from TeraPlast the production warehouse where it runs its activity.

TeraGlass, which uses the production warehouse leased from TeraPlast is a firm lessee for the following 5 years. The operating lease contains clauses to update the price at market price if the lessee uses its renewal option. The lessee does not have the option to buy the property upon expiry of the lease.

6. RAW MATERIALS, CONSUMABLES USED AND MERCHANDISE

	Year ended 31 December 2022	Year ended 31 December 2021
Raw material expenses	(370,649,818)	(326,281,797)
Consumable expenses	(19,312,967)	(17,886,414)
Commodity expenses	(35,627,542)	(36,428,820)
Consumed packaging	(1,304,289)	(1,713,515)
Total	(426,894,615)	(382,310,546)

7. GAINS/(LOSSES) ON THE DISPOSAL OF TANGIBLE AND INTANGIBLE ASSETS

	Year ended 31 December 2022	Year ended 31 December 2021
Income from the sale of assets	2,417,656	1,928,733
Expenses with the disposal of tangible and intangible assets and investment property	(2,415,611)	(1,530,430)
Expenses with fair value measurement of non-current assets	-	(490,850)
Total	2,045	(92,547)

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

8. EXPENSES WITH PROVISIONS, IMPAIRMENT ADJUSTMENTS AND AMORTIZATION

	Year ended 31 December 2022	Year ended 31 December 2021
Expenses with allowance for doubtful debts (IFRS 9)	536,694	3,166,607
Income from impairment reversal (IFRS 9)	3,419,411	1,339,521
Receivables charged to expenses (IFRS 9)	(692,208)	(4,825,120)
Net adjustments for doubtful debts	3,263,897	(318,992)
Increase carried to the separate statement of comprehensive income	1,278,929	3,165,675
(Decrease) carried to the separate statement of comprehensive income	-	(4,304,883)
Inventory impairment	1,278,929	(1,139,208)
Total impairment of current assets	4,542,826	(1,458,200)
Expenses with non-current assets impairment (IAS 36)	278,898	473,871
Amortization and depreciation expenses (Notes 13 and 14) (IAS 36)	(21,641,529)	(16,951,897)
Net adjustments for non-current assets impairment	(21,362,631)	(16,478,026)
Expenses with amortization and depreciation with application of IFRS 16 (Note 15)	(3,210,372)	(2,257,079)

Impairment of non-current assets

The Company sets up impairment allowances for equipment that will no longer be used because it is damaged or obsolete. When this equipment is scrapped, recycled or sold, the impairment allowance is reversed.

Inventory impairment

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

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

9. EMPLOYEE BENEFIT EXPENSES AND REMUNERATION OF THE BOARD OF ADMINISTRATION

	Year ended 31 December 2022	Year ended 31 December 2021
Wages	(49,761,735)	(46,233,865)
Contributions to the public social security fund	(1,074,306)	(1,016,989)
Social aid within the limit of 5% of the salary fund	(844,037)	(684,101)
Meal tickets	(2,478,600)	(2,335,060)
Total, as presented on line "Employee benefit expenses"	(54,158,678)	(50,270,015)

Remuneration of the Board of Administration

The Chairman and the Members of the Board have a monthly net salary of EUR 2,000.

For additional details, please see the Remuneration Report.

10. FINANCIAL COSTS AND INCOME

	Year ended 31 December 2022	Year ended 31 December 2021
Financial costs		
Interest expense	(7,421,276)	(2,501,377)
Expenses with exchange rate differences	(3,036,913)	(3,579,483)
Other financial expenses	-	(10,000)
Total	(10,458,190)	(6,090,860)
	Year ended 31 December 2022	Year ended 31 December 2021
Financial income		
Interest income	1,635,704	1,812,061
Income from exchange rate differences	3,121,531	2,691,323
Dividend income	3,554,029	3,078,198
Other	-	317,145
Total	8,311,265	7,898,727
Financial result	(2,146,925)	1,807,867

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

11. OTHER OPERATING EXPENSES

	Year ended 31 December 2022	Year ended 31 December 2021
Expenses with third party services	(9,481,252)	(7,965,078)
Expenses with compensations, fines and penalties	(430,079)	(11,437)
Entertainment, promotion and advertising expenses	(2,119,600)	(1,542,611)
Expenses with other taxes and duties	(1,293,208)	(1,297,056)
Repair expenses	(2,469,301)	(2,318,719)
Travelling expenses	(757,806)	(643,248)
Rent expenses	(1,183,801)	(823,618)
Mail and telecommunication expenses	(342,540)	(332,587)
Insurance premium expenses	(1,442,972)	(1,559,972)
Other general expenses	(958,050)	(1,036,957)
Total	(20,478,609)	(17,531,283)

