TERAPLAST SA

CONSOLIDATED FINANCIAL STATEMENTS

Prepared in accordance with the International Financial Reporting Standards as adopted by the European Union

31 DECEMBER 2016

Translation of the Company's financial statements and Management Report issued in Romanian

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Independent Auditors' Report
(free translation[1])

To the shareholders of
Teraplast S.A.

Opinion

1 We have audited the accompanying consolidated financial statements of Teraplast S.A ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statements of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

2 In our opinion, the accompanying consolidated financial statements as at and for the year ended 31 December 2016 give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

3 We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Romania, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

4 Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial

[1] TRANSLATOR'S EXPLANATORY NOTE: The above translation of the auditors' report is provided as a free translation from Romanian which is the official and binding version.

Fiscal registration code
RO12997279
Trade Registry
no.J40/4439/2000
Share Capital 2,000 RON

KPMG

statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition (398,788,273 RON)
Note 2 ("Summary of significant accounting notes") and Note 4 ("Revenue and operating segments") from consolidated financial statements.

Key audit matter	**Our audit approach**
We determined that there is a risk of material misstatement associated with revenue recognition as revenue is the most significant item in the consolidated comprehensive income and impacts the majority of the key performance indicators, and key strategic indicators set-out in the consolidated Administrators' Report. Revenues primarily include revenues from sales related to the production of PVC profiles, plasticized and rigid granules, polypropylene pipes and fittings for gas and metallic panels. The risk of inappropriate revenue recognition arises from the following: • recognition of revenue • in the wrong period; • manipulation of year-end revenue through management override of controls.	Our audit procedures included, among others: • assessing whether the criteria for revenue recognition were in accordance with the requirements of the applicable accounting standards; • involving our specialists in IT who assisted us at testing general controls as well as selected application level controls in the accounting and operational systems relevant for the processing and recording of revenue; • testing effectiveness of key controls to prevent and detect fraud and error in revenue recognition; • inspecting contracts with customers on a sample basis in order to understand the terms of sale transactions and to reconcile information relevant to revenue recognition to the accounting and operational systems and sales invoices; • attending the annual inventory count; • developing our own estimate of revenue for the reporting period based on data from operational system that included, among others, details of commercial contracts signed with customers and sales volumes; • testing the recognition of revenue by selecting a sample of sales invoices recorded shortly before and after the year end and comparing them to goods delivery notes and contracts; • testing on a sample basis trade receivables using a combination of third party balance confirmations and subsequent collections testing; • testing a sample of manual accounting entries posted to revenue to identify instances of improper revenue recognition

Other Matters – Scope of the Audit

5 The consolidated financial statements of the Company as at and for the year ended 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those statements on 24 March 2016.

Other information - Consolidated Administrators' Report

6 The Other information comprises the consolidated Administrators' Report The Administrators are responsible for the preparation and presentation of the consolidated Administrators' Report in accordance with OMPF no. 2844/2016, articles 26-27 of the accounting regulations in accordance with International Financial Reporting Standards and for such internal control as Administrators determine is necessary to enable the preparation and presentation of consolidated Administrators' Report that is free from material misstatement, whether due to fraud or error.

The consolidated Administrators' Report presented from page 1 to 30 is not part of the consolidated financial statements.

Our opinion on the consolidated financial statements does not cover to the consolidated Administrators 'Report.

In connection with our audit of the consolidated financial statements as at and for the year ended 31 December 2016, our responsibility is to read the consolidated Administrators' Report and, in doing so, consider whether there are material inconsistencies between the Administrators' Report and the consolidated financial statements, whether the Administrators' Report includes, in all material respects, the information required by the OMPF no. 2844/2016, articles 26-27 of the accounting regulations in accordance with International Financial Reporting Standards and whether, based on our knowledge and understanding of the entity obtained during our audit of the consolidated financial statements, the information included in the consolidated Administrators' Report is materially misstated. We are required to report in respect of these matters. Based on the work performed we report that:

a) in the consolidated Administrators' Report we have not identified information which is not in accordance, in all material respects, with the information presented in the accompanying consolidated financial statements;
b) the consolidated Administrators' Report identified above include, in all material respects, the information required by OMPF no. 2844/2016, articles 26-27 of the accounting regulations in accordance with International Financial Reporting Standards.

In addition, based on our knowledge and understanding of the entity and its environment acquired during our audit of the consolidated financial statements as at and for the year ended 31 December 2016, we have not identified information included in the consolidated Administrators' Report that is materially misstated.

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

7 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

8 In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless

management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibility for the Audit of Consolidated Financial Statements

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

14 From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other matter

15 This independent auditors' report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinion we have formed.

The engagement partner on the audit resulting in this independent auditors' report is Aura Stefana Giurcaneanu.

Refer to the original signed Romanian version

For and on behalf of KPMG Audit S.R.L.:

Aura Stefana Giurcaneanu

registered with the Chamber of Financial Auditors of Romania under no 1517/2003

KPMG AUDIT S.R.L.

registered with the Chamber of Financial Auditors of Romania under no 9/2001

Bucharest, 24 March 2017

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

Semnat pentru identificare / Initialised for identification KPMG 24. MAR. 2017

	Note	Period ended 31 December 2016	Period ended 31 December 2015
		RON	RON
Revenue	4	398,788,273	393,541,984
Other operating income	5	676,687	1,253,131
Changes in inventories of finished goods and work in progress		3,980,227	3,851,376
Raw materials and consumables used, and merchandise	6	(267,832,906)	(272,565,920)
Employee benefits expense	9	(34,046,507)	(32,555,320)
Adjustments for depreciation and amortization and impairment of PPE	8	(15,637,545)	(15,327,224)
Expenses with provisions and value adjustments for current assets	8	402,063	(498,942)
Losses from the outflow of tangible and intangible assets	7	(38,020)	(195,472)
(Losses)/Gain from the fair value measurement of investment property	7	191,885	(1,242,366)
Other expenses	10	(39,891,450)	(36,257,821)
Operating profit		**46,592,707**	**40,003,426**
Finance costs	5	(5,979,006)	(7,433,714)
Finance income	5	3,768,511	4,168,040
Net finance income/ (cost)		**(2,210,495)**	**(3,265,674)**
Share of the profit or loss of the joint venture accounted for using the equity method	16	750,758	4,119,143
Profit before tax		**45,132,970**	**40,856,895**
Income tax expense	11	(5,716,799)	(5,609,498)
Profit for the year		**39,416,171**	**35,247,397**
Result for the year			
Attributable to			
Equity holders of the parent		39,281,595	34,473,510
Non-controlling interests		134,576	773,887
Result for the year		**39,416,171**	**35,247,397**
Other comprehensive income			
Revaluation of tangible assets		3,263,882	(1,675,290)
Deferred tax impact		(763,663)	268,046
		2,500,219	**(1,407,244)**
Comprehensive income for the year			
Attributable to			
Equity holders of the parent		41,781,814	33,066,266
Non-controlling interests		134,576	773,887
		41,916,390	**33,840,153**
Total comprehensive income		**41,916,390**	**33,840,153**
Weighted-average number of shares		472,970,474	288,875,880
Result per share attributable to equity holders of the parent		0.08	0.12

The financial statements were approved by the Board of Administration and authorized for publishing on 23 March 2017.

SOCIETATEA TERAPLAST S.A.

Mircea Hotoleanu
CEO

Edit Orban
CFO

TERAPLAST SA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2016
(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

Semnat pentru identificare
KPMG
24. MAR. 2017
Initialised for identification

	Note	31 December 2016	31 December 2015
		RON	RON
ASSETS			
Non-current assets			
Property, plant and equipment	12	133,697,562	130,064,715
Investment property	14	9,755,015	12,115,195
Intangible assets	13	1,371,603	1,079,527
Equity accounted investees	16	12,685,958	15,935,199
Other financial investments		60,353	16,472
Total non-current assets		**157,570,491**	**159,211,108**
Current assets			
Inventories	17	67,058,627	53,356,229
Trade and other receivables	18	65,918,851	86,615,772
Prepayments		326,173	388,339
Cash and short term deposits	30	16,032,373	12,555,770
Total current assets		**149,336,024**	**152,916,110**
Total assets		**306,906,515**	**312,127,218**
Equity and liabilities			
Equity			
Total equity, out of which:	19	**56,643,266**	**28,887,588**
- Subscribed share capital	19	56,643,266	28,887,588
Other capital reserves	9	450,980	950,500
Share premium	19	27,384,726	27,384,726
Revaluation reserves	19	21,741,823	18,566,192
Legal reserves	20	12,407,036	9,853,112
Retained earnings	21	97,961,117	97,590,866
Capital attributable to non-controlling interests		**216,588,948**	**183,232,984**
Non-controlling interests	22	334,698	200,122
Total equity		**216,923,646**	**183,433,106**
Long-term liabilities			
Loans and finance lease liabilities	23	10,504,823	10,534,972
Liabilities for employee benefits	25	351,936	295,226
Deferred tax liabilities	11	3,527,868	3,982,011
Investment subsidies –non-current portion	33	2,928,558	3,373,435
Total long-term liabilities		**17,313,185**	**18,185,644**
Current liabilities			
Trade and other payables	25	53,041,025	66,887,634
Loans and finance lease liabilities	23	15,919,114	38,533,423
Income tax payable		189,284	1,446,440
Investment subsidies –current portion	33	463,441	467,267
Provisions	24	3,056,820	3,173,704
Total current liabilities		**72,669,684**	**110,508,468**
Total liabilities		**89,982,869**	**128,694,112**
Total equity and liabilities		**306,906,515**	**312,127,218**

The financial statements were approved by the Board of Administration and authorized for publishing on 23 March 2017.

Mircea Hotoleanu
CEO

SOCIETATEA TERAPLAST S.A.

Edit Orban
CFO

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

	Total share capital	Other capital reserves	Share premium	Revaluation reserves	Legal reserves	Retained earnings	Capital attributable to controlling interests	Non-controlling interests	Total equity
	RON		RON	RON	RON	RON	RON	RON	RON
Balance as of 1 January 2015	**58,980,060**	**-**	**42,245,118**	**21,338,504**	**7,792,364**	**16,818,526**	**147,174,572**	**3,594,723**	**150,769,295**
Result for the year	-	-	-	-	-	34,473,510	34,473,510	773,887	35,247,397
Other comprehensive income	-	-	-	(1,407,244)	-	-	(1,407,244)	-	(1,407,244)
Total comprehensive income	**-**	**-**	**-**	**(1,407,244)**	**-**	**34,473,510**	**33,066,266**	**773,887**	**33,840,153**
Legal reserves	-	-	-	-	2,060,748	(2,060,748)	-	-	-
Covering accounting losses*	(30,092,472)	-	(14,860,392)	-	-	44,952,864	-	-	-
Benefits to employees in the form of shares	-	950,500	-	-	-	-	950,500	-	950,500
Reserves representing realized revaluation surplus	-	-	-	(1,365,068)	-	1,365,068	-	-	-
Cash dividends	-	-	-	-	-	(71,644)	(71,644)	-	(71,644)
Increase of the investment in the subsidiary	-	-	-	-	-	2,113,290	2,113,290	(4,168,488)	(2,055,198)
Balance as of 31 December 2015	**28,887,588**	**950,500**	**27,384,726**	**18,566,192**	**9,853,112**	**97,590,866**	**183,232,984**	**200,122**	**183,433,106**

* The amounts represent: the covering in full of the losses carried forward from prior years, as disclosed in Note 20.

The financial statements were approved by the Board of Administration and authorized for publishing on 23 March 2017.

Mircea Hotoleanu
CEO

Edit Orban
CFO

SOCIETATEA TERAPLAST 3

Semnat pentru identificare / Initialised for identification KPMG 24. MAR. 2017

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

	Total share capital	Other capital reserves	Share premium	Revaluation reserves	Legal reserves	Retained earnings	Capital attributable to controlling interests	Non-controlling interests	Total equity
	RON		RON	RON	RON	RON	RON	RON	RON
Balance as of 1 January 2016	**28,887,588**	**950,500**	**27,384,726**	**18,566,192**	**9,853,112**	**97,590,866**	**183,232,984**	**200,122**	**183,433,106**
Result for the year	-	-	-	-	-	39,281,595	39,281,595	134,576	39,416,171
Other comprehensive income	-	-	-	2,500,219	-	-	2,500,219	-	2,500,219
Total comprehensive income	**-**	**-**	**-**	**2,500,219**	**-**	**39,281,595**	**41,781,814**	**134,576**	**41,916,390**
Increase in share capital	27,755,678	-				(27,755,678)	-	-	-
Legal reserves	-	-	-	-	2,553,924	(2,553,924)	-	-	-
Acquisition of own shares	-	-	-	-	-	(512,706)	(512,706)	-	(512,706)
Benefits to employees in the form of shares	-	(499,520)	-	-	-	-	(499,520)	-	(499,520)
Reserves representing realized revaluation surplus	-	-	-	675,412	-	-	675,412	-	675,412
Dividends approved	-	-	-	-	-	(7,930,057)	(7,930,057)	-	(7,930,057)
Other equity elements	-	-	-	-	-	(158,979)	(158,979)	-	(158,979)
Balance as of 31 December 2016	**56,643,266**	**450,980**	**27,384,726**	**21,741,823**	**12,407,036**	**97,961,117**	**216,588,948**	**334,698**	**216,923,646**

As of 31 December 2015 and 2016, the revaluation reserves include amounts representing the realized revaluation surplus related to tangible assets.

The financial statements were approved by the Board of Administration and authorized for publishing on 23 March 2017.

Mircea Hotoleanu
CEO

Edit Orban
CFO

SOCIETATEA TERAPLAST 3 S.A.

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24 MAR 2017

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

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24. MAR. 2017
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	Note	Year ended as at 31 December 2016	Year ended as at 31 December 2015
		RON	RON
Cash flows from operating activities			
Profit before tax		**45,132,970**	**40,856,895**
Interest expenses	5	938,612	1,492,521
Interest income and other financial revenues	5	(2,219)	(36,382)
Loss/(Gain) from the sale or disposal of fixed assets	7	117,183	195,472
Loss/ (Gain) from the impairment of trade receivables	18	(1,062,693)	414.025
Loss from trade receivables and other debt		3,018,527	125.237
Adjustment of expenses with inventory impairment provisions	17	788,344	777,788
Amortization and depreciation of long-term assets	12,13	15,646,863	15,748,022
Setting/(Reversal) of fixed asset impairment provision	12	(216,664)	(420,799)
(Income)/(Expense) from the provisions for the retirement benefits obligations	9	56,710	(93,736)
Adjustment of provision for risks and charges		(116,884)	(818,147)
Share of the profit of the joint venture accounted for using the equity method	16	(750,759)	(4,119,143)
Loss/ (Gain) from investment property valuation	14	(191,885)	1,242,366
Revenues from operating subsidies for other operating expenses	34	(448,703)	(467,266)
Foreign exchange losses	5	93,856	996,255
Benefits granted to employees in the form of financial instruments	34	-	950,500
		63,003,258	**56,843,608**
Movements in working capital			
(Increase)/ Decrease of trade and other receivables		18,640,723	(19,272,137)
(Increase)/ Decrease in inventories		(14,490,743)	(8,674,426)
Increase/ (Decrease) of trade and other payables		(16,840,516)	3,597,456
Cash generated by operating activities		**50,312,722**	**32,494,501**
Interest paid		(938,612)	(1,492,521)
Income tax paid		(7,237,236)	(5,259,511)
Net cash generated by operating activities		**42,136,874**	**25,742,469**
Cash flow used in investment activities			
Interest received	5	2,219	36,382
Payments related to tangible assets		(13,290,630)	(17,494,576)
Receipts from the sale of tangible and intangible assets	7	95,961	144,878
Dividends received		4,162,530	2,070,821
Net cash used in investment activities		**(9,020,920)**	**(15,242,495)**
Cash flows used in finance activities			
Net receipts / (reimbursements) of loans		(21,240,461)	1,773,515
Financial lease payments		(1,497,853)	(2,753,849)
Dividends paid		(6,892,037)	(71,644)
Increase of the investment in the subsidiary		-	(2,055,198)
Net cash used in finance activities		**(29,630,351)**	**(3,107,176)**
Net increase/(decrease) in cash and cash equivalents		**3,476,603**	**7,392,798**
Cash and cash equivalents at the beginning of the financial year	30	**12,555,770**	**5,162,972**
Cash and cash equivalents at the end of the financial year	30	**16,032,373**	**12,555,770**

The financial statements were approved by the Board of Administration and authorized for publishing on 23 March 2017.

SOCIETATEA TERAPLAST

Mircea Hotoleanu
CEO

Edit Orban
CFO

1. GENERAL INFORMATION

These are the consolidated financial statements of the Teraplast SA Group. The consolidation perimeter includes the companies Teraplast S.A. ("Parent") Plastsistem SA ("subsidiary"), Teraglass Bistrita SRL (subsidiary), Teraplast Group SRL Republica Moldova (subsidiary) and Politub SA ("jointly-controlled unit").

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

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

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

The parent, together with another business partner, holds a jointly controlled unit, SC Politub SA (Politub – jointly-controlled unit). Politub SA's main activities include the production of pipes from average and high density polyethylene for water, gas transport and distribution networks, but also for telecommunications, sewerage systems or irrigations.

In March 2007, the Parent became the major shareholder of Plastsistem SA (Plastsistem) through the purchase of 52.77% of the shares. As of 31 December 2013, Teraplast's holding in Plastsistem increased to 78.71%. During the period February-October 2015, Teraplast SA purchased from natural persons 19.24% of Plastsistem SA's share capital and, therefore, as of 31 December 2015, the percentage held by Teraplast SA in Plastsistem SA reached 97.95%.

Plastsistem's main activity is the production of heat insulating panels with polyurethane foam for the construction of warehouses.

The Parent holds another subsidiary, Teraglass Bistrita SRL which was established in 2011 and it operated for a few months, having as scope of business the production and trading of windows, though the transfer of the windows division activity within Teraplast SA. In August 2011, Teraplast SA has reintegrated in its activity the production and trading of windows, as the activity of Teraglass Bistrita SRL, ceased until March 2015 when, following the transfer of the Insulated Joinery business line within the Parent entity, Teraglass Bistrita SRL.

On 06 March 2015 the Board of Directors approved through a Decision Teraplast SA's participation as shareholder in setting a limited liability company in the Republic of Moldova: Teraplast Group SRL Republic of Moldova. Teraplast SA's participation in this company is of 51%. Through the current report to the Bucharest Stock Exchange on 10 March 2015, the Company's Board of Administration informed the shareholders and the potential investors concerning this decision.

