

**TERAPLAST SA**

**DRAFT CONSOLIDATED FINANCIAL STATEMENTS**

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

**31 DECEMBER 2018**

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**TERAPLAST SA**  
**DRAFT CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**31 December 2018**

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

	Financial year 31 December 2018	Financial year 31 December 2017
Note	RON	RON
<b>Revenues total, out of which:</b>	<b>804,969,897</b>	<b>422,270,070</b>
Revenues from sale of finished products	675,087,225	378,858,930
Revenues from the sale of merchandise	126,426,813	42,165,328
Revenues from service rendering	3,455,859	1,245,812
<b>Other operating income</b>	<b>1,732,703</b>	<b>3,764,366</b>
Changes in inventories of finished goods and work in progress	8,697,701	11,026,505
Works and services in progress	495,838	-
Raw materials, consumables used and merchandise	(605,191,166)	(313,344,060)
Employee benefit expenses	(68,399,542)	(40,348,001)
Amortization and the adjustments for impairment of non-current assets, net	(30,286,470)	(19,100,355)
Adjustments for the impairment of current assets, net	(1,465,094)	(1,481,591)
Reversed provisions, net	(208,780)	2,614,451
Gains/(Losses) from the outflow/valuation of tangible and intangible assets	15,131	82,367
Gains / Losses from the outflow of assets held for sale	185,891	-
Gains from the outflow/fair value measurement of investment properties	(245,552)	335
Sponsorship, donations	(1,257,084)	(1,016,328)
Other expenses	(73,646,934)	(40,240,306)
<b>Operating result</b>	<b>35,394,539</b>	<b>24,227,453</b>
Financial expenses	(3,928,829)	(5,075,283)
Expenses on interest, net	(7,576,796)	(2,560,186)
Financial income	3,289,236	4,016,149
Dividend revenues	75,200	81,045
<b>Financial result</b>	<b>(8,141,189)</b>	<b>(3,538,275)</b>
Share of the result of joint ventures accounted for under the equity method	-	574,147
<b>Profit before tax</b>	<b>27,253,350</b>	<b>21,263,325</b>
Income tax expense	(4,149,007)	(2,693,989)
<b>Profit for the year</b>	<b>23,104,343</b>	<b>18,569,336</b>
<b>Profit or loss for the period</b>		
Attributable to		
Parent entity equity holders	20,630,691	18,236,827
Non-controlling interests	2,473,651	332,509
<b>Result for the financial year</b>	<b>23,104,343</b>	<b>18,569,336</b>
Number of shares	1,070,245,274	699,701,558
<b>Earnings per share attributable to the parent entity equity holders</b>	<b>0.02</b>	<b>0.03</b>