12. INCOME TAX

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

	Year ended 31 December 2022	Year ended 31 December 2021
Profit before tax	38,310,287	333,225,724
Income tax calculated (16%)	6,296,980	56,599,640
Deduction for dividends income not taxable	(568,645)	(492,512)
Non-deductible expenses	280,281	156,163
Profit from transfer of ownership interest	-	(43,863,328)
Credit from tax loss used	(3,410,166)	(1,870,038)
Total income tax	2,598,450	10,529,925
Tax on profile activity (Note 30)		
Discount as per GEO 153/2020 on incentivising equity increase	(291,734)	(797,005)
Deferred income tax – expense/ (benefit)	2,306,716	3,283,524

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

12. INCOME TAX (continued)

The components of the net deferred tax liabilities

2022	Opening balance	Registered in the	Registered in	Closing balance
		separate statement of comprehensive income	other comprehensive income	
Tangible and intangible assets and investment properties	(2,817,851)	(9,872)	63,573	(2,764,149)
Deferred tax liabilities recognized	(2,817,851)	(9,872)	63,573	(2,764,149)
Employee benefit liabilities	232,602	20,332	-	252,934
Trade and similar payables	868,201	(177,794)	-	690,406
Deferred tax assets recognized	1,100,803	(157,462)	-	943,340
Net liabilities with deferred tax recognized, including the Joinery Profiles (Note 30)	(1,717,048)	(167,334)	63,573	(1,820,809)
2021	Opening balance	Registered in the	Registered in	Closing balance
		separate statement of comprehensive income	other comprehensive income	
Tangible and intangible assets and investment properties	(577,006)	(4,818,552)	2,577,707	(2,817,851)
Fiscal loss	(1,069,260)	1,069,260	-	-
Deferred tax liabilities recognized	(1,646,265)	(3,749,292)	2,577,707	(2,817,851)
Employee benefit liabilities	232,602	-	-	232,602
Trade and similar payables	402,433	465,768	-	868,201
Deferred tax assets recognized	635,035	465,768	-	1,100,803
Net liabilities with deferred tax recognized, including the Joinery Profiles (Note 30)	(1,011,231)	(3,283,524)	2,577,707	(1,717,048)

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

13. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Tools and equipment	Installations and furniture	Tangible assets in progress	Total
COST						
Balance as at 1 January 2022	5,544,913	43,544,148	199,118,896	2,147,273	48,248,931	298,604,161
Increases	1,794,133		3,797,198	39,460	53,531,152	59,161,943
<i>Out of which:</i> Increases from the internal production of non-current assets						
Transfers to/from non-current assets in progress		21,965,823	66,112,751	1,485,540	(89,564,113)	-
Accumulated depreciation of revalued property, plant and equipment						
Revaluation increase with impact on reserves						
Revaluation decrease with impact in profit or loss						
Transfers IFRS 16 right of use			(1,523,635)			(1,523,635)
Transfers to non-current assets held for sale						
Transfers from items of inventory						
Disposals and other decreases			(6,765,850)	(35,346)	(51,308)	(6,852,505)
Balance as at 31 December 2022	7,339,046	65,509,971	260,739,360	3,636,926	12,164,662	349,389,965
ACCUMULATED DEPRECIATION						
Balance as at 1 January 2022	1,728	232,781	112,299,760	1,049,588	1,255,176	114,839,033
Depreciation recorded during the year (Note 8)	346	3,153,939	15,392,236	274,172		18,820,693
Transfers from non-current assets held for sale						
Transfers IFRS 16 right of use			(700,322)			(700,322)
Disposals and other decreases			(4,406,872)	(30,022)		(4,436,894)
Impairment (Note 8), net		(223,813)	(20,604)	4,569		(239,848)
Accumulated depreciation of revalued property, plant and equipment						
Transfers from items of inventory						
Balance as at 31 December 2022	2,073	3,162,907	122,564,198	1,298,307	1,255,176	128,282,662
Net carrying amount as at 1 January 2022	5,543,185	43,311,369	86,819,136	1,097,685	46,993,755	183,765,128
Net carrying amount as at 31 December 2022	7,336,974	62,347,064	138,175,162	2,338,619	10,909,486	221,107,304

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land	Buildings	Tools and equipment	Installations and furniture	Tangible assets in progress	Total
COST						
Balance as at 1 January 2021	5,049,065	52,055,498	175,113,561	2,057,252	12,169,040	246,444,416
Increases	375,913		2,504,452	56,709	61,810,105	64,747,179
<i>Out of which: Increases from the internal production of non-current assets</i>						
Transfers to/from non-current assets in progress	-	(3,291,521)	28,607,569	366,239	(25,682,287)	-
Accumulated depreciation of revalued property, plant and equipment		(10,758,813)				(10,758,813)
Revaluation increase with impact on reserves	794,691	5,731,121				6,525,812
Revaluation decrease with impact in profit or loss	(353,739)	(137,111)				(490,850)
Transfers IFRS 16 right of use			309,760			309,760
Transfers to non-current assets held for sale						
Disposals and other decreases	(321,017)	(55,026)	(7,416,446)	(332,927)	(47,927)	(8,173,343)
Balance as at 31 December 2021	5,544,913	43,544,148	199,118,896	2,147,273	48,248,931	298,604,161
ACCUMULATED DEPRECIATION						
Balance as at 1 January 2021	1,382	8,587,474	106,444,599	1,154,675	1,255,176	117,443,306
Depreciation recorded during the year (Note 8)	346	2,594,094	12,399,911	226,930		15,221,281
Transfers from non-current assets held for sale						
Transfers IFRS 16 right of use			(264,244)			(264,244)
Disposals and other decreases			(6,035,660)	(332,017)		(6,367,677)
Impairment (Note 8), net		(189,974)	(244,846)			(434,820)
Accumulated depreciation of revalued property, plant and equipment		(10,758,813)				(10,758,813)
Balance as at 31 December 2021	1,728	232,781	112,299,760	1,049,588	1,255,176	114,839,033
Net carrying amount as at 1 January 2021	5,047,683	43,468,024	68,668,962	902,577	10,913,864	129,001,110
Net carrying amount as at 31 December 2021	5,543,185	43,311,367	86,819,136	1,097,685	46,993,755	183,765,128