On 26 November 2015, under a Board of Directors Decision, the participation of Teraplast SA, in capacity of shareholder, together with Plastsistem SA, in the set-up of a limited-liability company with the head office in Romania, which to undertake the Teraplast Group companies logistics. The name of the new company, the articles of incorporation, the head office, the activities, the shareholdings of the two shareholders in Teraplast Logistic SRL were approved by the Board of Directors Decision no. 4 of 28 January 2016.

On 29 September 2016, by Decision of the Board of Administration, the participation of Teraplast as shareholder in setting a limited liability company in the Hungary was approved, with a total share capital of KHUF 3,000.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union ("EU IFRS").

The consolidated financial statements were prepared based on the historic cost convention, except for the fair value measurement of investment property, of land and buildings classified as tangible assets.

2.2 Functional currency

The functional currency, which reflects the substance of the concerned events and relevant circumstances for Teraplast SA, Plastsistem SA, Teraglass Bistrita SRL and Politub SA is the Romanian Leu ("RON"). The functional currency for Teraplast Group SRL Republic of Moldova is the Moldovan Leu („MDL").

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

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

2.3. Going concern

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

As of 31 December 2016, the current assets exceed the current liabilities of the Group by RON 76,666,343 (as of 31 December 2015, current liabilities exceeded the current assets by RON 42,407,642).

As detailed in Note 29, the Group degree of indebtedness is of 5% (31 December 2015: 17%), which indicates a low dependence of the Group on financing banks, as also described in Note 24.

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

Basis for consolidation

The financial statements comprise the financial statement of the Parent and of its subsidiaries as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

- The contractual arrangement with the other vote holders of the investee

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

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

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

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

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

2.4. Standards, amendments and new interpretations of the standards

A) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2016. Only those IFRS amendments that are relevant for the Group due to its scope of business and the transactions performed were presented.

- **IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortization**
  The amendment is effective for annual periods beginning on or after 1 January 2016. The amendment provides additional guidance on how the depreciation or amortization of property, plant and equipment and intangible assets should be calculated. This amendment clarifies the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. Management has assessed that this amendment will not have a significant impact on the financial position and performance of the Group.

- **IFRS 11 Joint arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations**
  The amendment is effective for annual periods beginning on or after 1 January 2016. IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. Management has assessed that this amendment will not have a significant impact on the financial position and performance of the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. Management is still assessing the potential impact on the financial position and performance of the Group

- **IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (Amendments)**
  The amendments address three issues arising in practice in the application of the investment entities consolidation exception. The amendments are effective for annual periods beginning on or after 1 January 2016. The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Also, the amendments clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Finally, the amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments have not yet been endorsed by the EU. Management has assessed that this amendment will not have a significant impact on the financial position and performance of the Group

- **IAS 1: Disclosure Initiative (Amendment)**
  The amendments to IAS 1 Presentation of Financial Statements further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. The narrow-focus amendments to IAS clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments. Management has assessed that this will not have a significant impact on the financial statements of the Group.

B) Standards issued and not yet effective starting with 1 January 2016

- **Disclosure Initiative (Amendments to IAS 7)**

  The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

- **Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)**

  The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the amendments. So far, the Group does not expect any significant impact.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **IFRS 9 Financial Instruments: Classification and Measurement**
  The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Management is still assessing the potential impact on the financial position and performance of the Group.

- **IFRS 15 Revenue from Contracts with Customers**
  The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a new five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The standard has not been yet endorsed by the EU. Management is in progress with the analysis of the contracts in place concluded with its customers in order to determine the impact on the financial position and performance of the Group: it has set up a team of employees that are analyzing the contracts, gather information for this assessment.
  IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.
  IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. Management is still assessing the potential impact on the financial position and performance of the Group.

i. Sales of goods

For the sale of finished products or merchandise, revenue is currently recognized when the goods are delivered to the customers' premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods.
Under IFRS 15, revenue will be recognized when a customer obtains control of the goods. For some made-to-order finished product contracts, the customer controls all of the work in progress as the products are being manufactured. When this is the case, revenue will be recognized as the products are being manufactured. This will result in revenue, and some associated costs, for these contracts being recognized earlier than at present – i.e. before the goods are delivered to the customers' premises.
For certain contracts that permit the customer to return an item, revenue is currently recognized when a reasonable estimate of the returns can be made, provided that all other criteria for revenue recognition are met. If a reasonable estimate cannot be made, then revenue recognition is deferred until the return period lapses or a reasonable estimate of returns can be made.
Under IFRS 15, revenue will be recognized for these contracts to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. As a consequence, for those contracts for which the Group is unable to make a reasonable estimate of return, revenue is expected to be recognized sooner than when the return period lapses or a reasonable estimate can be made. A refund liability and an asset for recovery will be recognized for these contracts and presented separately in the statement of financial position.

ii. Rendering of services

The Group is involved in performing related services. If the services under a single arrangement are rendered in different reporting periods, then the consideration is allocated on a relative fair value basis between the different services. Revenue is currently recognized using the when service is completed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Under IFRS 15, the total consideration in the service contracts will be allocated to all services based on their stand-alone selling prices. The stand-alone selling prices will be determined based on the list prices at which the Group sells the services in separate transactions.
The Group does not expect significant differences in the timing of revenue recognition for these services.

- **IFRS 16: Leases**
  The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The standard has not been yet endorsed by the EU. Management is assessing the potential impact on the financial position and performance of the Company.

- **Other amendments**
  The following new or amended standards are not expected to have a significant impact on the Group's consolidated financial statements.
  - *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).*
  - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).*

2.5. Investment in joint ventures

The Group's investment in the joint venture is accounted for using the equity method.

Under the equity method, the investment in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment individually.

The statement of profit or loss reflects the Group's share of the results of operations of the joint venture. Any change in the other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognized directly in the equity of the joint venture, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the joint venture.

The financial statements of the joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognizes the loss as 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

2.6. Cash and cash equivalents

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

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

2.7. Revenue recognition

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

Sale of goods

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

Dividend and interest revenues

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

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

2.8. Lease

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

Assets held through financial lease are initially recognized as Company assets at the fair value from the initial lease phase or, if lower, at the value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as finance lease liability.
Lease payments are divided between finance costs and the reduction of the lease liability, so as to obtain a constant rate of the interest related to the remaining liability balance. Finance costs are registered directly into profit and loss.
Operating lease payments are recognized as expense through the straight line method, during the lease term. Potential operating leases are recognized as expense as incurred.

2.9. Foreign currency transactions

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

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

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

	31 December 2015	31 December 2016
EUR 1	4.5245	4.5411
USD 1	4.1477	4.3033
CHF 1	4.1797	4.2245
MDL 1	0.2107	0.2174

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-monetary items which are measured at historic cost in a foreign currency are not translated back. Exchange rate differences are recognized in the profit and loss statement in the period in which they arise.

The assets and liabilities of foreign operations, are translated into RON at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into RON at the exchange rates at the dates of the transactions.

2.10. Costs related to long-term borrowings

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

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

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

2.11. Government grants

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

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

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

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

2.12. Costs related to retirement rights

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

2.13. Employees' contribution

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14. Profit distribution to employees

The Group recognizes a liability and an expense for profit distribution to employees, based on a formula that takes into account the profit attributable to the equity holders of the parent following adjustments considered to be necessary. The Group recognizes a liability when it is bound under a contract or where there is a constructive obligation as a result of a policy previously applied.

2.15. Taxation

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

Current tax

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

Deferred tax

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

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

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

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current tax and deferred tax related to the period

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

2.16. Tangible assets

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

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

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

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

Any revaluation reserve relating to the asset being sold is transferred to retained earnings only upon disposal.

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

2.17. Investment properties

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

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

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

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

12.18. Intangible assets

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

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

Licenses	2 – 5 years

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19. Impairment of tangible and intangible assets

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

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

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

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

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

2.20. 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, the majority being assessed based on the weighted average cost. Finished products, semi-finished goods and production in progress are measured at actual cost. For the following classes of inventories, the average weighted cost method is used: the raw material for pipes/piping, merchandise, inventory items/small tools, residual products, packaging materials, consumables and metallic panels.

2.21. Share capital

Common shares are classified in equities.

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

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22. Dividends

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

2.23. Provisions

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

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

2.24. Segment reporting

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

2.25. Financial assets and liabilities

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

Loans and receivables

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

Borrowings and liabilities

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Impairment of financial assets

Financial assets are measured for impairment at each reporting date.

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

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

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

Derecognition of assets and liabilities

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

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

2.26. Fair value measurement

An entity measures financial instruments and non-financial assets, such as investment property, at fair value at each balance sheet date. Also, the fair values of financial instruments measured at amortized cost are presented in Note 29 i).

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

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

The principle of the most advantageous market must be accessible by the Group.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

2.27. Comparatives

For comparability, for each time of consolidated financial position, of consolidated comprehensive income, and, where applicable, for the consolidated statement of changes in equity and the consolidated cash flow statement, the value of the corresponding item in the prior financial year is presented.

2.28. Use of estimates

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

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2. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

3.1. Judgments

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

Investment properties

The Group has certain assets which management has decided to reclassify as investment properties, as the Group generates revenue from their rental or are kept for further sale.

For more details on these assets and their classification, see Note 14.

3.2. Estimates and assumptions

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

Revaluation of property, plant and equipment and investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognized in the statement of profit or loss. In addition, it measures land and buildings at revalued amounts with changes in fair value being recognized in other comprehensive income, less those recognized in the statement of profit or loss.

The Group engaged independent valuation specialists to assess fair value as at 31 December 2015 and as at 31 December 2016.

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

Tangible fixed assets representing land and buildings were valued at 31 December 2016 using an independent certified valuator which determined their fair value by using valuation methods in line with Valuation Standards:

- For lands the market approach (direct comparison with the market);
- For buildings the cost method adjusted using the valuation using the income and market approach, where applicable.

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

Impairment of intangible and tangible assets

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

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

Taxation

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

As at 31 December 2016, the Group no longer recorded fiscal losses carried forward.
Further details about the taxation are given in Note 11.

Pension benefits

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

The mortality rate is based on mortality tables provided by the mortality tables issued by the National Institute of Statistics. The salary increase rates are considered to be constant.

The salary increase rate is constant over the medium and long term, identifying the following periods – the first year of growth of 5%, for the following year of growth of 3% and 2% for the following years. The discount rate is the curve of interests in RON without adjustments provided by EIOPA for December 2016. Employee rotation in the last year was considered constant in time.

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3. REVENUE AND OPERATING SEGMENTS

An analysis of the Group revenues is detailed below:

	Year ended 31 December 2016	Year ended 31 December 2015
	RON	RON
Sales from own production	345,892,220	353,804,743
Revenues from sale of commodities	53,976,380	40,051,347
Revenues from other activities	1,716,281	2,158,424
Commercial discounts awarded	(2,796,608)	(2,472,530)
Total	**398,788,273**	**393,541,984**

Geographical analysis

	Year ended 31 December 2016	Year ended 31 December 2015
	RON	RON
Sales on the internal market (Romania)	310,654,062	322,714,702
Sales on the external market (Europe)	88,134,211	70,827,282
Total	**398,788,273**	**393,541,984**

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

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

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4. REVENUES AND OPERATING SEGMENTS (continued)

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

Year ended 31 December 2015	Installations and fittings	Joinery Profiles	Granules	Teraglass	Thermal Insulation Panels and Metallic Structures	Non-allocated amounts	Total
Total revenue	166,053,067	42,319,231	49,906,700	24,928,166	114,345,406	-	397,552,570
Elimination of inter-segment transactions	-	-	(2,757,455)	-	-	-	(2,757,455)
Total revenue	166,053,067	42,319,231	47,149,245	24,928,166	114,345,406	-	394,795,115
Expenses with sales, indirect and administrative	(145,898,581)	(38.686.790)	(41,420,671)	(28,218,167)	(103,324,934)	-	(357,549,143)
Elimination of inter-segment transactions	-	-	-	2,757,455	-	-	2,757,455
Total operating expenses	(145,898,581)	(38.686.790)	(41,420,671)	(25,460,712)	(103,324,934)	-	(354,791,689)
Operating result	20,154,486	3,632,441	5,728,574	(532,546)	11,020,472	-	40,003,426
Financial result	-	-	-	-	-	-	(3,265,674)
Share of the profit of the joint venture accounted for using the equity method	-	-	-	-	-	-	4,119,143
Profit before tax	-	-	-	-	-	-	40,856,895
Profit tax	-	-	-	-	-	-	(5,609,498)
Result for the year	-	-	-	-	-	-	35,247,397
Assets	128,710,122	43,623,831	32.268.065	20,944,115	60,391,720	28,066,866	314,004,720
Elimination of inter-segment transactions	-	-	-	(1,877,501)	-	-	(1,877,501)
Total assets	128,710,122	43,623,831	32,268,065	19,066,615	60,391,720	28,066,866	312,127,218
Liabilities	60,428,420	16,012,389	17,701,163	3,938,106	32,491,534	-	132,892,241
Elimination of inter-segment transactions	-	-	(1.877.501)	-	-	-	(1,877,501)
Total	60,428,420	16,012,389	15,823,662	3,938,106	32,491,534	-	128,694,112

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4. REVENUES AND OPERATING SEGMENTS (continued)

Year ended 31 December 2016	Installations and fittings	Joinery Profiles	Granules	Teraglass	Thermal Insulation Panels and Metallic Structures	Non-allocated amounts	Total
Total revenue	**145,746,492**	**51,821,272**	**60,526,346**	**34,779,007**	**125,778,220**	-	**418,651,337**
Elimination of inter-segment transactions	(2,076,564)	(5,663,106)	-	(10,032,661)	(2,090,733)	-	**(19,863,064)**
Total revenue	**143,669,928**	**46,158,166**	**60,526,346**	**24,746,346**	**123,687,487**	-	**398,788,273**
Expenses with sales, indirect and administrative	**(128,145,418)**	**(47,553,284)**	**(50,872,270)**	**(31,643,651)**	**(113,844,007)**	-	**(372,058,630)**
Elimination of inter-segment transactions	1,917,964	5,663,106	-	10,571,533	1,710,461	-	**19,863,064**
Total operating expenses	**(126,227,454)**	**(41,890,178)**	**(50,872,270)**	**(21,072,118)**	**(112,133,546)**	-	**(352,195,566)**
Operating result	**17,442,474**	**4,267,988**	**9,654,076**	**3,674,228**	**11,553,941**	-	**46,592,707**
Financial result							**(2,210,495)**
Share of the profit of the joint venture accounted for using the equity method							**750,758**
Profit before tax							**45,132,970**
Profit tax							**(5,716,799)**
Result for the year							**39,416,171**
Total assets, out of which:	**109,720,070**	**51,850,575**	**39,091,044**	**14,021,707**	**67,967,934**	**24,255,185**	**306,906,515**
Non-current assets	49.773.307	35.909.101	15.345.210	3.378.933	28.908.755	24.255.185	**157,570,491**
Current assets	59.946.763	15.941.474	23.745.834	10.642.774	39.059.179	-	**149,336,024**
Total liabilities, out of which:	**27.101.365**	**10.428.222**	**13.807.220**	**1.984.678**	**36.661.382**	-	**89,982,867**
Non-current liabilities	7.791.644	2.119.097	2.887.380	-	4.515.064	-	**17,313,185**
Current liabilities	19.309.721	8.309.125	10.919.840	1.984.678	32.146.318	-	**72,669,682**

The non-allocated amounts relate investment properties, investments in subsidiaries and in jointly controlled units, as well as other financial assets (2016 and 2015).

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4. OTHER OEPRATING INCOME

Net finance income/ (costs)

	Year ended 31 December 2016	Year ended 31 December 2015
	RON	RON
Gain/(Loss) from foreign exchange differences	(205,583)	(996,255)
Other financial income	523	22,484
Interest revenues	1,696	13,898
Dividend revenues	162,530	116,685
Other financial expenses	(1,907)	(20,195)
Financial discounts granted	(1,229,142)	(909,770)
Interest expense	(938,612)	(1,492,521)
Net financial loss	**(2,210,495)**	**(3,265,674)**

Other income

	Year ended 31 December 2016	Year ended 31 December 2015
	RON	RON
Compensations, fines and penalties	40,457	43,727
Revenues from inventory surpluses	163,076	728,484
Other revenues	473,154	480,920
Total	**676,687**	**1,253,131**

6. RAW MATERIALS, CONSUMABLES USED AND COMMODITIES

	Year ended 31 December 2016	Year ended 31 December 2015
	RON	RON
Raw material expenses	218,478,383	228,978,858
Consumable expenses	14,856,741	16,458,653
Commodity expenses	33,687,942	26,494,674
Consumed packaging	809,840	633,735
Total	**267,832,906**	**272,565,920**

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7. OTHER GAINS AND LOSSES

	Year ended 31 December 2016	Year ended 31 December 2015
	RON	RON
Revenues from the disposal of the tangible and intangible assets	95,961	144,878
Expenses with the disposal of tangible and intangible assets	(213,144)	(340,350)
Gain from revaluation of tangible assets	79,163	-
Net loss from the disposal/revaluation of tangible and intangible assets	**(38,020)**	**(195,472)**
Gain from the fair value measurement of investment properties	229,846	158.552
Loss on fair value measurement of investment properties	(37,961)	(1.400.918)
Net gain/(loss) from valuation of investment properties at fair value	**191,885**	**(1.242.366)**

8. EXPENSES WITH PROVISIONS, IMPAIRMENT ADJUSTMENTS AND AMORTIZATION

	Year ended 31 December 2016	Year ended 31 December 2015
	RON	RON
Impairment adjustments for current assets and provisions		
Setting and (reversals) of impairment adjustments for current assets	(362,151)	1,317,089
Net movement in provisions for risks and expenses	(39,912)	(818,147)
Total impairment adjustments for current assets and provisions	**(402,063)**	**498,942**
Setting/(reversal) of impairment allowance, net (Note 12)	(209,414)	(420,797)
Amortization expenses (Note 12 and Note 13)	15,846,959	15,748,021
Total provisions, impairment adjustments and amortization	**15,235,482**	**15,826,166**

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9. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December 2016	Year ended 31 December 2015
	RON	RON
Wages	26,180,088	23,896,708
Contributions to the public social security fund	6,586,388	5,944,273
Meal tickets	1,300,292	1,108,075
Other employee benefits	(20,261)	(93,736)
Expenses in the form of profit appropriation to employees as share-based benefits	-	950,500
Expenses with premiums in the form of profit appropriation to employees	-	377,500
Contributions for profit appropriation to employees	-	372,000
Total	**34,046,507**	**32,555,320**

10. OTHER EXPENSES

	Period ended 31 December 2016	Period ended 31 December 2015
	RON	RON
Transport costs	13,964,878	14,698,305
Expenses with utilities	5,606,316	6,141,890
Expenses with third party services	6,152,810	5,756,805
Expenses with compensations, fines and penalties	58,121	17,004
Entertainment, promotion and advertising expenses	1,633,217	1,566,160
Other general expenses	7,122,673	3,302,624
Expenses with other taxes and duties	1,001,942	1,036,965
Repair expenses	1,195,831	1,032,626
Travelling expenses	935,667	795,617
Rent expenses	536,223	779,854
Mail and telecommunication expenses	460,865	456,972
Insurance premium expenses	1,222,907	672,999
Total	**39,891,450**	**36,257,821**

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11. INCOME TAX

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

	Period ended 31 December 2016	Period ended 31 December 2015
	RON	RON
Profit before tax	**45,132,970**	**40,856,895**
Tax calculated at 16%	7,221,275	6,537,103
Other deductible expenses	(12,163)	(87,175)
Sponsorship (tax credit)	(1,492,313)	(840,430)
Total income tax - expense	**5,716,799**	**5,609,498**
Current income tax recognized in the profit and loss account - expense	6,266,408	5,969,210
Deferred income tax – revenue	(549,609)	(359,712)
Total income tax - expense	**5,716,799**	**5,609,498**

The tax rate applied for the reconciliation mentioned above related to 2016 and 2015 is 16% and is payable by Romanian legal entities.