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

13. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2022, the Company pledged in favour of financial institutions non-current assets and investment properties with a net carrying amount of RON 103,210,462 (31 December 2021: RON 51,411,457).

The land and buildings were revalued as at 31 December 2021. The Group management decided they represented a single class of assets for fair value revaluation purposes under IFRS 13. This analysis took into consideration the characteristics and risks associated to the revalued properties.

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

14. INTANGIBLE ASSETS

	Licenses	Intangible assets in progress	Total
Cost			
Balance at 1 January 2022	6,421,145	1,289,844	7,710,989
Increases, out of which	207,215	756,648	963,863
Increases from internal production of non-current assets	1,219,872	(1,219,872)	-
Balance at 31 December 2022	7,848,232	826,620	8,674,852
Accumulated amortisation			
Balance at 1 January 2022	5,849,795	-	5,849,795
Amortisation	509,990		509,990
Expenses with/(Reversal of) impairment	(39,051)		(39,051)
Disposals and other decreases			
Transfers to non-current assets held for sale			
Balance at 31 December 2022	6,320,734		6,320,734
Net carrying amount as at 1 January 2022	571,350	1,289,844	1,861,194
Net carrying amount as at 31 December 2022	1,527,498	826,620	2,354,118

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

14. INTANGIBLE ASSETS (continued)

Cost	Intangible assets		Total
	Licenses	in progress	
Balance at 1 January 2021	5,858,845	199,572	6,058,417
Increases, out of which	528,913	1,123,659	1,652,572
Transfers to non-current assets held for sale	33,387	(33,387)	-
Disposals and other decreases			
Balance at 31 December 2021	6,421,145	1,289,844	7,710,989
Accumulated amortisation			
Balance at 1 January 2021	5,393,514	-	5,393,514
Amortisation	495,332		495,332
Expenses with/(Reversal of) impairment	(39,051)		(39,051)
Disposals and other decreases			
Transfers to non-current assets held for sale			
Balance at 31 December 2021	5,849,795	-	5,849,795
Net carrying amount as at 1 January 2021	465,331	199,572	664,903
Net carrying amount as at 31 December 2021	571,350	1,289,844	1,861,194

15. RIGHT-OF-USE ASSETS

The Company has right of use assets from rented buildings, warehouses, showrooms and transportation vehicles. The Company finances some of the cars and forklifts through lease agreements. The total cash outflow for leases amount to RON 22,986 (2020: RON 264,494) (for low value assets and short-term contracts as presented below).

Please see maturity analysis of lease liabilities in note 22.

Cost	Buildings	Vehicles	Total
		from previous finance leases	
Balance at 1 January 2022	10,686,050	2,265,397	12,951,448
Additions	9,846,339	1,722,844	11,569,183
Transfer to equipment on exercise of the purchase option	(117,047)	(199,210)	(316,257)
Balance at 31 December 2022	20,415,342	3,789,032	24,204,374
Accumulated depreciation			
Balance at 1 January 2022	2,277,227	1,159,010	3,436,236
Depreciation	2,646,257	564,117	3,210,374
Depreciation of equipment transferred to PPE	(18,477)	(199,210)	(217,687)
Balance at 31 December 2022	4,905,006	1,523,916	6,428,923
Carrying amount at 1 January 2022	8,408,823	1,106,388	9,515,212
Carrying amount at 31 December 2022	15,510,335	2,265,115	17,775,451

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

15. RIGHT-OF-USE ASSETS (continued)

The additions of right-of-use assets include the right of use of a plane for a determined number of hours per annum.

The amount recognized to the separate statement of comprehensive income in respect of the right of use assets were:

	<u>Buildings</u>	<u>Equipment</u>	<u>Total</u>
Depreciation expense	2,646,264	564,117	3,210,383
Interest expense on lease liabilities	367,869		367,869

The Company expensed the lease for low value assets and short-term contracts:

	<u>2022</u>	<u>2021</u>
Rent expenses	1,183,801	823,618
short term	1,089,568	574,956
low value	94,233	248,662

16. INVESTMENT PROPERTIES AND ASSETS HELD FOR SALE

Investment properties

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

- The Company owns 36 thousand sqm of land in Bistrita for appreciation, classified as investment property. The production facility of TeraPlast was on this land, before the company relocated in the TeraPlast Industrial Park.
- As of March 31, 2015, buildings and lands located in Bistrița, which are leased to Teraglass Bistrita SRL, are classified as investment property.

The Company carries its investment properties at fair value, with changes in fair value being recognized in the statement of profit or loss. Investment properties were revalued as at 31 December 2020 by an external independent valuator. The valuation method used was the market comparison.

	<u>31 December</u> <u>2022</u>	<u>31 December</u> <u>2021</u>
Opening balance at 1 January	16,304,309	13,841,851
Additions	-	1,315,817
Net loss from valuation of investment properties at fair value	1,922,168	1,146,641
Closing balance at 31 December	18,226,476	16,304,309

Further to the sale of the joinery profiles division to Dynamic Selling Group, the Company reclassified non-current assets (RON 9,054,071) and current assets (RON 18,544,621) of such division to assets held for sale. The transaction was completed in March 2021.

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

17. SUBSIDIARIES AND OTHER FINANCIAL INVESTMENTS

At 31 December 2022 and 31 December 2021, the Company holds the following investments:

Subsidiary	Country	Shareholding	31 December	Shareholding	31 December
			2022		2021
		%	LEI	%	LEI
Teraglass Bistrița SRL	Romania	100	3,468,340	100	3,468,340
TeraPlast Recycling SA	Romania	99	11,766,350	99	11,766,350
Tera BioPack	Romania	100	10,100,000	100	10,100,000
Somplast SA	Romania	70	4,897,400	70	4,897,400
TERAPLAST MAGYARORSZÁG KFT	Hungary	100	37,062	-	-
		-	30,269,152	-	30,232,090

Other long-term equity investments

Details concerning other equity investments of the Company are the following:

Investment name	Country	Investment	31 December	Investment	31 December
		share	2022	share	2021
		%	LEI	%	LEI
CERTIND SA	Romania	7.50%	14,400	7.50%	14,400
Partnership for sustainable development	Romania	7.14%	1,000	7.14%	1,000
		-	15,400	-	15,400

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

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

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

18. INVENTORIES

	31 December 2022	31 December 2021
Finished goods	52,833,219	41,380,558
Raw materials	34,903,324	39,627,128
Commodities	8,614,464	7,279,482
Consumables	3,677,153	3,086,774
Inventory items	152,745	122,156
Semi-finished goods	1,211,282	1,639,937
Residual products	1,123,058	651,310
Goods to be purchased	194,634	342,973
Packaging	735,869	464,168
Inventories – gross value	103,445,748	94,594,486
	31 December 2022	31 December 2021
	RON	RON
Value adjustments for raw materials and consumables	(1,077,496)	(857,141)
Value adjustments for finished products	(2,265,170)	(887,853)
Value adjustments for merchandise	(777,949)	(1,096,694)
Total value adjustments	99,325,133	91,752,798

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

The Company's inventories are pledged in favour of financing banks. At 31 December 2022, the total closing balance is pledged.

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

19. TRADE AND OTHER RECEIVABLES

	31 December 2022	Payable	
		less than 1 year	more than 1 year
Trade receivables	126,930,476	126,930,476	-
Advances paid to suppliers of non-current assets	3,828,188	3,828,188	-
Advances paid to suppliers of inventories and services	10,566,821	10,566,821	-
Loans granted to subsidiaries (Note 27)			
Other receivables from affiliates (Note 27)			
Other receivables	7,667,348	7,667,348	-
Adjustments for trade and other receivables impairment	(12,268,381)	(12,268,381)	-
Total	136,724,452	136,724,452	-

	31 December 2021	Payable	
		less than 1 year	more than 1 year
Trade receivables	126,003,284	126,003,284	
Advances paid to suppliers of non-current assets	6,433,505	6,433,505	
Advances paid to suppliers of inventories and services	29,614,219	29,614,219	
Loans granted to subsidiaries (Note 27)	15,323,583		15,323,583
Other receivables from affiliates (Note 27)			
Other receivables	275,815,390	274,633,618	1,181,771
Adjustments for trade and other receivables impairment	(9,541,178)	(9,541,178)	-
Total	443,648,803	427,143,448	16,505,355

When determining the recoverability of a receivable, the Group takes into consideration any change in the crediting quality of the concerned receivable starting with the credit granting date until the reporting date. The concentration of the credit risk is limited taking into consideration that the client base is large and they are not related to each other.

An allowance for impairment is recorded for the full amount of trade receivables overdue for more than 90 days in December 2021 and 60 days in December 2022.

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

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

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

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

20. SHARE CAPITAL AND RESERVES

	31 December 2022	31 December 2021
Share capital subscribed and paid in full	217,900,036	217,900,036

As at 31 December 2022, the value of the share capital subscribed and paid up of the Company included 2,179,000,358 (2021: 2,179,000,358) authorized shares, issued and paid in full, at a value RON 0.1 and having a total nominal value of RON 217,900,036 (2021: RON 217,900,036). Common shares bear a vote each and give the right to dividends.