The components of the net deferred tax liabilities

2015	Opening balance	Recorded in the income statement	Charged to the revaluation reserve	Closing balance
	RON	RON	RON	RON
Tangible and intangible assets and investment properties	(5,171,982)	346,917	268,046	(4,557,019)
Inventories	-	-	-	-
Trade and similar receivables	-	-	-	-
Investments in subsidiaries	392,000	-	-	392,000
Employee benefit liabilities	62,234	(17,606)	-	44,628
Trade and similar payables	107,979	30,401	-	138,380
Provisions	-	-	-	-
Fiscal loss	-	-	-	-
Other current financial liabilities	-	-	-	-
Recognized deferred tax net liabilities	**(4,609,769)**	**359,712**	**268,046**	**(3,982,011)**

According to the Romanian tax legislation, the tax loss may be carried forward for seven years for the tax losses recorded after 1 January 2009, starting with the year when they occurred.

2016	Opening balance	Recorded in the income statement	Charged to the revaluation reserve	Closing balance
	RON	RON	RON	RON
Tangible and intangible assets and investment properties	(4,557,019)	353,678	(95,465)	(4,298,806))
Investments in subsidiaries	392,000	(15,179)	-	376,821
Employee benefit liabilities	44,628	72,729	-	117,357
Trade and similar payables	138,380	138,380	-	276,760
Recognized deferred tax net liabilities	**(3,982,011)**	**549,609**	**(95,465)**	**(3,527,868)**

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12. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Tools and equipment and vehicles	Installations and furniture	Tangible assets in progress	Total
	RON	RON	RON	RON	RON	RON
COST						
Balance as at 1 January 2015	**9,364,051**	**66,354,202**	**162,112,823**	**1,341,241**	**3,042,449**	**242,214,766**
Increases:	-	-	328,495	-	15,506,199	15,834,694
out of which:						
Increases from the internal production of non-current assets	-	-	10,033	-	1,812,410	1,822,442
Transfers in/from tangible assets in progress	-	1,505,540	13,793,164	162,175	(15,460,879)	-
Transfers in/from other fixed asset categories	-	120,029	(87,615)	(32,414)	-	-
Transfers from inventory items	-	-	20,763	-	-	20,763
Decreases from value adjustments with impact on reserves	-	(1,675,290)	-	-	-	(1,675,290)
Elimination of accumulated depreciation	-	(817,993)	-	-	-	(817,993)
Disposals and other decreases	(529)	(954,379)	(1,254,926)	(1,834)	-	(2,211,668)
Balance as at 31 December 2015	**9,363,522**	**64,532,109**	**174,912,704**	**1,469,168**	**3,087,769**	**253,365,272**
Balance as at 1 January 2016	**9,363,522**	**64,532,109**	**174,912,704**	**1,469,168**	**3,087,769**	**253,365,272**
Increases:	-	-	256,348	-	13,016,196	13,272,544
out of which:						
Increases from the internal production of non-current assets	-	-	-	-	1,240,942	1,240,942
Increases from revaluation with impact in reserves	456,759	2,807,124	-	-	-	3,263,883
Increases from revaluation with impact in PL	-	79,163	-	-	-	79,163
Transfers in/from tangible assets in progress	-	690,573	11,140,840	65,289	(11,894,031)	2,671
Transfers in/from other fixed asset categories	-	-	-	-	-	-
Transfers from inventory items	-	-	41,676	-	-	41,676
Transfers – investment properties	1,659,152	892,913	-	-	-	2,552,065
Elimination of accumulated depreciation	(1,037)	(6,128,890)	-	-	-	(6,129,927)
Elimination of depreciation for NBV revaluation	-	(1,028,027)	-	-	-	(1,028,027)
Disposals and other decreases	-	(6,493)	(1,711,210)	(41,802)	(111,629)	(1,871,134)
Balance as at 31 December 2016	**11,478,396**	**61,838,472**	**184,640,358**	**1,492,655**	**4,098,305**	**263,548,186**

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12. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land	Buildings	Plant and equipment and vehicles	Installations and furniture	Tangible assets in progress	Total
	RON	RON	RON	RON	RON	RON
ACCUMULATED DEPRECIATION						
Balance as at 1 January 2015	**346**	**8,026,805**	**102,298,844**	**779,028**	**(76,312)**	**111,028,711**
Depreciation recorded during the year	346	2,760,569	12,486,365	128,122	-	15,375,402
Elimination of accumulated depreciation	-	(817,993)	-	-	-	(817,993)
Disposals and decreases	-	(635,465)	(1,248,229)	(1,833)	-	(1,885,527)
Impairment	-	(318,696)	(102,103)	-	-	(420,799)
Transfers to/from other fixed asset categories	-	80,397	(155,644)	(1,065)	76,312	-
Transfers from inventory items	-	-	20,763	-	-	20,763
Balance as at 31 December 2015	**692**	**9,095,617**	**113,299,996**	**904,252**	**-**	**123,300,557**
Balance as at 1 January 2016	**692**	**9,095,617**	**113,299,996**	**904,252**	**-**	**123,300,557**
Depreciation recorded during the year	345	2,416,281	12,667,552	132,998	-	15,217,176
Elimination of accumulated depreciation for revalued assets	(1,037)	(6,128,890)	-	-	-	(6,129,927)
Elimination of depreciation for NBV revaluation	-	(1,028,027)	-	-	-	(1,028,027)
Disposals and decreases	-	(3,195)	(1,289,165)	(41,807)	-	(1,334,167)
Impairment	-	(297,391)	80,727	-	-	(216,664)
Transfers to/from other fixed asset categories	-	-	-	-	-	-
Transfers from inventory items	-	-	41,676	-	-	41,676
Balance as at 31 December 2016	**-**	**4,054,395**	**124,800,786**	**995,443**	**-**	**129,850,624**
NET CARRYING AMOUNT						
Net carrying amount as at 1 January 2016	**9,362,830**	**55,436,492**	**61,612,708**	**564,916**	**3,087,769**	**130,064,715**
Net carrying amount as at 31 December 2016	**11, 478,396**	**57,784,077**	**59,839,572**	**497,212**	**4,098,305**	**133,697,562**

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12. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2016, in accordance with the accounting policy, land and building measured at revalued cost were revalued based on the valuation report prepared by external valuator; the results of this process were recorded in reserves and profit and loss statements.
At 31 December 2016 land and buildings of Teraplast SA and Terasteel SA were revalued based on the valuation report prepared by an external valuator, member of the Romanian Union of Valuators.
The valuation method used for land were those of market value while for buildings the cost method adjusted with the impacts of income and market comparison methods, where applicable.

Land locations, surface and valuation is presented below:

Teraplast SA				Terasteel SA			
Land location	Surface	Valuation		Land location	Surface	Valuation	
	sqm	EUR/sqm	RON		sqm	EUR/sqm	RON
Saratel	143,500	5	3,265,190	Sieu Magherus	56400	4	1,011,748.32
Otopeni	4,472	82	1,659,152	Bistrita	4463	14	280,213.03
Brasov	29,798	27	3,675,212				
Galati	10000	3.5	156,964.50				

The buildings of Teraplast SA are located mainly at the production site in Saratel, in Otopeni and Oradea where warehouses are located. The buildings of Terasteel SA are located at factory premises in Sieu Magherus.
The tangible assets include vehicles and equipment used as part of finance lease contracts, and include technical equipment and machinery, as follows:

	31 December 2016	31 December 2015
	RON	RON
Net value – vehicles	1,663,674	1,830,988
Net value – equipment	4,930,805	6,678,943
Total	**6,594,479**	**8,509,931**

As at 31 December 2016, the Group had pledged in favor of financial institutions non-current assets with a net carrying amount RON 72,968,956 (31 December 2015: RON 95,870,732).

13. INTANGIBLE ASSETS

	Licenses	Intangible assets in progress	Total
	RON	RON	RON
Cost			
Balance as at 1 January 2015	**4,839,448**	**60,532**	**4,899,980**
Increases	173,525	113,909	**287,434**
Transfers	53,377	(53,377)	**-**
Disposals and other decreases	(680,181)	-	**(680,181)**
Balance as at 31 December 2015	**4,839,448**	**60,532**	**4,899,980**
Balance as at 1 January 2016	**5,161,665**	**195,575**	**5,357,242**
Increases	100,245	629,086	**729,331**
Transfers	810,606	(810,606)	-
Disposals and other decreases	(42,318)	(7,437)	**(49,755)**
Balance as at 31 December 2016	**6,030,198**	**6,618**	**6,036,816**

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13. INTANGIBLE ASSETS (continue)

Accumulated amortization			
Balance as at 1 January 2015	**4,187,267**	**-**	**4,187,267**
Amortization expense	730,130	-	**730,130**
Decreases	(677,834)	-	**(677,834)**
Balance as at 31 December 2015	**4,187,267**	**-**	**4,187,267**
Balance as at 1 January 2016	**4,277,715**	-	4,277,715
Amortization expense	429,687	-	429,687
Decreases	(42,189)	-	(42,189)
Balance as at 31 December 2016	**4,665,213**	-	**4,665,213**
Net carrying amount			
As at 31 December 2015	**883,950**	**195,576**	**1,079,527**
As at 31 December 2016	**1,364,984**	**6,619**	**1,371,603**

14. INVESTMENT PROPERTIES

Investment properties include the following items:

- The Group holds a piece of land and a building, located in Str. Romana, Bistrita (previously used for the head office). Starting 2012, the final purpose of the land was to be held in order to obtain an increase in its value and to be subsequently materialized through sale. As a result, the land was classified in January 2012 as an investment property.

- The piece of land took over from SC Teracota Bistrita SRL (after it became bankrupt) is held in order to obtain an increase in its value and to be subsequently materialized through sale. As a result, the land was classified in December 2012 as an investment property, being valued at fair value as of that date;

- The Group holds land and buildings (previously used as regional warehouses) in Bucharest, Oradea and Constanta. In September 2013 (Bucharest), November 2013 (Oradea) and January 2013 (Constanta), the management decided that the final purpose of these land and buildings was to be held in order to obtain an increase and value and to be subsequently materialized through sale. As a result, the land and buildings were classified in 2013 as investment properties. In 2016 the management decided to use for the company's purposes the buildings and lands from Bucharest. As such, they were transferred from investment property to land and buildings in PP&E.

As at 31 December 2016 and 2015, the fair value of investment properties is based on the valuation report prepared by an independent valuator and the impact of this valuation was charged to the profit and loss account. The valuation methods used are compliant with the International Valuation Standards.

The valuation methods used are in accordance with the International Valuation Standards using significant input that is unobservable (Level 3 – see Note 2.25).

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

Price per square meter for land range: EUR 6– 120 /sq m depending on the location (minimum 6 EUR/sqm for Saratel location to EUR 120/sqm in Bucharest).

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

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14. INVESTMENT PROPERTIES (continued)

Rent for industrial and commercial premises	EUR 2-5 /sq. m.
Non occupancy rate for logistic and industrial premises	10 – 20%
Average rate of return for Cathegory 1 Cities (locations)	9 – 10 %
Average rate of return for Cathegory 2 Cities (locations)	9.5 – 10.5%

	Year ended 31 December 2016	Year ended 31 December 2015
	RON	RON
Opening balance at 1 January 2016	**12,115,195**	**13,357,561**
Reclassifications to tangible assets	(2,552,065)	-
Decreases	-	-
Net loss from valuation of investment properties at fair value (Note 7)	191,885	(1,242,366)
Closing balance at 31 December 2016	**9,755,015**	**12,115,195**

15. SUBSIDIARIES

As at 31 December 2016, the Teraplast SA holds investments in the following subsidiaries: (Plastsistem SA, Teraglass Bistrita SA, Teraplast Group SRL Republic of Moldova, Teraplast Logistic SRL and Teraplast Hungaria). As at 31 December 2015, the Group holds investments in three subsidiaries (Plastsistem SA and Teraglass Bistrita SRL and Teraplast Group SRL Moldova).

Subsidiary	Place of incorporation and of operations	Main activity	Shareholding 31 December 2016 (%)	Shareholding 31 December 2015 (%)
Plastsistem S.A. Bistrita	Romania	Production of insulation panels	97,75%	97,95%
Teraglass Bistrita SA	Romania	Insulated Joinery production line	100%	100%
Teraplast Logistic SRL	Romania	Logistic services	99%	-
Teraplast Group Moldova	Moldova	Distributor	51%	51%
Teraplast Hungaria	Hungary	Distributor	100%	-

On 26 November 2015, under a Board of Directors Decision, the participation of Teraplast SA, in capacity of shareholder, together with Plastsistem SA, in the set-up of a limited-liability company with the head office in Romania, which to undertake the Teraplast Group companies logistics. The name of the new company, the articles of incorporation, the head office, the activities, the shareholdings of the two shareholders in Teraplast Logistic SRL were approved by the Board of Directors Decision no. 4 of 28 January 2016.

In December 2016 Teraplast SA established a new company in Hungary ("Teraplast Hungaria") to act as a distributor on this market, owning 100% of its share capital of RON 43,881. The company did not have any activity by 31 December 2016 and incurred set-up costs and other operating expenses, determining a negative result of RON 20,873. Since the entity is not significant for consolidation purposes at 31 December 2016, it was not included in these financial statements as a subsidiary. The share capital paid by Teraplast SA is presented in "Other financial investments".

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16. JOINTLY-CONTROLLED ENTITY

The Group holds 50% of the shares of a jointly controlled entity - Politub SA, with the head office in Bistrita, Romania. Romania. Politub's main activities include the production of pipes from average and high density polyethylene for water, gas transport and distribution networks, but also for telecommunications, sewerage systems or irrigations.

The investment in Politub SA is accounted for using the equity method. In 2016, Politub SA Company distributed dividends to the Teraplast Group in an amount RON 4,000,000 (2015: RON 1,954,136).

The summary financial information of the joint venture, based on its IFRS financial statements and the reconciliation with the balance of the investment according to the consolidated financial statements are detailed below:

Balance Sheet

	31.12.2016	31.12.2015
	RON	RON
Non-current assets	15,117,646	16,442,044
Current assets, including cash and short-term deposits RON 6,770,011 (31 December 2015: RON 8,536,428), including profit tax receivable RON 37,144 (31 December 2015: RON 0)	19,479,372	37,632,183
Current liabilities, including profit tax payable RON 0 (31 December 2015: RON 393,061)	5,691,831	18,699,489
Long-term liabilities, including deferred tax liabilities: RON 91,199 (31 December 2015: RON 96,840)	3,546,245	3,504,340
Total equity	**25,358,542**	**31,870,398**
Group's interest in jointly-controlled entity	50%	50%
Group share in the net assets of the joint venture	12,685,958	15,935,199

Profit and loss account

	2016	2015
	RON	RON
Revenue	49,014,160	95,135,855
Cost of goods sold and of services rendered	(46,762,369)	(81,772,998)
General administration expenses	(344,769)	(3,088,712)
Financial loss	(155,547)	(272,853)
Profit before tax	**1,751,475**	**10,001,292**
Income tax expense	(249,957)	(1,763,006)
Profit for the year	**1,501,518**	**8,238,286**
Group's interest in jointly-controlled entity	50%	50%
Group's share of the joint venture's profit	750,759	4,119,143
Group's share of the joint venture's comprehensive income	-	-
Effect on the investment value	750,759	4,119,143

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17. INVENTORIES

	31 December 2016	31 December 2015
	RON	RON
Finished goods	25,576,825	22,709,236
Raw materials	32,903,781	21,911,755
Commodities	3,881,949	4,011,969
Consumables	2,341,688	2,210,560
Inventory items	203,891	192,381
Semi-finished goods	824,489	742,186
Residual products	148,219	122,266
Goods to be purchased	1,035,560	1,340,756
Packaging	142,225	115,120
Inventories – net value	**67,058,627**	58,858,719

The value adjustments are made for all categories of inventory (see above), using both general methods and specific methods according to their age and analyses on the chances to use them in the future.

The categories of inventories with the age of one year or above are 100% adjusted.

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

18. TRADE AND OTHER RECEIVABLES

	31 December 2016	31 December 2015
	RON	RON
Trade receivables	55,265,191	62,435,618
Non-chargeable trade notes	21,985,538	40,422,593
Advances paid to suppliers of assets	851,042	131,138
Advances paid to suppliers of inventories and services	4,335,894	498,528
Advances paid to employees	(1,102)	3,099
Other receivables	1,687,775	2,392,976
Adjustments for trade receivables impairment	(18,205,487)	(19,268,180)
Total	**65,918,851**	**86,615,772**

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

The changes in adjustment for impairment on doubtful receivables

	31 December 2016	31 December 2015
	RON	RON
Balance at the beginning of the year	**(19,268,180)**	**(18,728,918)**
Receivables transferred to expenses during the year	310,383	301,808
Impairment adjustment charged to profit and loss for trade receivables	752,310	(841,070)
Balance at the end of year	**(18,205,487)**	**(19,268,180)**

When determining the recoverability of a receivable, the Group takes into consideration any change in the crediting quality of the concerned receivable starting with the credit granting date until the reporting date. The concentration of the credit risk is limited taking into consideration that the client base is large, but they

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19. SHARE CAPITAL (continued)

are not related to each other. As a result, the Group management is of the view that no adjustment for impairment for credits is needed in addition to the adjustment for doubtful receivables.