Shareholding

	31 December 2022		31 December 2021	
	Number of shares	% ownership	Number of shares	% ownership
Goia Dorel	1,020,429,614	46.83	1,020,429,614	46.83
FONDUL DE PENSII ADMINISTRAT PRIVAT NN/NN PENSII S.A.F.P.A.P. S.A.	261,832,007	12.02	261,832,007	12.02
FD DE PENS ADMIN PRIV AZT VIITORUL TAU/ALLIANZ PP	135,167,485	6.2	135,167,485	6.2
LCS IMOBILIAR SA	78,628,275	3.6	78,628,275	3.6
Other natural and legal persons	682,942,977	31.34	682,942,977	31.34
Total	2,179,000,358	100	2,179,000,358	100

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

21. LOANS FROM BANKS

The bank loans at 31 December 2022 and 31 December 2021 are as follows:

Financing bank	Type of financing	Origination date	Balance at 31 December 2021	Balance at 31 December 2022	Short term at 31 December 2022	Long term at 31 December 2022	Period
Banca Transilvania	Working capital	07.06.2017	31,092,264	45,964,374	45,964,374	-	12 MONTHS
BCR	Working capital	28.08.2020	12,594,456	43,471,579	43,471,579	-	12 MONTHS
Banca Transilvania	Investments	20.04.2017	5,294,452	3,176,671	2,117,781	1,058,890	84 MONTHS
Banca Transilvania	Investments	07.06.2017	-				84 MONTHS
Banca Transilvania	Investments	24.07.2017	544,706				60 MONTHS
Banca Transilvania	Investments	31.07.2017	1,188,536				60 MONTHS
Banca Transilvania	Investments	07.11.2017	1,500,000				60 MONTHS
Banca Transilvania	Investments	07.03.2019	6,126,200	3,675,720	2,450,480	1,225,240	60 MONTHS
Banca Transilvania	Investments	30.03.2020	6,754,670	4,298,427	2,456,244	1,842,183	60 MONTHS
Banca Transilvania	Investments	23.12.2020	7,812,731	9,235,266	2,841,620	6,393,646	72 MONTHS
Banca Transilvania	Investments	15.03.2021		6,789,841	1,939,955	4,849,886	12 MONTHS
TOTAL			72,908,016	116,611,878	101,242,033	15,369,845	

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

22. LEASE LIABILITIES

Lease contracts – accounting treatment according to IAS 17

Finance leases

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

At 31 December 2022, the present value of financial lease liabilities was in amount of RON 1,852,607 (31 December 2021: RON 878,387). The finance lease liabilities are for vehicles and forklift trucks.

Operating leases

Total operating lease commitments as of 31 December 2022 were RON 8,037,346.

Lease contracts – accounting treatment according to IFRS 16

Maturity analysis of lease liabilities at December 31, 2022:

Year 1	2,143,844
Year 2	1,938,399
Year 3	1,413,718
Year 4	745,415
Year 5	398,120
Following years	1,397,850
Total	8,037,346
Non-current	5,893,503
Current	2,143,844

Maturity analysis of lease liabilities at December 31, 2021:

Year 1	2,031,337
Year 2	1,682,666
Year 3	1,434,255
Year 4	978,849
Year 5	2,422,006
Following years	
Total	8,549,113
Non-current	6,517,776
Current	2,031,337

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

23. EMPLOYEE BENEFIT LIABILITIES

The Company has established a benefits plan through which employees are entitled to receive retirement benefits based on their seniority in the Company, upon reaching retirement age of 65 for men and 61 for women. There are no other post-retirement benefits for employees. The provision represents the current value of the retirement benefit liability calculated on an actuarial basis. The discount rate is the interest rate curve in RON without adjustments provided by EIOPA in December 2020. Future salary increases are estimated in the long term at 1.1% in the first year, 1.4% in the second year, 1.6% in the third year, and 1.37% for the rest.

The latest actuarial valuations were performed on September 30, 2021 by Mr. Silviu Matei, a member of the Romanian Actuaries Institute.

The current value of the defined benefit liabilities and the current and past cost of the related services were measured using the projected credit unit method.

In 2021, the Company increased the long-term liability by RON 374,552 (31 December 2020: RON 247,476) 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 labour agreement.

Employee benefits	31 December 2022	31 December 2021
Opening balance	1.580.838	1.206.286
(Decreases) / increases	-	374.552
Closing balance	1.580.838	1.580.838

The liability is included in the statement of financial position under "Employee benefit liabilities".

24. PROVISIONS

	1 January 2022	Changes		Provision in addition	31 December 2022
		Reversal of provision not used	Reversal of provision used		
Other provisions	1,973,693	-	(1,058,682)	-	915,011

	1 January 2021	Changes		Provision in addition	31 December 2021
		Reversal of provision not used	Reversal of provision used		
Provisions for litigation	-	-	-	-	-
Other provisions	398,312	-	-	1,575,583	1,973,693
Closing balance	398,312	-	-	1,575,583	1,973,693

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.

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

25. TRADE AND OTHER PAYABLES

	31 December 2022	31 December 2021
Trade payables	49,457,379	63,203,324
Trade notes payable	15,801	24,948
Liabilities from the purchase of non-current assets	11,075,690	13,905,558
Contractual payables	558,846	425,567
Other payables	9,391,247	13,231,238
Total	70,498,964	90,790,635

Contractual liabilities reflect the Company's obligation of transferring goods or services to a client from which it has received the counter value of the good/service or from which the amount due is outstanding.

Other long-term payables of RON 8,371,526 (2021: RON 9,012,908) represent the debt to E.On Romania for the solar cells (RON 7,838,014) and the debt to AUTOSOFT ENGINEERING SRL (RON 533,511.75).

Other payables

	31 December 2022	31 December 2021
Salary-related payables to employees and social security payables	8,495,986	10,199,690
VAT payable	42,237	1,826,634
Sundry creditors	765,566	779,675
Dividends payable	45,550	45,550
Commercial guarantees received	-	339,980
Other taxes payable	41,907	39,709
Total	9,391,247	13,231,238

26. FINANCIAL INSTRUMENTS

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

The main objectives of the financial risk management activity are to determine the risk limits and then to ensure that the exposure to risks is maintained between these limits. The management of operating and legal risks is aimed at guaranteeing the good functioning of the internal policies and procedures for minimizing operating and legal risks.

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

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

26. FINANCIAL INSTRUMENTS (continued)

Financial assets	Amortised cost 31 December 2022	Amortised cost 31 December 2021
Non-current		
Long term receivable	26,117,832	16,505,355
Investment in Somplast SA shares	-	-
Other financial instruments measured at amortized cost	15,400	15,400
Current		
Trade receivable	136,724,452	156,965,160
Cash	2,578,158	2,297,805
Prepayment	677,079	460,622

(a) Capital risks management

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

The structure of the Company capital consists in debts, which include the loans detailed in Note 21, the cash and cash equivalents and the equity attributable to equity holders of the parent Group. Equity includes the share capital, reserves and retained earnings.

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

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

The gearing ratio as at 31 December 2022 and 2021 was as follows:

	2022	2021
Total loans	116,475,878	72,908,016
Cash	(2,578,158)	(2,297,805)
Net debt	<u>113,897,720</u>	<u>70,610,210</u>
Total equity	<u>317,286,189</u>	<u>580,032,553</u>
Total equity and net debt	<u>431,183,909</u>	<u>650,642,764</u>
Gearing ratio	<u>26.42%</u>	<u>10.85%</u>

26. FINANCIAL INSTRUMENTS (continued)

(b) Summary of significant accounting policies

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

(c) Objectives of the financial risk management

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

(d) Market risk

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

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

(e) Foreign currency risk management

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

Transaction risk

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

The 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.

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

26. FINANCIAL INSTRUMENTS (continued)

Sensitivity analysis for primary currency risk

	31 December 2022		31 December 2021	
	RON	RON	RON	RON
Profit or (loss)	3,084,347	3,084,347	-4,046,226	4,046,226

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

(f) Interest rate risk management

The interest-bearing assets of the Company, the revenues, and the cash flows from operating activities are exposed to the fluctuations of market interest rates. The Company's interest rate risk relates to its bank loans. The loans with variable interest rate, expose the Company to the cash flow interest rate risk due to fluctuation of ROBOR for the other loans with variable interest rate.

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

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

(g) Other price risks

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

26. FINANCIAL INSTRUMENTS (continued)

(h) Credit risk management

The Company has adopted a policy of performing transactions with trustworthy parties, parties that have been assessed in respect of the credit quality, taking into account its financial position, past experience and other factors, and additionally, obtaining guarantees or advance payments, if applicable, as a means of decreasing the financial losses caused by breaches of contracts. The Company exposure and the credit ratings of third parties to contracts are monitored by the management.

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

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

The Company has policies limiting the value of the exposure for any financial institution.

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

The Company considers the exposure to the credit risk in relation to a counterparty or a group of similar counterparties by analysing the receivables individually and making impairment adjustments. The Company had more than four thousand clients in 2019, with the highest exposure on one client not exceeding 3%.

(i) Liquidity risk management

The Company manages the liquidity risks by maintaining appropriate reserves, bank facilities and reserve loan facilities, by continuously monitoring actual cash flows and by correlating the maturity profiles of financial assets and liabilities. Each Group company prepares annual and short term cash flows (weekly, monthly and quarterly). Financing needs for working capital are determined and contracted based on the budgeted cash flows. Investments projects are approved only with a concrete financing plan.