	31 December 2016	31 December 2015
	RON	RON
Common shares paid in full	56,643,266	28,887,588
Total	**56,643,266**	**28,887,588**

As at 31 December 2016, the value of the share capital called-up of the Company includes 566,432,660 (31 December 2015: 288,875,880) authorized shares issued and paid in full at a value RON 0.1 and having a total nominal value RON 56,643,266 (31 December 2015: RON 28,887,588). Common shares bear a vote each and give the right to dividends.
The share capital was increased in 2008 by an public purchase offering. 49,645,980 new shares with a nominal value RON 0.1 per share were issued with a share premium RON 0.9 per share. The expenses with the listing on the Bucharest Stock Exchange, in an amount RON 2,436,264, were incurred from the share premium.

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

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

Until 31 December 2012, the redeemed shares have not been distributed, being included in retained earnings.

In March 2013, the Group decided to cancel the redeemed shares by decreasing the share capital. As a result of this decision, during the period March-September 2013, Teraplast SA prepared and sent, according to the legal provisions in force, the documents required for recording the decrease in the share capital called-up and paid-in, by cancelling 9,000,000 own shares, this cancellation being recorded by the Central Depository on 15.10.2013.

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

On 7 December 2015, by an ESGM Decision, the increase in the share capital by RON 8,874,589 was approved through the issue of 88.745.890 new shares with a nominal value RON 0.10/share. The share capital increase was performed by embedding the reserves in an amount RON 8,874,589, set from the net profit for 2014.

The newly-issued shares did not change the shareholdings and were distributed free of charge to all Company shareholders recorded on the Shareholders' Register as at 29 January 2016.

Following this decision, the called-up and paid-in share capital of Teraplast SA is RON 37,762,177, divided into 377,621,770 common shares with a nominal value RON 0.10 each.

On 28 April 2016 by an ESGM Decision, the increase in the share capital by RON 18,881,089 was approved through the issue of 188,810,890 new shares with a nominal value RON 0.10/share. The share capital increase was performed by embedding the reserves in an amount RON 18,881,089, set from the net profit for 2015.

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19. SHARE CAPITAL (continued)

Under the ESGM Decision dated 7 December 2015, the redemption by Teraplast SA of at most 2,000,000 own shares at a minimum price equal to the Bucharest Stock Exchange market price and a maximum price RON 1/share.

Shareholding structure

	31 December 2016		31 December 2015	
	Number of shares	% ownership	Number of shares	% ownership
Goia Dorel	264,955,049	46.776%	135,124,842	46.78%
Viciu Emanoil	25,891,150	4.571%	25,240,069	8.74%
Marley Magyarorszag (Gemencplast Szekszard)	44,874,446	7.922%	22,885,589	7.92%
SILVANIA CENTER SA	18,806,296	3.320%	10,578,610	3.66%
KJK Fund II Sicav-SIF	56,863,685	10.039%	29,000,000	10.04%
FONDUL DE PENSII ADMINISTRAT PRIVAT NN/NN PENSII S.A.F.P.A.P. S.A.	37,707,112	6.657%	-	-
Other individuals and legal entities	117,334,922	20.715%	66,046,770	22.86%
	566,432,660	**100.00%**	**288,875,880**	**100.00%**

20. Legal reserves

	31 December 2016	31 December 2015
	RON	RON
Opening balance (*)	**9,853,112**	7,792,364
Increases / (decreases) in the period	2,553,924	2,060,748
Total	**12,407,036**	**9,853,112**

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

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

21. RETAINED EARNINGS

	31 December 2016	31 December 2015
	RON	RON
Balance at the beginning of the year	**97,590,866**	**16,818,526**
Increase in share capital	(27,755,678)	-
Offsetting the accounting loss carried forward	-	44,952,864
Legal reserve setting	(2,553,924)	(2,060,748)
Net result attributable to the members of the parent entity	39,281,595	34,473,510
Realized revaluation reserve	-	1,365,068
Dividends granted	(7,930,057)	(71,644)
Acquirement of non-controlling interests	-	2,113,290
Other equity elements	(671,685)	-
Balance at the end of year	**97,961,117**	**97,590,866**

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22. NON-CONTROLLING INTERESTS

	31 December 2016	31 December 2015
	RON	RON
Balance at the beginning of the year	200,122	3,594,723
Result for the year	134,576	773,887
Acquirement of non-controlling interests	-	(4,168,488)
Balance at the end of year	334,698	200,122

Acquirement of an additional interest in Terasteel SA (former Plastsistem SA)

During the period February-October 2015, Teraplast SA acquired an additional interest of 19.24% of the voting shares of Plastsistem SA, increasing its shareholding to 97.95%. Shareholders holding non-controlling interests benefited from a cash consideration of RON 2,055,198. The carrying amount of the share of Plastsistem's net assets related to the acquired shares was RON 4,168,488. The additional interest acquired in Teraplast SA is detailed below:

Cash consideration paid to non-controlling shareholders	2,055,198 RON
Carrying amount of additional interest in Plastsistem SA	4,168,488 RON
Difference charged to retained earnings in equity	2,113,290 RON

23. LOANS

	Short-term		Long-term	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
BRD	1,581,058	17,642,040	5,530,623	2,045,860
Unicredit Tiriac Bank	1,897,254	7,186,650	4,074,496	5,615,144
Porsche Bank	352,401	365,777	48,724	401,355
Transilvania Bank	9,999,299	11,322,398	-	-
Leasing (see Note 28)	2,089,102	2,016,558	850,980	2,472,613
Total	15,919,114	38,533,423	10,504,823	10,534,972

All loans have a floating interest rate.

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

Currency	2016	2015
EUR	2,117,992	23,343,083
RON	24,305,945	25,725,312
Total	26,423,937	49,068,395

Bank loans per companies as at 31 December 2016 were as follows:

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23. LOANS (continued)

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Bank loans as at 31 December 2016 are as follows:

A. A short-term credit contract signed with BRD on 10 April 2010 in EUR for financing the working capital. The initial amount was EUR 1.500.000, supplemented up to EUR 3.300.000 starting 15 April 2011. As at 25 October 2016 the amount divided as follows: EUR 1.800.000 available in EUR and EUR 1.500.000 available in RON. The remaining amount as at 31 December 2016 is RON 174,10 (31 December 2015: RON 14.430.925,64 (EUR 3.189.507,27). On 18 June 2015, the credit line was converted into a Multicurrency (RON, EUR, USD) Multioption Limit (Credit Line, Letter of Bank Guarantee, Letters of Credit) with the maturity 18 June 2017.

B. An investment contract signed with BRD in RON as at 24 May 2016. The total approved amount was of RON 13.500.000. The amount used as at 30 December 2016 related to this contract is RON 5.133.317,33. The maturity date is as at 24 May 2022. The interest as at 31 December 2016 is RON 8.751,14.

C. Credit contract – credit line for financing the working capital, renewed with Unicredit Tiriac Bank on 1 October 2013 and expressed in RON. The credit amount is EUR 2,800,000, and resulted from the decrease of the initial amount of EUR 4.800.000 (made of the revolving credit from Unicredit as at 4 September 2016 in amount of EUR 3.500.000 and from short term credit to finance the working capital in amount of EUR 1.300.000) with EUR 3.000.000 and supplementation as at 28 November 2014 with EUR 1.000.000, and is divided as follows: EUR 2.000.000 available in RON and EUR 800.000 available in EUR. The amount used from this contract as at 31 December 2016 was RON 0 for the amount available in RON (as at 31 December 2015 was also RON 0) and RON 0 (EUR 0) for the amount available in EUR (as at 31 December 2015 the amount for the credt line available in EUR was RON 3.565.522,72 (EUR 788.047,90)). The credit line of EUR 1.000.000 as at 31 December 2016 was wholly unused. The maturity date is 3 October 2017.

D. An investment contract signed with Unicredit Tiriac Bank as at 5 February 2015 expressed in EUR and available in RON. The approved amount was EUR 2.000.000 for a period of 12 months. The closing balance as at 31 December 2016 was RON de 5.955.032. The reimburesment is performed in monthly equal instalments of RON 156,712, as at maturity date, 4 February 2020. The interest as at 31 December 2016 is RON 16.716.

E. An investment contract signed with Porsche Bank as at 28 November 2013 expressed in RON for the acquisition of vehicles. The initial amount was of RON 1.189.532. The remaining amount from this contract as at 31 December 2016 was RON 293.737,22 (31 December 2015: RON 601.616,87). The maturity date is in November 2017, and the reimbursement schedule is from December 2013 as at 27 November 2017).

F. Investment contract signed with Porsche Bank as at 31 March 2015 in RON for the acquisition of vehicles The initial amount was of RON 111.596. The remaining amount from this contract as at 31 December 2016 was RON 61.903,96 (31 December 2015: RON 89.290,86). The maturity date is in March 2019, and the reimbursement schedule is from Aprilie 2015 as at 1 March 2019.

G. Credit contarct - credit line for financing the working capital, signed with Banca Transilvania as at 27 August 2013 in RON. The total amount is of RON 13.250.000 resulted from the supplementation of the initial line in amount of RON 11.250.000 with RON 2.000.000 as at 28 August 2014, the amount related with an revolving short term credit for financing the working capital. The remaining amount as at 31 December 2016 is of RON 835.876,94 (31 December 2015: RON 4.121.792,91). The maturity date is at 20 August 2017.

23. LOANS (continued)

H. Credit contarct - credit line for financing the working capital, signed with Raiffeisen Bank as at 1 July 2016 in RON. The approved amount is of RON 5.000.000. The remaining amount as at 31 December 2016 is of RON 0. The maturity date is 1 July 2017.

I. As at 27 August 2013 the company signed a contract with Banca Transilvania – for multicurrency letters of guarantee (SGB) with multiple usage with maturity dateas at 24 August 2015, prolonged for 24 months starting with 20 August 2015. The total amount is of RON 1.750.000. Among this contact, as at 31 December 2016 is a valid SGB for good pay in favor ROMPETROL DOWNSTREAM worth £ 360,000 with a validity period 30.05.2016-30.06.2017.

As at 31 December 2016, the Company has non-used credit facilities in an amount EUR 2.600.000 and RON 33.307.973 and investment credits non-used in amount of RON de 8.366.683.

For the loans from banks, the Group guaranteed by means of all current and future cash, the merchandise and product inventories, either current or future, and assigned the current and future rights of debt, and their accessories arising from current and future contracts with its clients, in capacity of assigned debtors. Moreover, the Group has assigned the rights resulting from the insurance policies issued for movable and immovable properties set as guarantee.

Terasteel

A. Credit contract- credit line for financing the working capital, signed with Banca Transilvania as at 26.09.2015 in RON for the amount of RON 13.500.000 and supplemented as at 21.10.2015 with the amount of RON 1.000.000. The total approved amount was of RON 14.500.000. The remaining amount as at 31 December 2016 is RON 9.163.422. The maturity date is 21 September 2017.

B. Investment contract signed with BRD as at 21.02.2012 in EUR granted to co-finance private contributions to the eligible costs of the project "Integrated innovative construction system: steel structure built from galvanized light profiles and tire foam insulation panels" implemented under the Financing Agreement signed, no.109 of 09.03.2010, with Managing Authority POSCCE. The total amount is EUR 1.200.000. As at 31 December 2016 the amount used from this contract is RON 2.037.634 (31 December 2015: RON 3.031.392).The maturity date is February 20, 2019.

C. Investment contract signed with Porsche Bank as at 29 November 2013 in RON for the purchase of cars. The initial amount is RON 59.936. The remaining amount of the contract as at 31 December 2016 is of RON 14.793 (31 December 2015: RON 32.643). The maturity date is November 28, 2017.

D. Investment contract signed with Porsche Bank as at 23 December 2014 in RON for the purchase of cars. The initial amount is RON 61.816. The remaining amount of the contract as at 31 December 2016 is of RON 30.691 (31 December 2015: 43.580 RON). The maturity date is 22 December 2018.

As at 31 December 2016, the Company has non-used credit facilities in an amount RON 5.336.578 (31 December 2015: RON 7.340.796).

Loans and short term loans are secured by available cash of Terasteel, both present and future, the corresponding current accounts at the banks where are contracted loans and the transfer of stocks and commercial contracts.

As at 31 December 2016 the company has issued letters of guarantee / letters of credit amounting to EUR 3.000.000, expiring on 2 February 2018. This amount includes as at 31 December 2016 the following letters of guarantee / letters of credit:

The short-term loans and credits of Terasteel SA are secured by means of the cash availabilities, both current and prospective, of the current accounts corresponding to the banks which the credits were contracted from, and of assignment of inventories and commercial contracts.

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23. LOANS (continued)

As at 31 December 2016 the company has issued letters of guarantee / letters of credit amounting to EUR 3.000.000, expiring on 2 February 2018. This amount includes as at 31 December 2016 the following letters of guarantee / letters of credit:

No.	Beneficiary	Amount	Currency	Amount in RON	Date of issue	Date of expiry
1	Anaf	151.545	LEI	151.545	09.11.2015	15.09.2017
2	Kamaridis Steel	307.670	EUR	1,397,160	09.09.2016	30.11.2016
3	Kamaridis Steel	163.350	EUR	714,789	21.11.2016	02.03.2017
4	MMK METALURJI SANAYI TICARET VE LIMAN ISLT.A.	490.837	EUR	2,228,940	06.09.2016	28.11.2016

24. EMPLOYEE BENEFIT LIABILITIES AND PROVISIONS

	Short-term		Long-term	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	RON	RON	RON	RON
Employee benefits	-	-	351,936	295,226
Provisions for risks and expenses	3,056,820	3,173,704	-	-
Total	**3,056,820**	**3,173,704**	**351,936**	**295,226**

The Group has established a benefit plan according to which the employees are entitled to receive retirement benefits according to the seniority within the Group when they turn the retirement age of 65 for men and of 61 for women. There are no other post-retirement employee benefits. The provision represents the present value of the retirement benefit as calculated on an actuarial basis.

The latest actuarial valuations were performed on 31 December 2016 by Mr. Silviu Matei, a member of the Romanian Actuarial Institute. The present value of the defined benefit obligations and the current and past costs of related services have been measured using the projected unit credit method.

Employee benefits	31 December 2016	31 December 2015
	RON	RON
Opening balance	295,226	388,962
Movements	56,710	(93,736)
Closing balance	**351,936**	**295,226**

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24. EMPLOYEE BENEFIT LIABILITIES AND PROVISIONS (continued)

Current provisions	31 December 2014	Net movements	31 December 2015
	RON	RON	RON
Provisions for environmental expenses	2,917,492	(808,167)	2,232,209
Provisions for litigation	559,915	(2,205)	557,710
Other provisions	514,444	(130,659)	383,785
Closing balance	**3,991,851**	**(818,147)**	**3,173,704**

Current provisions	31 December 2015	Net movements	31 December 2016
	RON	RON	RON
Provisions for environmental expenses	2,232,209	(428,700)	1,803,509
Provisions for litigation	557,710	-	557,710
Other provisions	383,785	311,816	695,601
Closing balance	**3,173,704**	**(116,884)**	**3,056,820**

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

Furthermore, the Company has set provisions for different litigations incurred as normal part of the business.

25. TRADE PAYABLES

	31 December 2016	31 December 2015
	RON	RON
Trade payables	42,033,133	54,310,938
Trade notes payable	1,135,134	1,114,492
Liabilities from the purchase of non-current assets	1,048,798	587,112
Other current payables (Note 27)	5,618,028	7,885,599
Advance payments from clients	3,205,932	2,989,493
Total	**53,041,025**	**66,887,634**

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26. OTHER CURRENT LIABILITIES

	31 December 2016	31 December 2015
	RON	RON
Salary-related payables to employees and social security payables	3,281,271.	3,684,636
VAT payable	823,848	3,195,108
Unclaimed employee rights	87,807	86,626
Sundry creditors	238,395	465,344
Commercial guarantees received	118,243	110,485
Other taxes payable	286,324	332,906
Dividends payable	737,892	10,494
Total	**5,573,780**	**7,885,599**

27. FINANCIAL LEASE OBLIGATIONS

Lease contracts

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

Finance lease liabilities

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

	Minimum lease payments		Discounted value of the minimum lease payments	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	RON	RON	RON	RON
Present value of minimum lease payments				
Amounts payable in one year	2,089,102	2,174,788	1,576,893	2,016,558
More than one year but less than five years	850,980	2,535,850	537,282	2,472,613
Above 5 years	-	-	-	-
Total lease liabilities	**2,940,082**	**4,710,638**	**2,114,175**	**4,489,171**
Minus future financial expenses	(73,747)	(221,467)		
The current value of financial lease liabilities	**2,866,335**	**4,489,171**		
Included in financial statements (Note 24)				
Short-term loans	1,576,893	2,016,558		
Long-term loans	537,282	2,472,613		

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28. FINANCIAL INSTRUMENTS

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

(a) Capital risks management

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

The structure of the Group capital consists in debts, which include the loans detailed in Note 24, the cash and cash equivalents and the equity attributable to equity holders of the parent. Equity includes the share capital, reserves and retained earnings, as detailed in Notes 20, 21, 22 and 23, respectively.

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

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

The gearing ratio as at 31 December 2016 and 2015 was as follows:

	2016	2015
	RON	RON
Total loans (Note 23)	26,423,937	49,068,395
Less cash and cash equivalents	(16,032,373)	(12,555,770)
Net debt	**10,391,564**	**36,512,625**
Total equity (less non-controlling interests)	**216,923,646**	**183,232,984**
Total equity and net debt	**226,980,514**	**219,745,609**
Gearing ratio	**5%**	**17%**

The Group is subject to capital requirements provided by the legal regulations in force governing the net-asset-to-share-capital ratio. The net asset, calculated as the difference between total assets and total liabilities must exceed 50% of the share capital amount. According to the Company Law 31/1990 as republished.

When this requirement is not met, the administrators must immediately convene the Extraordinary General Meeting to decide on whether to increase the share capital or decrease the share capital by an amount at least equal to the losses that cannot be covered from the existing reserves, or to dissolve the company.

The Group met this requirements as at 31 December 2016 and 31 December 2015.

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

(d) Market risk

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

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

(e) Foreign currency risk management

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

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

	31 December 2016		31 December 2015	
	RON	RON	RON	RON
Profit or (loss)	831,177	(831,177)	5,493,592	(5,493,592)

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

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28. FINANCIAL INSTRUMENTS (continued)

(f) Interest rate risk management

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

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

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

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

As at 31 December 2016, in the case of a 1% increase/decrease of the interest rate on loans, with all the other variables held constant, the net profit for the period would fluctuate as follows, mainly as a result of the higher/lower interest expenses on floating interest loans.

	31 December 2016		31 December 2015	
	RON	RON	RON	RON
Profit or (loss)	144,197	(144,197)	490,684	(490,684)

(g) Other price risks

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

(h) Credit risk management

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

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

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

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

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28. FINANCIAL INSTRUMENTS (continued)

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

(i) Liquidity risk management

The ultimate responsibility for liquidity risk management lies with the Board of Directors, which have developed an appropriate liquidity risk management framework in terms of ensuring funding for the Group on the short, medium and long-term and managing liquidities. The Group manages the liquidity risks by maintaining appropriate reserves, bank facilities and reserve loan facilities, by continuously monitoring actual cash flows and by correlating the maturity profiles of financial assets and liabilities. Note 24 includes a list of additional facilities not drawn by the Company, which the Group has in order to further reduce the liquidity risk.

(j) Fair value of financial instruments

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

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

	31 December 2016	31 December 2015
	RON	RON
Not due	51,682,587	77,041,511
Overdue, but not impaired	7,362,655	7,100,473
Impaired and provisioned in full	18,205,487	19,268,180
Total	**77,250,729**	**103,410,164**

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

Overdue, but not impaired:

	31 December 2016	31 December 2015
	RON	RON
Below 3 months	6,614,776	7,026,274
3 to 6 months	653,695	60,816
6 to 9 months	13,566	123
Above 9 months	80,618	13,260
Total	**7,362,655**	**7,100,473**

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28. FINANCIAL INSTRUMENTS (continued)

Impaired and provisioned in full

	31 December 2016	31 December 2015
	RON	RON
Below 6 months	1,848,264	1,175,429
6 to 12 months	506,522	230,244
Above 12 months	15,850,700	17,862,507
Total	**18,205,486**	**19,268,180**

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28. FINANCIAL INSTRUMENTS (continued)

Tables on liquidity and interest rate risks

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

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

2016	Below 1 month	1-3 months	3 months to 1 year	1-3 years	3 - 5 years	Above 5 years	Total
Non-interest bearing							
Trade payables and other liabilities	(29,058,550)	(23,376,398)	(105,745)	(500,332)	-	-	**(53,041,025)**
Interest-bearing instruments							
Short and long-term loans	(1,308,327)	(3,924,458)	(10,597,089)	(7,572,566)	(3,021,497)	-	**(26,423,937)**
Future interest	(6,722)	(11,641)	(23,894)	(5,437)	-	-	**(47,694)**
Non-interest bearing							
Cash and cash equivalents	16,032,373	-	-	-	-	-	**16,032,373**
Receivables	33,325,727	29,581,343	2,931,162	20,784	59,835	-	**65,918,851**

2015	Below 1 month	1-3 months	3 months to 1 year	1-3 years	3 - 5 years	Above 5 years	Total
Non-interest bearing							
Trade payables and other liabilities	(28,533,873)	(30,425,446)	831,399	(58,395)	-	-	**(58,186,315)**
Interest-bearing instruments							
Short and long-term loans	(838,614)	(1,695,982)	(35,998,827)	(8,366,977)	(2,167,995)	-	**(49,068,395)**
Future interest	(300,416)	(591,772)	(2,508,596)	(1,186,950)	(89,427)	-	**(4,677,161)**
Non-interest bearing							
Cash and cash equivalents	12,555,770	-	-	-	-	-	**12,555,770**
Receivables	37,143,123	43,906,722	3,820,416	119,796	-	-	**84,990,057**

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29. RELATED PARTY TRANSACTIONS

The transactions between the Parent entity and its subsidiaries, related parties of the Group, were eliminated from the consolidation and are not presented in this note.

Jointly controlled entities as of 31 December 2015 and 2016 - Politub SA

	31 December 2016	31 December 2015
	RON	RON
Purchases of goods and services	2,837,730	4,291,840
Sales of goods and services	1,232,408	2,727,635
Credit balances	304,367	399,734
Debit balances	-	819,185

There are other related parties of the Group which are considered affiliates if a party holds control or exercises significant influence over the other parties. For 2016 these are Omniconstruct SA, Ditovis Impex SRL, ACI Cluj SA, Ferma Pomicola Dragu SRL, La Casa Ristorante Pizzeria Pane Dolce S.A., Electrogrup SA, RSL Capital Advisors SRL, KJK Caramida SRL, Eurohold AD Sofia, Cemacon SA, Optoel SRL, Compet SA, Mundus Services AD, Crisware Holdings Limited, Crisware Holdings SRL, Prefera Foods SA, Policol SA, HOŢOLEANU MIRCEA PFA. For 2015 these are as follows: ACI Cluj SA (sales of goods), Ferma Pomicola Dragu SRL, La Casa Ristorante Pizzeria Pane Dolce S.A. Condmag SA. Omniconstruct SA, Art Investment & Management SRL, GM Ecoinstal, Magis Investment, Ditovis Impex SRL, Electrogrup SA, RSL Capital Advisors SRL, KJK Caramida SRL, Eurohold AD.

	31 December 2016	31 December 2015
	RON	RON
Sales of goods and services	261,983	1,428,383
Purchases of goods and services	262,969	88,300
Debit balances	15,121	823,700
Credit balances	19,335	4,384

Compensations to the members of senior management

The remuneration of the directors, other members of senior management and executive personnel amounts to RON 3,419,706 (2015: RON 3,936,681) is determined by the shareholders, according to the persons' performance and payment conditions.

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30. CASH AND CASH EQUIVALENTS

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

	31 December 2016	31 December 2015
	RON	RON
Cash in bank	15,897,956	12,403,778
Cash on hand	97,343	61,443
Cash equivalents	37,074	90,549
Total	**16,032,373**	**12,555,770**

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

31. COMMITMENTS AND CONTINGENT LIABILITIES

Teraplast SA

As at 31 December 2016, the Group has letters of guarantee issued, as detailed below:

Issuer	Validity period	Amount	Currency	Guarantee purpose
Banca Transilvania	30.05.2015 - 30.06.2017	360,000	RON	Good performance in favor of ROMPETROL DOWNSTREAM

Plastsistem SA

As of 31 December 2016, the Group had issued letters of guarantee / letters of credit amounting to EUR 3,000,000, expiring on 2 February 2018. This amount includes the following letters of guarantee / letters of credit issued according to the details below:

Issuer	Validity period	Amount	Currenc y	Guarantee purpose
Banca Transilvania	06.09.2016-28.11.2016	490.837	EUR	MMK METALURJI SANAYI TICARET VE LIMAN ISLT .A.
Banca Transilvania	09.11.2015-15.09.2017	151.545	RON	ANAF
Banca Transilvania	09.09.2016-30.11.2016	307.670	EUR	KAMARIDIS STEEL
Banca Transilvania	21.11.2016-02.03.2017	163.350	EUR	KAMARIDIS STEEL

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31. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Teraglass

Issuer	Validity period	Amount	Currency	Beneficiary
BRD	27.09.2016-26.09.2017	30,000	RON	Rompetrol Downstream SRL

Teraplast Logistic SRL

Issuer	Validity period	Amount	Currency	Beneficiary
BRD	25.08.2016-24.08.2017	200,000	RON	Rompetrol Downstream SRL
BRD	29.09.2016-21.09.2017	100,000	RON	Societatea Cardoil Avantaj SRL

Potential tax liabilities

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

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

Environmental matters

The main activity of the Company has inherent effects on the environment. The environmental effects of the Group activities are monitored by the local authorities and by the Group management. As a result, no provisions were set for any kind of potential obligations currently unquantifiable in relation to environmental matters or actions for their remedial, excepting those detailed in Note 25.

Transfer pricing

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

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32. EVENTS AFTER THE BALANCE SHEET DATE

Teraplast concluded on 1 March 2017 an agreement for the purchase of the 50% of the stake held by the shareholders of Depaco SRL, the second player on the metallic sheet tiles market with the brand Wetterbest. The purchase of the stake is conditioned by the approval of the transaction by the General Meeting of Shareholders of Teraplast SA and by the obtaining of the favorable approval of the Competition Council.

On January 2017, Teraplast Sa sold its participation in Teraplast Group SRL (from Republic of Moldova), respectively 51% of the share capital, in amount of MLD 2,754(RON 662), for the price of MLD 2,754.

On 5 January 2017, the Board of Directors approved through a Decision Teraplast SA's participation as shareholder in setting a limited liability company in Serbia, Teraplast SA being sole shareholder. Through the current report to the Bucharest Stock Exchange on 5 January 2017, the Company's Board of Administration informed the shareholders and the potential investors concerning this decision.

33. INVESTMENT SUBSIDIES

Investment subsidies refer to investments made mainly by the Terasteel SA Company mainly for production equipment. There are no unfulfilled conditions or other contingencies related to such subsidies.

	2016	2015
	RON	RON
As at 1 January	**3,840,702**	**4,307,969**
Received during the year	18,564	-
Transferred to profit and loss	(467,267)	(467,267)
As at 31 December	**3,391,999**	**3,840,702**
Current	463,441	467,267
Long-term	2,928,558	3,373,435

As of 31 December 2016, the total value of the subsidies recorded was of RON 3,391,999 recognized as deferred income in the balance sheet and transferred to profit and loss on a systematic and reasonable basis, during the life of the related assets.

34. SHARE-BASED PAYMENT

As at 31 December 2015, the management reached an agreement with the employees eligible to receive the 2015 performance bonus for this bonus to be paid in the form of shares, as part of the General Share Options Plan (GSPO).

As a result, the amount RON 950,500 was settled in shares and was included in the reserve of share-based benefits as at 31 December 2015. The total value of the performance bonus for 2015 is RON 1,328,000.

Following this decision, Teraplast SA started on 8 February 2016, aquistion of own shares necesarry.
On May 2016, Teraplast distribuited partially a total number of 840,947 shares in amount of RON 499,520. In February 2017 the renumeration in shares was completed considering a total number of 1,159,053 shares.

As at 31 December 2016, there are no share compensation plans.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Administration and authorized for issue on 23 March 2017.

SOCIETATEA TERAPLAST S.A.

Mircea Hotoleanu
CEO

Edit Orban
CFO

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KPMG
24. MAR. 2017
Initialised for identification

The Board of Directors report on the stand alone financial statements of Teraplast SA prepared in accordance with the International Financial Reporting Standards (IFRS)

Financial year: 2016

Name of the company: TERAPLAST S.A.

Headquarters: Bistrita, Teraplast Industrial Park, DN 15A, KM 45+500

Phone/fax: 0263 238202; Fax: 0263 231221

Sole registration number at the Trade Register Office: 3094980

Trade Register No: J06/735/1992

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

Subscribed and paid share capital: 56,643,266 lei

Main features of securities issued by the trading company:

- 566,432,660 registered shares with a nominal value of 0.1 lei/share

The Board of Directors of Teraplast SA, appointed by the General Meeting of Shareholders, has drawn up for fiscal year 2016 this report on the balance sheet, profit and loss account, equity records, cash flows and accounting policy, as well as explanatory notes included in the 2016 consolidated financial statements of Teraplast Group.

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

Equity	**216,923,646 lei**
Turnover	**398,788,273 lei**
Net result – profit	**39,416,171 lei**
Of which, attributable to the equity holders of the parent – profit:	39,281,595 **lei**
Comprehensive income for the year – profit:	**41,916,390 lei**

The financial statements have been drawn up in accordance with:

(i) Accounting Law 82/1991 republished in June 2008 ("Law 82")

(ii) International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

The consolidated financial statements includes the financial statements of the parent company, of the subsidiaries and of the jointly-controlled unit. Teraplast Group has been audited by KPMG Audit SRL, independent auditor. The audit results are presented in the Report of independent auditor KPMG Audit SRL.

The control is obtained when the company has the power to control the financial and operational politics of an entity in order to obtain benefits from its activity.

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

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

The application of IAS 27(revised in 2010) had as a result changes in the accounting politics of the Group regarding modifications of ownership in subsidies.

Specifically, the revised standard affected the accounting politics of the Group regarding modifications of ownership in its subsidies, which does not have as a result the loss of control. In the previous years, in the absence of specific IFRS requests, the increments in the existing subsidies were handled in the same manner as the acquisition of subsidies, with commercial fund or with a gain recognized from an acquisition by negotiating, by case: for the decrease of the existing subsidies which not implicate a loss of control, the difference between the received price and the adjustment of non-controlling interests was recognized in the profit and loss account. According to IAS 27 (revised in 2010), all there increases and decreases are treated in the equity, without impact on the commercial fund or on the profit and loss account.

When control is lost in a subsidiary as a result of a transaction, event of circumstances, the revised Standard stipulates the Group the unrecognized all the assets, liabilities and non-controlling interests at the accounting value and to recognize the just value of the received price. Any interests retained in a subsidiary is recognized as a gain or a loss in the profit and loss account.

1. Analysis of Group's activity

These are the financial statement of Teraplast Group. The consolidation includes the following companies: Acestea sunt situatiile financiare consolidate ale Grupului Teraplast. Perimetrul de consolidare cuprinde societatile Teraplast S.A. („parent company"), Politub SA ("jointly-controlled unit"), Teraglass Bistrita SRL („subsidiary"), Teraplast Logistic SRL („subsidiary"), TeraSteel SA („subsidiary"), Teraplast Group SRL („subsidiary) and Teraplast Hungaria.

a) Description of the basic business activity of the parent company:

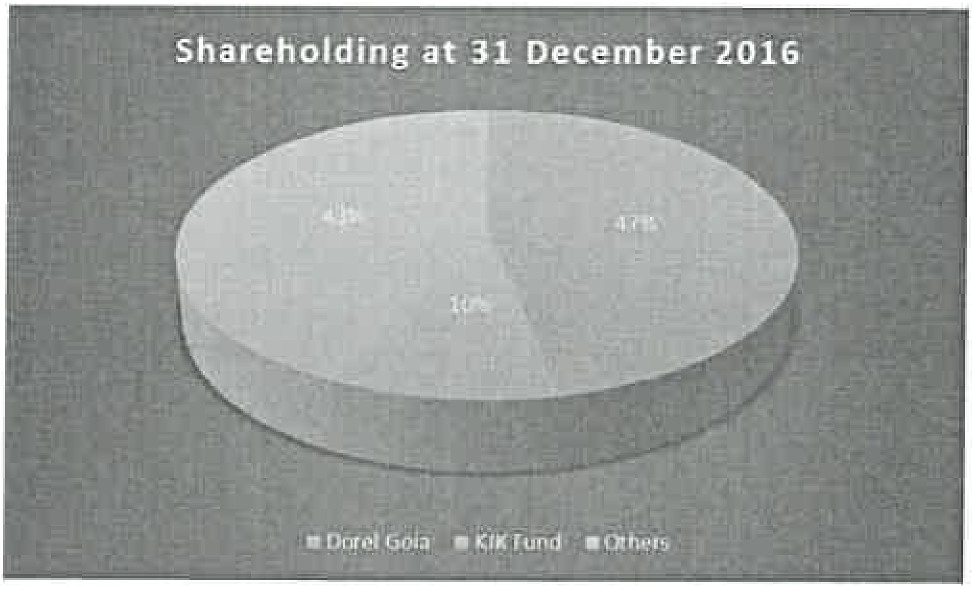
Our company is operating based on Company Law 31 / 1990 (with subsequent amendments and additions) and the Stock-market Law 297/2004. According to Item 6 of the Memorandum of Association our field of activity is: "Manufacture of plastic plates, sheets, tubes and profiles".

b) Date of establishment:

Teraplast S.A. is a joint-stock company established in Romania in 1992 by taking over the activities carried out by *Intreprinderea de Materiale de Constructii Bistrita* [Building Materials Company of Bistrita].

c) Mergers or significant reorganisation of the Company or its controlled companies during the fiscal year:

Teraplast is a company with Romanian majority capital, being listed on the Bucharest Stock Exchange since 2008. The subscribed and paid-in capital at the end of fiscal year 2016 is of 56,643,266 lei. The shareholders' structure at the end of the assessed period is the following:



Teraplast (TRP) is currently one of the leading Romanian manufacturers for the construction, fittings and arrangement market. Our company's product portfolio covers three lines of business: Fittings & Arrangement, Joinery profiles and Granules. The Thermal Insulation line of business has been transferred, as of April 2015, to a separate entity – Teraglass. Teraplast owns manufacturing facilities divided to a PVC plant (PVC pipe department, PVC panel department, PVC joinery profile department, PVC granules department) and the Polyolefin plant (PE manhole and storage tanks department, PVC & PP fittings department and PP tubes department).

The subsidiaries of the Group in which Teraplast has direct holding are: Politub SA, TeraSteel SA, Teraglass Bistrita SRL, Teraplast Group SRL, Teraplast Hungaria and Teraplast Logistic SRL.

TeraSteel is a manufacturer of polyurethane foam and zinc coated sandwich panels. At the end of 2016 Teraplast's shareholding in TeraSteel was of 97.95%, as compared to 78.71% in 2015. As of 2013, TeraSteel has been manufacturing metal zinc coated structures for constructions. The investment in the new zinc coated structures totalled 2.5 million Euros and had 50% European funding via the Sectoral Operational Programme "Increase of Economic Competitiveness". Zinc coated structures have replaced the classic metal structures in TeraSteel's portfolio.

Politub is a manufacturer of medium and high density PE tubes and pipes designed for water and natural gas transmission and distribution, but also for telecommunications, sewage and irrigations. Politub also manufactures fittings (adapting pieces) from PE pipe segments and polyethylene tubes with structured walls (corrugated pipes). Teraplast's shareholding in Politub is 50%, the other shareholder being the French company Socotub.