(j) Fair value of financial instruments

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

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

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

26. FINANCIAL INSTRUMENTS (continued)

Tables on liquidity and interest rate risks

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

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

2022

	<u>less than 1 month</u>	<u>1-3 months</u>	<u>3 months - 1 year</u>	<u>1-3 years</u>	<u>3 - 5 years</u>	<u>more than 5 years</u>	<u>Total</u>
Non-interest bearing							
Trade receivables and other liabilities	(27,055,090)	(29,331,958)	(5,740,390)	(2,883,304)	(2,349,792)	(3,138,430)	(70,498,965)
Interest-bearing instruments							
Short and long-term loans	(258,127)	(4,398,344)	(99,326,699)	(18,829,796)	(2,355,460)	(1,397,850)	(126,566,276)
Future interest on loans	(7,317)	(562,068)	(976,832)	(1,336,288)	(191,951)	(101,080)	(3,175,535)
Non-interest bearing							
Cash and cash equivalents	2,578,158						2,578,158
Receivable	69,116,260	55,947,323	11,660,868	767,263	25,009,022	341,548	162,842,284

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

TERAPLAST SA
 NOTES TO THE SEPARATE FINANCIAL STATEMENTS
 for the financial year ended 31 December 2022

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

26. FINANCIAL INSTRUMENTS (continued)

2021

	<u>less than 1 month</u>	<u>1-3 months</u>	<u>3 months - 1 year</u>	<u>1-3 years</u>	<u>3 - 5 years</u>	<u>more than 5 years</u>	<u>Total</u>
Non-interest bearing							
Trade receivables and other liabilities	(27,340,747)	(52,261,946)	(2,175,028)	(2,349,792)	(2,349,792)	(4,313,326)	(90,790,632)
Interest-bearing instruments							
Short and long-term loans	(3,343,465)	(3,790,724)	(51,217,745)	(18,350,596)	(3,589,529)	(2,122,604)	(82,414,664)
Future interest on loans	54,483	277,094	589,138	661,699	42,843		1,625,257
Non-interest bearing							
Cash and cash equivalents	2,300,739						
Receivable	93,372,202	329,279,399	4,506,549	430,365	273,239	15,801,751	443,663,506

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

27. REALTED PARTY TRANSACTIONS

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

31 December 2022

Subsidiaries

- Teraglass Bistrita SRL
- TeraPlast Recycling SA
- TeraPlast Folii Biodegradabile SRL/ TeraBio Pack SRL
- Somplast SA

Related parties (common shareholding/decision-makers)

- ACI Cluj SA Romania
- Ditovis Impex SRL Romania
- Hermes SA Romania
- INFO SPORT SRL
- ISCHIA ACTIVHOLDING SRL
- ISCHIA INVEST SRL
- LA CASA RISTORANTE PIZZERIA PANE DOLCE SRL
- NEW CROCO PIZZERIE SRL
- Parc SA
- Primcom SA
- Sens Unic Imobiliare SRL
- Alpha Quest Tech SRL
- Banca Romaneasca SA
- Bittnet Systems SA
- Compa SA
- Magazin Universal Maramures SA
- LCS Imobiliar SA

31 December 2021

Subsidiaries

- Teraglass Bistrita SRL
- TeraPlast Recycling SA
- TeraPlast Folii Biodegradabile SRL/ TeraBio Pack SRL
- Somplast SA

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

27. REALTED PARTY TRANSACTIONS (continued)

Related parties (common shareholding/decision-makers)

- ACI Cluj SA Romania
- Ditovis Impex SRL Romania
- Hermes SA Romania
- INFO SPORT SRL
- ISCHIA ACTIVHOLDING SRL
- ISCHIA INVEST SRL
- LA CASA RISTORANTE PIZZERIA PANE DOLCE SRL
- NEW CROCO PIZZERIE SRL
- Parc SA
- Primcom SA
- Sens Unic Imobiliare SRL
- Alpha Quest Tech SRL
- Banca Romaneasca SA
- Bittnet Systems SA
- Compa SA
- Magazin Universal Maramures SA
- LCS Imobiliar SA
- Eurohold AD Bulgaria
- Mundus Services AD Bulgaria
- Parc SA

	Financial year ended 31 December 2022	Financial year ended 31 December 2021
Transactions and balances with other related parties		
Sales of goods and services	324,457	657,376
Purchases of goods and services	63,360	59,391
Debit balances	29,898	215,207
Credit balances	18,656	1,548

	Financial year ended 31 December 2022	Financial year ended 31 December 2021
Transactions and balances with subsidiaries		
Sales of goods and services	5,031,502	5,873,117
Re-invoice	6,457,674	3,310,907
Purchases of goods and services	31,481,218	27,317,661
Purchases of fixed assets	5,549	424,700
Debit balances current activity	6,838,150	2,647,495
Credit balances current activity	22,066	354,056
Affiliates borrowing balance	30,532,465	15,420,729

During 2022 and 2021, the Company did not have transactions with key management personnel or shareholders.

At 31 December 2022, the RON 30,532,465 (2021: RON 15,420,729) includes the loan granted to TeraBio Pack SRL, (RON 22,950,000), Teraglass Bistrita SRL (RON 5,380,000) and TERAPLAST MAGYARORSZÁG KFT (RON 244,355), plus interest.