Limited company Teraglass Bistrita SRL was set up in 2011 and Teraplast SA is a 100% shareholder. In 2015 Teraplast decided to transfer the Thermal Insulation line of business to Teraglass Bistrita SRL. The transfer of activity implies renting the real estate where the manufacturing activity is developed (land and buildings), and the manufacturing equipment will be sold to Teraglass Bistrita. The transaction price will be established according to an evaluation report prepared by an independent expert. Teraplast will maintain ownership over the sold assets until the full payment of the price. The thermal insulation plant is located in Bistrita, was built in 2004 and was not included in the plan for relocation to Teraplast Industrial Park at Saratel.

The company Teraplast Logistic SRL was established in 2016, and Teraplast has the quality of shareholder with 99% of share capital. Teraplast Logistic SRL took over all the logistic activities (warehousing and transport). The outsourcing of the logistic activities is made in the context of which Teraplast Group intends to focus on core business activities, while the related activities are to be run to separate entities.

The company Teraplast Group SRL was established in 2015, and Teraplast has the quality of shareholder with 51% of its share capital.

d) Describing acquisitions and/or sale of assets;

The total company assets as of 31st December 2016 was 306.906.515 lei, with 5.220.703 lei less than the value recorded at the beginning of the year, out of which:

- 3.580.086 lei representing decreases of the company's circulating assets (stocks, receivables, cash);
- 1.640.617 lei representing decreases of the company's fixed assets;

e) Main results of the Group's activity appraisal;

- **Situation of the profit and loss account** - namely costs and income grouped according to their source in 2016 are as follows:

Profit and loss account (thousand lei)	**2016**	**2015**
Net turnover	**398.788**	**393.542**
Variation of stocks of finished products and underway production – balance C/(D)	3.980	3.851
Other operating income	677	1.253
Operating income – TOTAL	**403.445**	**398.646**
Costs with raw materials, used consumables and goods	(267.833)	(272.566)
Employee entitlement expenses	(34.047)	(32.555)
Provisions, adjusting entries for amortisation and depreciation	(15.235)	(15.826)
-out of which depreciation of fixed assets and amortisation	(15.638)	(15.327)
Earnings/losses from tangible and intangible assets	(38)	(195)
Earnings/losses from investment evaluation at their actual value	192	(1.242)
Other operating expenses	(39.891)	(36.258)
Operating expenses – TOTAL	**(356.852)**	**(358.643)**

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Operating profit	**46.593**	**40.003**
Financial income	3.769	4.168
Financial costs	(5.979)	(7.434)
Financial result	**(2.210)**	**(3.266)**
Share of the profit or loss of the joint venture accounted for using the equity method	**751**	**4.119**
Total income	**407.965**	**406.933**
Total expenses	**368.548**	**371.686**
Gross result	**45.133**	**40.857**
Tax on profit	(5.717)	5.610
Net profit	**39.416**	**35.247**
EBITDA	**61.347**	**58.994**

- The Group has determined EBITDA as follows:

Indicators (thousand lei)	**2016**	**2015**
Net profit	39.416	35.247
Interest expense	939	1.493
Amortization expense	15.847	15.748
Fixed and current asset depreciation	(574)	896
Current tax expense and deferred tax expense	5.717	5.610
EBITDA	**61.347**	**58.994**

- The changes in assets are:

Assets (thousand lei)	**2016**	**2015**	**Differences**
1.1. Fixed assets, out of which:	**157.570**	**159.211**	(1.641)
1.1.1. Tangible assets	133.698	130.065	3.633
1.1.2. Real estate investment	9.755	12.115	(2.360)
1.1.3. Intangible assets	1.371	1.080	292
1.1.4. Investments in the joint venture accounted for using the equity method	12.686	15.935	(3.249)
1.1.5. Investments in subsidies	60	16	44
1.1.6. Other financial fixed assets	0	0	0
1.2. Current assets, out of which:	**149.336**	**152.916**	(3.580)
1.2.1. Stocks	67.059	53.356	13.703
1.2.2. Trade receivables and similar	65.919	86.616	(20.697)
1.2.3. Prepayments	326	388	(62)
1.2.4. Recoverable tax on profit		0	16.032
1.2.5. Cash and short term deposits	16.033	12.557	3.476
1.3. Assets for sale	**0**	**0**	0
Total assets	**306.907**	**312.127**	(5.220)

- The liability structure in the company balance sheet as of 31st December 2016 is:

Liabilities (thousand lei)	2016	2015	Differences
1.1.Total share capital, out of which:	**56.643**	**28.888**	27.755
1.1.1. Subscribed capital	56.643	28.888	27.755
1.2. Other elements of capital	451	951	(500)
1.3. Share premium	27.385	27.385	0
1.4. Revaluation reserve	21.742	18.566	3.176
1.5. Legal reserves	12.407	9.853	2.554
1.6. Reported result	97.961	97.591	370
Stockholders' equity	216.589	183.233	33.356
Non-controlling interests	335	200	135
Total equity	**216.924**	**183.433**	33.491
1.2. Long-term liabilities	**17.313**	**18.186**	(873)
1.2.1. Loans and finance lease liabilities	10.505	10.535	(30)
1.2.2. Other long term liabilities	-	-	
1.2.3. Liabilities for employee benefits	352	295	57
1.2.4. Investment subsidies – noncurrent portion	2.929	3.373	(444)
1.2.5. Deferred tax liabilities	3.528	3.982	(454)
1.3. Current liabilities	**72.670**	**110.508**	(37.838)
1.3.1. Trade and other payables	53.041	66.888	(13.847)
1.3.2. Loans and finance lease liabilities	15.919	38.533	(22.614)
1.3.3. Other current financial liabilities		-	
1.3.4.Income tax payable	189	1.446	(1.257)
1.3.5. Investment subsidies – current portion	463	467	(4)
1.3.6.Provisions	3.057	3.174	(117)
Total liabilities	**89.983**	**128.694**	(38.711)
Total equity and liabilities	**306.907**	**312.127**	(5.220)

Group's **Equities** decreased in fiscal year 2016 by 5,220 thousand lei.

The **legal reserve** amounts to 12,407 thousand lei and represents 22% of the share capital.

Group's **total debts** decreased by 38,711 thousand lei mainly following decrease of commercial liabilities.

The evolution of current assets and liabilities is as follows:

Assets (thousand lei)	2016	2015
Current assets	149.336	152.916
Current debts	72.670	110.508
Net current assets	76.666	42.408

The bookkeeping was made by the company's own accounting and financial service, designed to keep an accurate and updated track of accounting operations, to observe the accounting principles as well as accounting rules and methods provided by the applicable regulations. The balance sheet has been drawn up according to the checking balance and synthetic accounts, and observance of methods of regulation and rules for establishing the balance sheet was intended, balance sheet entries with bookkeeping data recordings being in agreement with the real situation of stock list-based entries.

The profit and loss account accurately reflects the 2016 income, expenses and financial results. An inventory was made for Group's total assets, the results being mentioned in the bookkeeping records and the balance sheet. The company has organized a preventive financial control activity.

The internal audit for fiscal year 2016 was conducted by General Consulting MGI.

Elements of general evaluation

a) Profit/(loss):

Indicators (thousand lei)	Actual 2016	Actual 2015
Gross profit (loss)	45.133	40.857
Net profit (loss)	39.416	35.247

In the analyzed period the Group's net profit had the value of 39.42 million lei, as compared to 35.25 million lei in 2015. The evolution of the net profit was mainly supported by the significant improvement of our operating performance, i.e. Teraplast Group achieved in 2016 an **operating result** of 46.69 million lei as compared to 40 million lei for the similar 2015 period.

b) Turnover:

Indicators (thousand lei)	Actual 2016	Budget 2016	Actual 2015	▲% vs 2015	▲% vs Budget
Turnover	398.788	473.241	393.542	1	(16)

The market segments of Teraplast Group had in 2016 a fluctuant evolution. Residential and non-residential had a good evolution, while the environment infrastructure segment had a good evolution in the first part of the year while there were still available the financing from de previous budgetary exercise (2007-2013), but starting with July the infrastructure entered a deadlock. In the new budgetary exercise 2014-2020 the environment infrastructure (water and sewage) has over 6.32 billion EUR available non-returnable financing. However, after 2 years since the launch of the new financing axis none of the 43 new environment infrastructure projects is in the working contracts signing phase, most of them being at the most in the projecting phase.

c) Export:

Indicators (thousand lei)	2016	2015	▲% vs 2015
Turnover	**398.788**	**393.542**	**1%**
Export/EUR	19.409	13.879	
Export/LEI	88.134	70.827	24%

The evolution of the turnover was also supported by the exports which increased by approximately 24% as compared to the similar period of last year. Teraplast Group exports in Germany, Austria, Hungary, Slovenia, Czech Republic, Slovakia, Italy, Bulgaria, Serbia or Belgium.

d) Costs:

Expenses (thousand lei)	2016	2015
Raw materials, used consumables and goods		
Costs with raw materials	218.478	228.979

Costs with consumables	14.857	16.459
Costs with goods	33.688	26.495
Used packages	810	634
TOTAL	**267.833**	**272.566**
Employee entitlement expenses		
Salaries	26.180	23.897
National insurance fund contributions	6.586	5.944
Meal vouchers	1.300	1.108
Other benefits for employees	(20)	(94)
Expenses representing the employees participation to profit as benefits based on shares	-	951
Expenses with bonuses representing the employees participation to profit	-	377
Contributions afferent to employees participation to profit	-	372
Incomes from operating subventions for employees payment	-	-
TOTAL	**34.047**	**32.555**

e) **Market share:**

Considering that our Group's products are diverse, a global market share cannot be determined.

f) **Cash flow:**

The Group had in the accounts at December 31st 2016 the amount of **16,03 million lei.**

1.1.2 Evaluation of the Group's technical level

a) The production facilities of the companies in the Group are located in the Teraplast Industrial Park, developed outside Bistrita, on a surface of over 21.200 sqm. During 2007-2014 Teraplast Group invested over 200 million lei in the development and the modernization of the production capacities, but also in the products portfolio extension. Teraplast Group currently holds in Saratel production capacities on an area of over 21.200 square meters, divided into: PVC Products Factory (Department of PVC pipes, Department of PVC paneling, Department of window profiles, Department of PVC compounds) and Polyolefin Factory (Department of manholes and tanks from PE, Department of PP and PVC fittings and Department of PP pipes), sandwich panels factory and PE pipes factory. The factories of galvanized profiles and PVC windows and doors are locate in the industrial area of Bistrita.

Teraplast benefits of a sales system that includes a network of own or rented warehouses, opened in cities of: Bucharest, Brasov, Galati, Deva, Iasi, and partnerships with distributors across the country. Teraplast also performs export activities, the main foreign markets in which we operate are Germany, Serbia, Hungary, Moldova, Austria, Slovenia and Bulgaria.

1.1.3 Evaluating the provision of technical and material supplies

Provision of supplies is tightly related to building a complex of good work relationships among departments inside and outside of the Group. In this context, supply operations should permanently keep active its interactions with the technical, manufacturing, economics and commercial departments. Outside the Group, the procurement department has relationships with suppliers in order to purchase material resources, establish terms of supply, enter into contracts and conduct deliveries.

The procurement process is based on the material requirements generated by the annual and monthly production programmes correlated with permanent assessment of the daily average consumption and adjusting to the minimum stock levels that ensure the best manufacturing operations. Material requirements are assessed by people in charge of buying and are supervised by the acquisitions manager, who establishes according to specific criteria the suppliers they are going to deal with.

A major part of the procurement activity is the selection of suppliers. Supplier evaluation criteria concern the quality and the extent to which their products comply with the required specifications, price, available supplier credit, payment deadline, delivery deadline, development of previous deliveries, compliance with conditions concerning the ordered quantity and requested quality that, all of them, define a supplier's delivery potential.

Teraplast Group has, for both raw materials and other materials, at least two alternative agreed suppliers, national as well as European and even Asian. Holding a complex database of alternative suppliers is a real advantage for the procurement department, which can this way obtain competitive purchase prices and can sustain a continuous flow process.

1.1.4 Evaluating the sales activity

a) Teraplast Group has a sales system that includes its own network of rented or owned storehouses opened in: Bucharest, Brasov, Galati, Deva, Iasi, as well as partnerships with distributors countrywide. Teraplast also conducts export operations, its main external markets being Germany, Serbia, Hungary, Republic of Moldova, Austria, Slovenia, Bulgaria.

b) Considering that Teraplast operates on construction materials market, seasonality is a major factor in the monthly evolution of sales. In these circumstances, the peak activity covers about 6 months (May to October). The distribution policy targets mainly specialist customers in the installation and construction fields, and the distribution channels are:

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

c) Teraplast Group's trading policy does not allow exposure rates of over 6% per customer.

1.1.5. Evaluating aspects related to the Group's employees/staff

Average number of employees increased from 567 in 2015 to 589 in 2016.

According to the applicable collective agreement, Group's minimum pay rates cannot go below the national minimum wage. The collective agreement provides that the wage should include the basic pay, indemnities, premiums and other additions. The Group paid the following categories of additions: night shift increments, additions for additional hours, additions for working on Sundays and Saturdays and additions for average hours of work in a noxious environment.

The Group's spends money for partial compensation of tickets for rest and treatment. These benefits are granted to the Group's employees according to the collective agreement currently applicable. The collective agreement applicable at the company level is negotiated from time to time with workers unions.

Moreover, pursuant to the collective agreement, the Group should pay to its employees upon their retirement an amount equal to a multiplier of their gross wages, according to their period of employment, working conditions etc. Our Group has made provisions for such payments. Beside taxes paid to government funds and insurance funds, the Group has no other obligations related to post-retirement benefits.

1.1.6. Evaluating aspects related to the impact of the basic Group activity on the environment

The main activity of Teraplast has inherent effects on the environment. These effects are carefully monitored by the local authorities and Teraplast's management. A preventive approach and an intention to diminish the impact on the environment are guiding elements for the company activity, in that Teraplast has obtained for its manufacturing processes:

- ✓ water management licence no. 433/05.08.2016- revision.

The following permits and licences were in force for 2015:

- environmental permit for the manufacture of plastic plates, sheets, tubes and profiles for constructions in the manufacturing plant from Bistrita, unincorporated locality of Sarata, fn [without number]; locality of Saratel, fn, DN 15A, commune of Sieu Magherus, Bistrita-Nasaud County (Industrial Park Teraplast): environmental permit no. 169/30.12.2009, revised on 24.08.2012, valid for 10 years.
- environmental permit for the manufacture of PVC joinery elements with insulated glazing – manufacturing plant of Bistrita, Strada Tarpiului nr. 27/A – Environmental Permit no. 127/15.10.2010, valid for 10 years.

Evaluating the research and development aspects

Teraplast is registered in Potential Contractors' Register thanks to its Research Centre. Its research and development programs are financed from Group's own funds as well as national or European funds. In 2015 the Research and Development Centre conducted research activities for improving the existing products and for the manufacturing of new products.

In 2016 the Research Centre developed the following themes:

1. Compounds formulation for sewage PVC pipes with organic-based stabilizers;
2. Formulation for PVC reinforcing spire used for composite tubes with organic-based stabilizers;
3. Formulation for compounds used for profiles with organic-based stabilizers;
4. Formulation for PVC ventilation tubes and profiles with organic-based stabilizers, with normal endurance and fire action;
5. Formulation for windows PVC profiles with organic-based stabilizers;
6. Formulation for compounds used for windows PVC profiles with organic-based stabilizers.

1.1.7. Evaluating the Group's activity in terms of risk management

Credit risk

Credit risk concerns a risk incurred by a third party's failing to comply with its contract obligations, thus causing financial losses to the Group. The Group has adopted a policy of trading only with trustworthy parties and obtaining enough guarantees, where possible, as a means to reduce risk of financial loss from failure to observe terms of contracts. Group's exposure and Third Parties' credit ratings are monitored by the Group management. Trade receivables cover a large number of customers from various industries and geographical areas. Customers' creditworthiness is constantly evaluated in terms of their financial conditions and, if appropriate, credit insurance is made.

The Group has no significant exposure to credit risk towards any counterparty or group of counterparties with similar features. The Group defines *counterparties* as being entities with similar features when acting as affiliated entities.

Liquidity risk

Final responsibility for liquidity risk management belongs to executive managers, who have built an accurate management framework for liquidity risks on short, medium and long-term insurance for the Group's funds and cash management requirements.

The Group manages cash-related risk by maintaining appropriate reserves, bank facilities and reserve lending facilities, by permanently monitoring actual cash flows and by matching financial assets deadlines and debts deadlines.

Foreign exchange risk management

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

Our Group is mainly exposed to the EUR to RON exchange rate. The sensitivity analysis includes only the left currency expressed in elements of the money system and adjusts the conversion at the end of the period for a 10% amendment to the exchange rate. Changes will be attributed to exposure related to loans, trade receivables and debts with foreign partners in EUR at the end of the year.

Managing interest rate risk

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

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

The Group is exposed to interest rate risks, considering that it takes out both fixed-rate loans and variable-rate loans. The risk is managed by the Group by maintaining a favourable balance between the fixed-rate loans and the variable-rate loans.

Market risk

The Group management is permanently monitoring Group's exposure to risks. Nonetheless, this approach could not protect the Group from any unexpected loss outside predictable limits, in the event of significant market fluctuations. There is no change as compared to the previous year in exposing the Group to market risks or in the way in which the Group manages and measures its risks.

Other price-related risks

The Group is not exposed to risks related to its stock price resulting from equity investment. Equity investment is hold for strategic purposes rather than trading purposes and is not significant. The Group does not actively trade such investment.

Managing credit risk

Credit risk concerns a risk incurred by a third party's failing to comply with its contract obligations, thus causing financial losses to the Group. The Group has adopted a policy of trading only with trustworthy parties and obtaining enough guarantees, where possible, as a means to reduce risk of financial loss from failure to observe terms of contracts. Group's exposure and Third Parties' credit ratings are monitored by the Group management.

Trade receivables cover a large number of customers from various industries and geographical areas. Customers' creditworthiness is constantly evaluated in terms of their financial conditions and, if appropriate, credit insurance is made.

The cash is kept in financial institutions that, at the time of deposit, are considered to have the lowest return risk. The Group's policies limit the amount of exposure for any financial institution.

The accounting value of receivables, net receivables provision plus cash and cash equivalent represent the maximum sum exposed to the credit risk. Although receivable collection could be influenced by economic factors, the Group management considers there is no significant risk of loss for the Group outside already recorded provisions.

The Group considers exposure to credit risk toward its counterparty or group of counterparties with similar features by assessing receivables individually and making depreciation adjustment along with its department of customer credit management. The Group defines *counterparties* as being entities with similar features when acting as affiliated entities.

The just value of financial instruments

Financial instruments in the accounting balance shall include trade receivables and other receivables, cash and cash equivalent, short-term loans and long-term loans as well as other debts, including debts / receivables corresponding to derived instruments. The accounting values are the maximum exposure of the Group to the credit risk related to existing receivables.

1.1.8. Elements of perspective on the Group's activity

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a) In spite of an increasing tendency for the Romanian economy, there still is a lot of uncertainty in both the political sector and the economy sector. The Group's management cannot foresee future changes in Romania and their effects on the company's financial situation, its operating results and treasury flows.

Our Group's most probable evolution is found in the development rate proposed for 2017. The project **Income and Expenses Budget for 2017** provides the following:

- Turnover: 434.600.413 lei
- EBITDA: 63.348.223 lei
- Net Profit: 38.096.477 lei

b) Teraplast SA has proposed for 2017 an investment programme amounting to a total 72.000.000 lei. These investments will be directed towards: development/increase of capacity – acquisition of new production facilities, maintenance, heavy construction repair, heavy equipment repair, heavy mold repair, current repair, financial investments, quality improvement, research and laboratory.

The Group's tangible assets

1.2. The Group had 5 business facilities in Romania at the end of 2016, located in the following cities: Bucharest, Brasov, Deva, Galati, Iasi. In each of these locations, the company had its own or rented **storehouses** from where deliveries are made to appointed customers, in order to be as close as possible to the customers and to provide short deliveries.

Moreover, Teraplast Group had at the end of 2016 the following **manufacturing facilities**:

- **PVC Pipe, Profile and Granule Plant** – including the PVC pipe department, PVC Profile department, PVC joinery profile department and the Batching-Mixing department.
- **Polyolefin plant** – including the Polyethylene manhole and PP, PVC, PE Fittings.
- **PVC windows and doors plant (TeraGlass)**
- **Sandwich panels plant (TeraSteel)**
- **Galvanized profiles plant (TeraSteel)**
- **PE pipes plant (Politub)**

1.3. All the factories at Saratel have been built starting with 2008. Machines, equipment and pipes/fittings used by Teraplast in its production activity date not earlier than 2005 and due to their permanent maintenance their degree of wear is minimal.

1.4. Not applicable.

2. The Company's securities market

2.1. As of 02 July 2008, Teraplast has been listed on Bucharest Stock Exchange. The Company's shares are ordinary, nominative, dematerialised and indivisible.

2.2. The undistributed profit accumulated in 2016 will be used for: a) share capital increase by the issue of new shares with a nominal value of 0.10 lei each, to be distributed for free to all the company's shareholders registered in the Shareholders' Register at the subscription date set by the General Meeting; b) for cash payment of dividends; c) distribution to the reported result.

2.3. Teraplast repurchased in 2016 a number of 2.000.000 own shares in order to implement a remuneration system to ensure compliance with the principle of long-term performance and a loyalty program for employees.

2.4. As of 31 December 2016, the Company had 5 subsidiaries: TeraSteel SA, Politub SA, Teraglass Bistrita SRL, Teraplast Logistic SRL si Teraplast Hungaria. Teraplast assigned to the local partners the shares (51% of capital) owned in the company in Republic of Moldova. During 2016 Teraplast participated at the establishment of Teraplast Logistic SRL, with 99% of the capital. No changes have been recorded in the quotas controlled by Teraplast SA in the share capital of Politub SA and TeraSteel SA (ex Plastsistem).

As of 31 December 2016 the reporting Company held securities as participation in the following unlisted entities. Companies where Teraplast holds no participation hold, them too, no shares in the parent company Teraplast.

Name of investment	Activity	Location	2016
TeraSteel S.A.	Production	Bistrita, Romania	97.95%
Certind S.A.	Independent certification	Bucharest	7.50%
Partnership for Sustainable Development	Joint-venture	Bistrita, Romania	7.14%
Politub S.A.	Production	Bistrita, Romania	50%
Teraglass Bistrita SRL	Production	Bistrita, Romania	100%
Teraplast Logistic SRL	Logistics	Bistrita, Romania	99%
Societatea Tera-Tools SRL Bistrita	Production	Bistrita, Romania	24%
Asociatia Producatorilor de Panouri Metalice.	Association	Brasov, Romania	11,11%
Societatea Teraplast Group SRL Moldova	Trade	Chisinau, Moldova	51%

2.5. Not aplicable

3. Company Management

3.1 Directors presentation

a) Teraplast is managed in a unitary system by a Board of Directors composed of five members appointed by the General Meeting of Shareholders by secret vote. The length of service of the Directors is one year and the Directors can be reappointed. At the date of this Report the structure of the Board of Directors is as follows:

Dorel Goia – Chairman

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Mr. Dorel Goia is the main shareholder of Teraplast and he was elected in the in the Board of Directors in 2008. Mr. Goia is also Director in the Board of Directors of the companies Plastsistem SA, ACI Cluj and Parc SA and Chairman of the Board of Directors of the company Hermes SA.

Magda Palfi-Tirau – Independent non-executive Director

Mrs. Magda Palfi-Tirau has the profession of economist and she was elected in the Board of Directors of Teraplast in 2007. Mrs. Palfi-Tirau is Regional Corporate Director at Raiffeisen Bank and she is also member in the local Board of United Way Romania.

Petru-Raul Ciurtin – Non-executive Director

Mr. Petru-Raul Ciurtin has the profession of doctor and he was elected in the Board of Directors of Teraplast in 2016. Mr. Ciurtin is also Director in the company Policolor. Mr. Petru-Raul Ciurtin is the entrepreneur doctor from Ardeal who turned Albalact, an old bankrupt milk factory, into the leader of the Romanian diary market. This year Mr. Raul Ciurtin marked his exit from Albalact.

Razvan Lefter - Non-executive Director

Mrs. Razvan Lefter has the profession of economist and he was elected in the Board of Directors of Teraplast in 2014, at the proposal of KJK Fund, shareholder in Teraplast with 11%. Mr. Lefter is single shareholder and Director of the company RSL Capital Advisors and he is also Director in the Board of Directors of the companies Conpet Ploiesti, KJK Caramida Bucharest and Eurohold AD Sofia.

Mircea Hotoleanu – Executive Director

Mr. Mircea Hotoleanu has the profession of engineer and he was elected in the Board of Directors of Teraplast in 2016. Mr. Mircea Hotoleanu was in the last 7 years Director of the Engineering Center of Emerson Cluj. Mr. Hotoleanu has an experience of over 20 years in the industrial field, and during 2001-2009 have had several management jobs in industrial companies from Finland. Beginning with January 2017 Mr. Hotoleanu is the Chief Executive Officer of Teraplast.

b) The members of the Board of Directors are appointed within the General Meeting based on shareholders' votes according to the legal requirements. Therefore, there is no agreement or arrangement to report in this report.

c) Equity participation of directors in the company's share capital:

Dorel Goia – director, held, as of 31 December 2016, 46.78% of Teraplast S.A. share capital

d) List of persons affiliated to our trading company

Companied consolidated in Teraplast Group as of 31 December 2016	Activity	Location
Plastsistem S.A.	Production	Bistrita, Romania
Politub S.A	Production	Bistrita, Romania
Teraglass Bistrita SRL	Production	Bistrita, Romania
Teraplast Group SRL	Trade	Chisinau, Moldova

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Teraplast Logistic SRL	Logistic	Bistrita, Romania

3.2. Members of the executive team

a) Teraplast's executive management is appointed by the Board of Directors, and at the date of this report it is delegated to two managers, one of whom holds the position of General Manager. The managers manage the everyday activity of the company and must provide an accurate movement of corporate information.

Mircea HOTOLEANU

Chief Executive Officer, responsible of: organizing, directing and managing Teraplast's operations based on performance objectives and criteria provided by the Income and Expenses Budget and the Investment Program approved by the General Meeting of Shareholders.

Born in 1964

Graduated in 1989 the Technical University of Cluj-Napoca, Faculty of Electronics and Telecommunications. In 1996 he obtained the PhD in Engineering.

During 1991-2001 he was Lecturer at Technical University of Cluj-Napoca. During 2001-2009 had several management positions in industrial companies from Finland, and during 2009-2016 managed the Engineering Center of Emerson Cluj. Since September 2016 he is member in the Board of the Executive MBA program, organized by Babes-Bolyai University of Cluj-Napoca and Hull University (UK).

In October 2016 he was elected member in the Board of Directors of Teraplast, and stating with January 2017 he is also the Chief Executive Officer of the company.

Edit ORBAN

Chief Financial Officer, responsible of: financial and treasury management, analysis department and department.

Born in 1970

She graduated *Babes-Bolyai* University of Cluj-Napoca in 1995 as an Economist; since 2007 she has been a certified accounting expert, and a financial auditor since 2009. Mrs. Orban has joined the Teraplast team in 2008 as manager of the controlling department. In 2013, Mrs. Edit Orban was appointed Financial Manager of Teraplast and a member of our Executive Board. Currently, Ms. Orban is also occupying the roles of Financial Manager of subsidiaries TeraSteel and Teraglass.

a) The General Manager's appointment is for 3 years, starting with 16.01.2017, whereas the Financial Manager's is valid until 14 June 2017.

b) Senior managers are appointed by the Board of Directors and there is no agreement, arrangement or family relationship among directors and managers, that should be mentioned herein.

4.2 For all the persons mentioned at 4.1. and 4.2. above we mention that during the past five years there has been no dispute or administrative proceedings implying their activity with the Company, or any other action pertaining to their ability to meet the requirements of their roles within the company.

4.3 Corporate governance

Teraplast has voluntarily implemented recommendations of the Corporate Governance Code of Bucharest Stock Exchange, setting out governance principles and structures mainly aimed at respecting shareholders' rights as well as at providing them fair treatment. In that sense, the Board of Directors elaborated a Regulation for Organisation and Operation, consistent with the CGC principles, thus ensuring the company's transparency and sustainable development. The Regulation for Organisation and Operation also sets out the roles corresponding to the Board of Directors, competences and responsibilities of the Board, so as to ensure observance of interests of all the company's shareholders, and not least, equal access of the shareholders, and also of potential investors to relevant information pertaining to the company.

Governance structures

For continuation of the process of implementing the principles of the Code of Corporate Governance, the General Meeting of October 2014 approved the election of a new Board of Directors made up of five directors, one of whom is independent from other significant shareholders. Enough members have been this way ensured as to guarantee the Board's efficiency to supervise, analyse and evaluate the efficiency of Teraplast's executive management, the Board's main goal as a collective body being to promote and observe the interests of the company's shareholders.

The next step of the implementation process is the essential amendment of the company's Memorandum of association, endorsed by the General Meeting of Shareholders of September 2008, at which time provisions of the Memorandum were made to match regulatory documents specific to the Romanian stock market and also recommendations and principles included in Code of Corporate Governance of Bucharest Stock Exchange. One of the most important updates of the company's Charter is the amendment of chapter VI – Managers – pursuant to which the premises of a fundamental change of the company management are created, thus enabling the Board of Directors to delegate managing competencies not just to a sole manager, but to a larger number of directors, one of them being appointed general manager.

Moreover, in compliance with CGC recommendations, strict rules have been set within the company on the internal movement and disclosure to third parties of confidential documents and privileged information, a special importance being granted to data and/or information that could influence the evolution of market price of securities issued by Teraplast. In this sense specific confidentiality agreements were concluded in 2008, with the company management and executives as well as with employees who, based on their positions and/or responsibilities, have access to such confidential/privileged information.

Teraplast's corporate organisms are organised as follows: the General Meeting of Shareholders, which is the highest decision-making body of the Company, the Board of Directors and the Executive Management. Teraplast is a company managed in a unitary system by its Board of Directors.

The General Meeting of Shareholders

The General Meeting of Shareholders (GMS) is the leading body deciding on Teraplast's activity and regulating its economic and trading policy. GMS can be Ordinary or Extraordinary and is conducted in the Company's city or town of residence.

The General Meeting of Shareholders is convened by the Board of Directors whenever necessary. The Ordinary General Meeting meets at least once a year, within 4 months at the most from the end of the financial year, to examine the accounting balance and the profit and loss account for the previous year and to establish the business programme and budget for the ongoing year.

The General Meeting of Shareholders shall be convened by publishing the convening notice in the Official Gazette of Romania Part IV, in a popular paper in the city or town where the Company is based, in a national newspaper and in the CNVM Bulletin.

The convening shall be transmitted as a current Report to CNVM and BVB Bucharest and published on the web page of the company with at least 30 days before the date set for the Ordinary and Extraordinary General Meeting, gathered at the first calling.

Teraplast has established and is implementing internal regulations for the manner in which meetings should be organised and developed, imposing specific responsibilities for different Company structures and departments within the process of GMS organising. Such regulations are intended for the entire internal movement of documents, as well as the external process that consists in accurately informing Company's shareholders on issues pertaining to the convened meetings.

Responsibilities of the Ordinary General Meeting (OGM) are to:

a. discuss, approve or modify the annual financial reports in agreement with the reports submitted by the Board of Directors or the financial auditor, as the case may be, and to set dividends;
b. elect and dismiss members of the Board of Directors;
c. establish the remuneration due for the ongoing tax year to the members of the Board of Directors, unless established by the Memorandum of association, considering their specific duties and the company's economic situation;
d. decide on the management of the Board of Directors;
e. appoint and establish the minimum length of the audit contract, and dismiss the financial auditor;
f. set the income and expenses budget and the next tax year's schedule, accordingly;
g. decide upon pledging, hiring out or liquidating one or several of the Company's facilities;
h. decide to bring action against company directors and managers for damaging the company by failure to observe their responsibilities towards the Company;

The main responsibilities of the Extraordinary General Meeting (EGM) are:

a. changing the Company's legal status;
b. relocating the Company's headquarters to a different county;
c. changing the Company's scope of activity;
d. increasing the share capital;
e. decreasing the share capital or reintegrating it by issuing new shares;

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f. mergers or divisions;

g. anticipated liquidation of the Company;

h. conversion of nominative shares to bearer shares or bearer shares to nominative shares;

i. conversion of shares from one category to another;

k. conversion of a category of bonds to another category of bonds or to shares;

l. issuing bonds;

m. any other amendment to the Memorandum of association or any other decision for which the approval of the Extraordinary General Meeting is required;

n. approval of documents of purchasing, selling, exchanging or creating under warranty assets labelled as fixed assets of the company, whose value during a tax year, for each share or added up value, exceeds 20% of the total value of fixed assets, minus receivables;

o. approval to rent out fixed assets for periods of time exceeding one year, whose individual value or added up value as related to the same co-contractor or people jointly involved or acting exceeds 20% of the total value of fixed assets, minus receivables at the date of signing a legal document, as well as partnerships longer than a year, exceeding the same value;

The company holds a department designed for relationships to investors, responsible of applying the procedure of informing the investors/shareholders and interaction with them. The Investors Relation department can be contacted by e-mail at: comunicare@teraplast.ro

In addition to the internal regulations, Teraplast is fully compliant with the legal provisions regulating the development of the General Meeting of Shareholders in case of listed companies.

The Board of Directors

The members of the Board of Directors were elected by the shareholders of Teraplast. The General Meeting of Shareholders approved in 2014 the decrease the number of the members of the Board of Directors from seven to five. In 2016, General Meeting of Shareholders elected a new structure for the Board of Directors.

The current structure of the Board of Directors is of five members, namely: Dorel Goia (President), Petru-Raul Ciurtin (Non-Executive Director), Razvan Stefan Lefter (Non-Executive Director), Magda Eugenia Palfi (Non-Executive Independent Director) and Mircea Hotoleanu (Executive Director).

Responsibilities of the Board of Directors include:

a. setting the main course of action and development for the Company;

b. establishing the accounting and financial control system and approving the financial planning;

c. appointing and revoking managers and establishing their remuneration considering specific responsibilities and the Company's economic situation;

d. supervising managers' activity;

e. preparing the annual report, organising General Meetings and implementing its decisions;

f. filing a request for the opening of the procedure of company insolvency, in line with Law no. 85/2006 on insolvency proceedings;

g. ensuring the management of the Company business;

h. approving the Company's organisation structure and staff organisation chart;

i. approving the creation of consultants committees, appointing members and responsibilities;

j. setting principles and policies of employment and dismissal of the Company's staff, including the executive managers;

k. setting the remuneration principles of the hired staff according the their roles and responsibilities within the Company;

l. approving the marketing strategy;

m. defining the strategy for the implementation of the approved budget;

n. granting shareholders access to documents and information, pursuant to legal provisions;

o. approval on entering into on Company's behalf any legal documents except those for which OGM/EGM approval is required, according to law;

p. appointing and revoking the General Manager and the other managers of the Company;

q. establishing the number of managers and the organisation of their activity;

r. concretely establishing which of the general responsibilities of the Board of Directors are delegated to managers;

s. representing the Company in its relationships to managers;

In 2016, the Board of Directors met almost every month, and all the directors participated in the meetings, the agenda including issues related to operating regulations of the Board of Directors and the Executive Management, as well as related to the expansion and development of Teraplast.

Teraplast's Board of Directors has been constantly informed on the major ongoing activities conducted by the company. The most important decisions made by the Board of Directors in 2016 were:

1. In its **19 January 2016** meeting the Board of Directors nominated the financial services company BT Securities to represent Teraplast in the share buyback process of maximum 2,000,000 own shares. The General Meeting of Shareholders approved, in the session dated December 7th 2015, the repurchase by Teraplast SA of its own shares.

2. In its **4 February 2016** meeting the Board of Directors approved a „stock option plan" by which a number of Group employees will receive Teraplast SA (symbol TRP) shares. The shares of the „stock option plan" will be given to the beneficiaries for free.

3. In its **5 February 2016** meeting the Board of Directors approved the beginning of the buyback program by respecting and in the conditions approved in the decision no. 1 of the EGMS, dated December 7th 2015.

4. In its **10 May 2016** meeting the Board of Directors decided to put on hold until June 24th 2016, of the share buyback program, so that at the registration date established by the OGMS and the EGMS, dated April 28th 2016, regarding the dividends and the free shares, the company not to have owned shares, because they don't give the right to dividends or free shares.

5. In its **18 May 2016** meeting the Board of Directors decided to contract from BRD - Groupe Societe Generale S.A an investment loan of LEI 13.50 million, for a period of 72 months, of which 12 months grace period, in order to finance a part of the investment plan approved for 2016.

6. In its **6 June 2016** meeting the Board of Directors decided to contract from Raiffeisen Bank S.A a credit line of LEI 5 million, for a period of 12 months.