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

28. CASH AND CASH EQUIVALENTS

Cash

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

Cash and cash equivalents at financial year end, as disclosed on the cash flow statement, may be reconciled with the items related to the accounting balance sheet, as follows:

	31 December 2022	31 December 2021
Cash at banks	2,361,740	2,189,922
Cash on hand	25,593	25,458
Cash equivalents	190,825	82,425
Total cash and cash equivalents	2,578,158	2,297,805

The Company's cash and cash equivalents are pledged in favour of financing banks.

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

29. COMMITMENTS AND CONTINGENT LIABILITIES

Unused credit facilities

At 31 December 2022, the Company registers unused credit facilities in amount of RON 21,115,545 (31 December 2021: RON 10,313,280) and unused investment loans in amount of RON 53,536,866 (31 December 2021: RON 70,230,590).

Guarantees for bank loans

At 31 December 2022, tangible assets and investment properties with a net book value of RON 103,210,462 (31 December 2021: RON 51,411,457) constitute collateral for loans and credit lines. For loans from banks, the Company guaranteed all present and future cash, all present and future stocks of goods and products and assigned present and future receivables, as well as their accessories, from current and future contracts with customers, which act as assigned debtors. Also, the Company assigned the rights resulting from the issued insurance policies having as object the properties and the movable goods brought as collateral.

Investments in the manufacturing of fireproof compounds and indoor sewage – project value RON 30,381,878

The project of TeraPlast SA created a new product in the field of compounds and led to the equipment of a line that extends the production capacity of polypropylene systems. The investment was entirely put into operation in December 2019. The State aid for this investment, in amount of RON 14,427,981, was fully cashed in 2019 – 2020. The monitoring period, at the end of which TeraPlast must return to the State budget the value of the State aid in the form of taxes from the investment, ends in 2025.

Increase of production capacity for PVC pipes and fittings – project value: RON 42,479,590

TeraPlast SA extended the production capacity within the existing site for certain categories of products in the current manufacturing of the company, namely fittings (PP and PVC), PE pipes and PVC pipes, by making investments in the construction of new buildings and purchase of equipment. The investment was entirely put into operation in November 2022.

At December 31, 2022 the Company received the State aid in amount of RON 15,675,695. In December 2022, the Company filed the first application for reimbursement in amount of RON 3,301,044 for which it awaits disbursement.

Polyethylene installations plant – project value: RON 56,213,412

TeraPlast SA invested in a new production unit for the manufacture of plastic products on the product segments representing PE pipes and rotationally moulded products (PE), by making investments in new buildings and equipment.

The investment was entirely put into operation in December 2022.

At December 31, 2022 the Company received the State aid in amount of RON 11,583,440.

The last application for reimbursement in amount of RON 12,385,006 will be filed in March 2023.

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 periods is 5 years. The Company's 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 group companies have inherent effects on the environment. The environmental effects of the Company's 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 remedy.

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.

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

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. It could be significant for the Company's financial position and / or operations.

TERAPLAST SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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

30. SUBSIDIES FOR INVESTMENTS

	<u>2022</u>	<u>2021</u>
At 1 January	20,658,531	13,047,890
Additions of subsidies during the reporting period	18,291,297	8,967,836
Transferred to separate statement of comprehensive income	(2,500,946)	(1,357,195)
At 31 December	36,448,882	20,658,531
Current	3,188,847	1,244,853
Non-current	33,260,035	19,413,678

Subsidies for investments refer to non-reimbursable funds for investments made by the Company for production equipment and personal protective equipment. There are no unfulfilled conditions or other contingencies associated with such subsidies.

At 31 December 2022, the total value of outstanding subsidies is RON 36,448,882 (2021: RON 20,658,531) recognised as deferred income in the balance sheet and transferred to the statement of comprehensive income on a systematic and rational basis, throughout the lifetime of the related assets.

31. SUBSEQUENT EVENTS

There were no significant events.

The ongoing military operation in Ukraine and the related sanctions targeted against the Russian Federation may have impact on the European economies and globally. The Company does not have any significant direct exposure to Ukraine, Russia or Belarus. However, the impact on the general economic situation may require revisions of certain assumptions and estimates. This may lead to material adjustments to the carrying value of certain assets and liabilities within the next financial year. At this stage management estimates that the war does not have an impact on the financial statements.

As events are unfolding on a daily basis, the longer-term impact may also affect trading volumes, cash flows and profitability. Nevertheless, at the date of these financial statements the Company continues to meet its obligations as they fall due and therefore continues to apply the going concern basis of preparation.

Declaration of management

We confirm to the best of our knowledge that the preliminary and unaudited financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Company as required by the applicable accounting standards and that the financial statements of the TeraPlast give a true and fair view of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that the Company faces.

Signed and approved:

1 February 2023
Board of Administration

ALEXANDRU STANEAN
CEO

IOANA BIRTA
CFO