7. In its **14 June 2016** meeting the Board of Directors decided to renew the multi-option threshold, multicurrency threshold, worth 3,300,000 Euro, from BRD - Groupe Societe Generale S.A., for a period of 12 (twelve) months.

8. In its **3 august 2016** meeting the Board of Directors decided to extent for 1 year the credit line worth 13,250,000 lei and the multicurrency threshold for letters of guarantee worth 1,750,000 lei, both accessed from Banca Transilvania SA.

9. In its **19 August 2016** meeting the Board of Directors approved the decision to file for a government assistance in order to develop an investment project in amount of LEI 65.63 million, according to the government decision no. 807/2014.

10. In its **29 September 2016** meeting the Board of Directors decided to establish, as sole associate, a limited liability company in Hungary. The purpose of this action is to develop Teraplast's presence on the Hungarian market and it is part of the company's strategy to increase the value of exports.

11. In its **27 October 2016** meeting the Board of Directors elected Mr. Dorel Goia as President of the Board of Directors.

12. In its **27 October 2016** meeting the Board of Directors decided to inform the shareholders and the investors about the estimations regarding the achievement of the 2016 budget.

13. In its **5 December 2016** meeting the Board of Directors decided to assign to the local partners the shares (51% of capital) owned in the company in Republic of Moldova.

Executive Management

The current membership of the Executive Management is the result of amendments approved by the Board of Directors and the General Meeting of Shareholders during 2017, and its purpose is to consolidate the company's corporate governance structures. The Board of Directors delegates managing roles to one or several managers.

Consequently, Teraplast's Executive Management is ensured by a General Manager (Mircea Hotoleanu) and a Financial Manager (Edit Orban).

Managers' responsibilities include:

a) approval of major tenancy agreements (regardless if the Company is landlord or tenant);
b) negotiating the collective agreement with employees' representatives;
c) setting the development strategy and policies of the Company, including the Company's organisational chart, and establishing operations departments;
d) entering into documents or deeds with third parties in the name and on behalf of the Company, in compliance with provisions of the Memorandum of Association on double signatures and the aspects reserved to the competence of the General Meeting or the Board of Directors;

e) employing and dismissing, setting tasks and responsibilities of the Company staff in line with the Company's employment policy;
f) taking every measure that may be necessary and useful for the Company management according to the daily management of each department or delegated by the General Meeting or the Board of Directors, except for those reserved to the General Meeting of Shareholders or the Board of Directors by law or the Memorandum of association;
g) recommending to shareholders distribution of profits.

Shareholders' rights

Teraplast's commitment is to ensure equal treatment to all its shareholders. The main rights of its shareholders in relation to the General Meeting of Shareholders are detailed below.

a) Right to minimum notice period: The company's shareholders are informed upon the next shareholders' meeting by means of a convening notice published in the Official Gazette of Romania and in a popular national newspaper with at least 30 days before the day of the meeting; in addition, the convening shall be published on the company's web page, in Investor Relations section and shall be submitted to the National Committee for Securities and Bucharest Stock Exchange as a current report;

b) Right of access to information: Teraplast shall publish any necessary documents and information on its website or to ensure that all its shareholders can exert their rights in full knowledge thereof;

c) Right to supplement the meeting's agenda: Teraplast shareholders representing individually or jointly with other shareholders at least 5% of the share capital can request additional issues to be added on the agenda within the limits of and as provided by the applicable laws;

d) Right to participate in the meeting: Shareholders registered in the shareholders' register at the reference date have the right to participate in person or by a representative in General Meetings of the Company Shareholders;

e) Right to vote: The Company's share capital consists of ordinary shares conferring a right to vote for each share registered on the name of a shareholder on the reference date;

f) Right to put questions: Any Company shareholder can ask written questions on the items of the General Meeting agenda and is entitled to get answers from Teraplast.

Degree of compliance with the new BVB Corporate Governance Code as of 31 December 2016	Compliant YES / NO
A.1. Any company should hold Internal Regulations of the Board to include reference terms/ responsibilities of the Board and key management roles of the company and to apply, among others, the general principles of this Section.	YES
A.2. Provisions pertaining to the management of conflicts of interest should be mentioned in the Board's Regulations.	YES
A.3. The Board of Directors should include at least five members.	YES

A.4. The majority of the Board's members should hold non-executive roles. At least one member of the Board of Directors or the Supervisory Board should be independent in case of companies included in the Standard Category. Each independent member of the Board of Directors should file a statement at the time of his/her appointment for election or re-election purposes, as well as upon any change of their status, indicating the elements underlying the grounds of independence in terms of his/her character and decision.	**YES**
A.5. Other relatively permanent professional commitments and obligations of a member of the Board, including executive and non-executive positions within the Board held by non-profit companies and institutions should be disclosed to potential shareholders and investors before their appointment and during it.	**YES**
A.6. Any member of the Board should submit to the Board information on any relationship with a shareholder holding directly or indirectly shares representing over 5% of all their rights to vote.	**YES**
A.7. The company should appoint a registrar of the Board whose responsibility is supporting the Board's activity.	**YES**
A.8. The declaration on corporate governance will report on any Board evaluation under the direction of the Chairman or the appointing committee and, if so, it will resume the key measures and changes resulting from it. The company should maintain a policy/guide on the Board's evaluation on the goal, criteria and frequency of the evaluation procedure.	**NO – is on its way to be implemented**
A.9. The declaration on corporate governance should include information on the number of meetings of the Board and committees during the past year, directors' participation (*in person* and *in absentia*) and a report of the Board and committees on their activities.	**YES**
A.10. The declaration on corporate governance should include information on the exact number of independent members of the Board of Directors.	**YES**
A.11. The companies' board in the Premium Category should establish an Appointments Committee made up of non-executive members, in charge of the procedure of appointing new members of the Committee and of making recommendations to the Committee. The majority of the members of the Appointments Committee should be independent.	**NO - TRP is of the standard category**

Degree of compliance with the new BVB Corporate Governance Code as of 31 December 2016	**Compliant YES / NO**
B.1 The Board should establish an audit committee where at least one member should be an independent non-executive director. Most of the members, including the chair, should have been proven to hold relevant qualification for the Committee's roles and responsibilities. At least one member of the audit committee should have proven and accurate auditing or accounting experience. In case of Premium companies, the audit committee should comprise at least three members and the majority of the members of the Appointments Committee should be independent.	**NO – internal audit is conducted by an independent entity**
B.2. The chairman of the Appointments Committee should be a non-executive independent member.	**NO – internal audit is conducted by an independent entity**
B.3. Within its responsibilities, the audit committee should carry out an annual evaluation of the internal control system.	**NO – internal audit is conducted by an independent entity**

B.4. The evaluation should consider the efficiency and extent of the internal audit role, the degree of adequacy of risk management reports and internal audit submitted to the audit committee of the Board, the accuracy and promptness with which the Company executives settle deficiencies or weaknesses identified following the internal audit and submitting relevant reports to the Board's attention.	**NO – internal audit is conducted by an independent entity**
B.5. The audit committee should assess any conflict of interest pertaining to transactions of the company and its agencies with the affiliated parties.	**NO – internal audit is conducted by an independent entity**
B.6. The audit committee should evaluate the efficiency of the internal audit system and the risk management system.	**NO – internal audit is conducted by an independent entity**
B.7. The audit committee should monitor the enforcement of legal standards of internal audit generally accepted. The audit committee must receive and evaluate the reports of the internal audit team.	**NO – internal audit is conducted by an independent entity**
B.8. Whenever the Code mentions reports or analyses initiated by the audit committee, such analyses should be followed by periodical reports (at least annual) or *ad-hoc* reports to be subsequently submitted to the Board.	**NO – internal audit is conducted by an independent entity**
B.9. No shareholder can be given preferential treatment as compared to other shareholders in terms of transactions and agreements concluded by the company with their shareholders and affiliates.	**YES**
B.10. The Board should adopt a policy by which to ensure that any transaction of the company with any of the companies with which it maintains close relationships whose value is equal or exceeding 5% of the company's net assets (according to the latest financial report) is approved by the Board following a mandatory opinion of the audit committee.	**YES**
B.11. Internal audits should be conducted by a structurally separate division (department of internal audit) within the company or by employing an independent third party.	**YES**
B.12. For the purposes of ensuring the main roles of the internal audit department, the audit department's functional report should be to the Board by means of an audit committee. For administrative purposes and within the management's responsibility to monitor and reduce risks, the audit committee must report directly to the general manager.	**NO – internal audit is conducted by an independent entity**

Degree of compliance with the new BVB Corporate Governance Code as of 31 December 2016	**Compliant YES / NO**
C.1. The company must publish on its web page its remuneration policy and include into the annual report a declaration on implementing such remuneration policy during the annual period subject to assessment. Any essential change occurred in the remuneration policy should be published on the Company's web page in time.	**YES**

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Degree of compliance with the new BVB Corporate Governance Code as of 31 December 2016	Compliant YES / NO
D.1. The Company should organise an Investor Relations service – mentioning to the broad public the person/s in charge or the organising company. Outside the mandatory information required by the legal provisions, the company should also mention on its web page a section dedicated to the Investor Relations, in Romanian and English, with any relevant information which may be of interest to investors, including: **D.1.1.** Main corporate regulations: memorandum of association, procedures on general meetings of the company shareholders; **D.1.2.** Professional CVs of the company's management, other professional involvement of the Board members, including executive and non-executive positions in companies Boards of directors or into non-profit organisations; **D.1.3.** Current and periodical reports (quarterly, bi-annual and annual) – at least those mentioned at D.8 above – including current reports with detailed information on incompliance with this Code; **D.1.4.** Information concerning general meetings of shareholders: the meeting agenda and information materials; procedure of electing the members of the Board; arguments supporting application proposals for elections within the Board, along with the members' professional CVs; shareholders' questions on agenda items and the company's replies, including adopted decisions; **D.1.5.** Information on corporate events, such as dividend payment and other distributions to shareholders, or other events leading to acquiring or limiting a shareholder's rights, including deadlines and principles applied to such operations. Such information shall be published within deadlines allowing investors to adopt decisions to invest; **D.1.6.** Names and contact data of a person that could supply, upon request, relevant information; **D.1.7.** Company's presentations (e.g. presentations for investors, presentations on the quarterly outcome etc.), financial situations (quarterly, bi-annual, annual), audit reports and annual reports.	YES
D.2. The company shall practice a policy on the annual distribution of dividends or other benefits to shareholders. Principles of the annual policies of distribution to shareholders shall be published on the company's web page.	YES
D.3. The company shall adopt a forecast policy, either public or not. The forecast policy is to be published on the company's web page.	YES
D.4. Rules of general meetings should not limit shareholders' participation in general assemblies and exertion of their rights. Amendments to rules and regulations shall become enforceable starting from the next shareholders' meeting at the earliest.	YES
D.5. External auditors will attend the general meeting when their reports are submitted within such meetings.	YES
D.6. The Board will present to the annual general meeting a short assessment of the systems of internal control and management of significant risks, as well as opinions on matters submitted to the general meeting's decision.	YES
D.7. Any financial specialist, consultant, expert or analyst can participate in the shareholders' meeting based on prior invitation from the Board. Authorised journalists can, too, participate in shareholders' general meeting, unless the Chairman of the Board decides otherwise.	YES
D.8. Quarterly and bi-annual reports shall include information both in Romanian and in English on key factors influencing changes in terms of sales, operational profit, net profit and other relevant financial indicators, from one term to another, as well as from one year to another.	YES
D.9. A company shall organise at least two sessions/teleconferences with analysts and investors every year. Information submitted with such occasions is to be published in the investor relations section of the company's web page on the date of the sessions/teleconferences.	YES
D.10. In the event a company displays different forms of artistic and cultural forms of expression, sports activities, educational or scientific activities and considers that their impact on the company's innovative character and competitiveness is a part of the company's development mission and strategy, it will publish its policy on such activity in the field.	YES

4. Financial situation

a) Elements of balance sheet

Thousand, lei	2016	2015	▲%
Assets			
Non-current assets			
Tangible assets	133.698	130.065	2,72
Investment property	9.755	12.115	-24,19
Intangible assets	1.372	1.080	21,28
Fixed trade receivables		0	
Investment in the joint venture accounted for using the equity method	12.686	15.935	-25,61
Other financial investments	60	16	73,33
Deferred tax liabilities	0	0	
Total non-current assets	**157.570**	**159.211**	-1,04
Current assets			
Inventories	67.059	53.356	20,43
Trade receivables	65.919	86.616	-31,40
Prepayments	326	388	-19,02
Income tax receivable	0	0	
Cash and cash equivalents	16.033	12.557	21,68
Total current assets	**149.336**	**152.916**	-2,40
Assets held for sale			
Total assets	**306.907**	**312.127**	-1,70
Equity and liabilities			
Equity	**56.643**	**28.888**	49,00
Subscribed share capital	56.643	28.888	49,00
Other elements of equity	451	951	-110,86
Share premium	27.385	27.385	0,00
Revaluation reserves	21.742	18.566	14,61
Legal reserves	12.407	9.853	20,59
Retained earnings	97.961	97.591	0,38
Stockholders' equity	**216.589**	**183.233**	15,40
Non-controlling interests	335	200	40,30
Total equity	**216.924**	**183.433**	15,44
Long term liabilities			
Loans and finance lease liabilities	10.505	10.535	-0,29
Other long-term liabilities	0	0	
Liabilities for employee benefits	352	295	16,19
Investment subsidies	2.929	3.373	4,39
Deferred tax liabilities	3.528	3.982	-35,95
Total long-term liabilities	**17.313**	**18.186**	-5,04

Current liabilities			
Trade and other payables	53.041	66.888	-26,11
Loans and finance lease liabilities	15.919	38.533	-142,06
Other current financial liabilities	0	0	
Income tax payable	189	1.446	-665,08
Investment subsidies – current portion	463	467	-0,86
Provisions	3.056	3.174	-3,86
Total current liabilities	**72.670**	**110.509**	-52,07
Total liabilities	**89.983**	**128.694**	-43,02
Total equity and liabilities	**306.907**	**312.127**	-1,70

b) Consolidated profit and loss account

Thousand, lei	2016	2015	▲%
Consolidated revenue	**398.788**	393.542	1,32%
Other operating income	677	1.253	-85,08
Changes in inventories of finished goods and work in progress	3.980	3.851	3,24
Raw materials, consumables used and merchandise	(267.833)	(272.566)	-1,77
Employee benefits expenses	(34.047)	(32.555)	4,38
Provisions, depreciation and amortization expenses	(15.638)	(15.826)	-1,20
Provisions expenses	402	499	-24%
Gains/ (Losses) from the outflow of tangible and intangible assets	(38)	(195)	-413,16
Gains/(Losses) from the fair value measurement of investment property	192	(1.242)	746,88
Other expenses	(39.891)	(36.258)	9,11
Financial costs	(5.979)	(7.434)	-24,34
Financial incomes	3.769	4.168	-10,59
Share of the profit or loss of the joint venture accounted for using the equity method	751	4.119	-448,47
Profit/(Loss) before tax	**45.133**	**40.857**	9,47
Taxes on income	(5.717)	(5.609)	1,89
Consolidated Profit/(Loss) for the period	**39.416**	**35.247**	10,58
Other elements of the comprehensive income			
Fixed assets reevaluation	3.264	(1.675)	151,32
Deferred tax impact	(764)	268	135,08
Differences from exchange ratio		0	
Group's share of the comprehensive income of the joint venture		-	
Deferred tax impact		-	
Total comprehensive income	**41.916**	**33.840**	19,27
Consolidated result for the period	**39.416**	**35.247**	10,58

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thereof attributable to stockholders of Teraplast SA	**39.282**	**34.473**	12,24
thereof attributable to non-controlling interests	135	774	-473,33
Number of shares	472.970.474	288.875.880	38,92
Comprehensive earnings/(loss) per share (RON)	**0,0**	**0,120**	

c) Cash flow: Situation of the consolidated cash flow

Cash-flow (thousand lei)	**2016**	**2015**
Cash flow from operating expenses		
Earnings/(Loss) before tax	**45.133**	**40.857**
Interest expense	**939**	1.493
Interest income	(2)	(36)
(Loss)/Earnings from sale or transfer of fixed assets	(117)	195
Earnings/(Loss) from depreciation of trade receivables	(1.063)	539
Adjusting costs for inventories depreciation provisions	**788**	778
Long-term asset amortization and depreciation	15.847	15.748
Reversal of fixed assets impairment provisions	(550)	(421)
Risk and expense provisions adjustment	(117)	(818)
Share of the profit or loss of the joint venture accounted for using the equity method	(751)	(4.119)
Earnings/(Loss) from real estate appraisals	(192)	1.242
Income from provisions for retirement related obligations	**57**	(94)
Incomes from dividends	-	-
Incomes from operational subventions	(449)	(467)
Decreases in financial instruments	-	-
Exchange rate differences	94	996
Benefits granted to employees as financial instruments	-	951
Circulating capital movements	**56.618**	**56.844**
Increase/(Decrease) of trade receivables and other receivables	21.659	(19.272)
Increase/(Decrease) of inventories	(14.491)	(8.674)
Increase other assets	-	-
Increase/(Decrease) of trade liabilities and other liabilities	(16.841)	3.597
(Decrease)/Increase other liabilities	-	-
Cash resulting from operating activities	**49.946**	**32.495**
Paid interest	(939)	(1.493)
Tax on paid profit	(7.237)	(5.260)

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Net cash (used)/generated in operating activities	**45.770**	**25.742**
Cash flow from investing activities		
Cashed interest	2	36
Payments corresponding to tangible and intangible assets	(12.923)	(17.495)
Cash from sale of tangible assets	96	145
Cash in from dividends	4.163	2.071
Net cash (used in) investing activities	**(8.663)**	**(15.242)**
Cash flow from financing activities		
Repurchase of own shares		
Net cashing / reimbursement of loans	(21.240)	1.774
Leasing payments	(1.498)	(2.754)
Subsidy income		
Paid dividends	**(6.892)**	**(72)**
Subsidy income		**(2.055)**
Net cash generated by financing activities	**(29.630)**	**(3.107)**
Net increase/decrease of cash and cash equivalent	**3.477**	**7.393**
Cash and cash equivalent at the beginning of the tax year	**12.556**	**5.163**
Cash and cash equivalent at the end of the tax year	**16.032**	**12.556**

5. Signatures

Chairman of the Board of Directors

Dorel Goia

SOCIETATEA TERAPLAST 3 S.A.

Chief Financial Officer

Edit Orban

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