**Alexandru Stanean**  
CEO

**Ioana Birta**  
CFO

**TERAPLAST SA**  
**DRAFT CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**31 December 2018**

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

	Note	31 December 2018 RON	31 December 2017 RON
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	214,505,727	185,915,909
Investment properties	14	8,324,389	9,791,568
Intangible assets	13	36,108,179	1,662,350
Investments in joint ventures accounted for under the equity method	16	-	40,677,273
Goodwill from the purchase of Depaco		10,223,980	-
Other long-term financial investments	16,18	745,868	10,849,872
Other financial investments		17,108	16,472
<b>Total non-current assets</b>		<b>269,925,251</b>	<b>248,913,444</b>
<b>Current assets</b>			
Inventories	17	194,115,557	100,464,598
Work and services in progress		495,838	-
Trade and similar receivables	18	149,573,414	89,766,981
Prepayments		896,001	601,359
Cash and short term deposits	30	22,967,658	12,015,802
<b>Total current assets</b>		<b>368,048,468</b>	<b>202,848,740</b>
Assets classified as held for sale		1,865,560	653,215
<b>Total assets</b>		<b>639,839,279</b>	<b>452,415,399</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Total share capital, out of which:	19	<b>107,024,527</b>	<b>85,691,097</b>
Called-up capital	19	107,024,527	85,691,097
Share premium	19	27,384,726	27,384,726
Treasury shares		(1,472,925)	(663,396)
Revaluation reserves	19	17,562,115	19,652,115
Legal reserve	20	15,498,889	13,939,022
Retained earnings	21	67,558,983	78,250,693
<b>Capital attributable to controlling interests</b>		<b>233,556,315</b>	<b>224,254,257</b>
Non-controlling interests	22	26,677,362	489,480
<b>Total equity</b>		<b>260,033,677</b>	<b>224,743,737</b>
<b>Non-current liabilities</b>			
Loans and finance lease liabilities	23	71,127,050	74,968,047
Employee benefit liabilities	24	724,849	320,836
Deferred tax liabilities	11	3,597,809	3,207,463
Investment subsidies – long-term portion	32	3,229,649	2,470,745
<b>Total non-current liabilities</b>		<b>78,679,357</b>	<b>80,967,093</b>
<b>Current liabilities</b>			
Trade and other payables	25	168,974,362	86,184,973
Loans and finance lease liabilities	23	123,948,854	58,778,393
Income tax payable		6,769,050	307,943
Investment subsidies - current portion	32	453,766	457,814
Provisions	24	780,213	975,446
<b>Total current liabilities</b>		<b>300,926,245</b>	<b>146,704,569</b>
<b>Total liabilities</b>		<b>379,605,602</b>	<b>227,671,662</b>
<b>Total equity and liabilities</b>		<b>639,639,279</b>	<b>452,415,399</b>

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**TERAPLAST SA**  
**DRAFT CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**for the financial year ended 31 December 2018**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

	Total share capital	Other capital reserves	Share premium	Revaluation reserves	Legal reserve	Treasury shares	Cumulated retained earnings	Capital attributable to controlling interests	Non-controlling interests	Total equity
	RON	RON	RON	RON	RON	RON	RON	RON	RON	RON
<b>Balance as at 1 January 2017</b>	<b>56,643,266</b>	<b>450,980</b>	<b>27,384,726</b>	<b>21,741,823</b>	<b>12,407,036</b>	<b>(512,707)</b>	<b>98,473,824</b>	<b>216,588,948</b>	<b>334,698</b>	<b>216,923,646</b>
Result for the year	-	-	-	-	-	-	18,236,827	18,236,827	332,509	18,569,336
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,236,827</b>	<b>18,236,827</b>	<b>332,509</b>	<b>18,569,336</b>
Share capital increase from reserves (Note 19)	29,047,831	-	-	-	-	-	(29,047,831)	-	-	-
Legal reserve setting (Note 20)	-	-	-	-	1,531,986	-	(1,531,986)	-	-	-
Own shares redemption (Note 19)	-	-	-	-	-	(663,396)	-	(663,396)	-	(663,396)
Losses related to own shares sale	-	-	-	-	-	61,727	(61,727)	-	-	-
Employee benefits in the form of financial instruments (Note 33)	-	(450,980)	-	-	-	450,980	-	-	-	-
Realized revaluation reserve (Note 16)	-	-	-	(2,089,708)	-	-	2,089,708	-	-	-
Dividends paid (Note 21)	-	-	-	-	-	-	(9,572,712)	(9,572,712)	(191,848)	(9,764,560)
Other equity items	-	-	-	-	-	-	(335,410)	(335,410)	14,121	(321,288)
<b>Balance as at 31 December 2017</b>	<b>85,691,097</b>	<b>-</b>	<b>27,384,726</b>	<b>19,652,114</b>	<b>13,939,022</b>	<b>(663,396)</b>	<b>78,250,693</b>	<b>224,254,257</b>	<b>489,480</b>	<b>224,743,737</b>

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The accompanying notes from 1 to 34 are an integral part of these consolidated financial statements.

**TERAPLAST SA**  
**DRAFT CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**for the financial year ended 31 December 2018**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

	<b>Total share capital</b>	<b>Share premium</b>	<b>Revaluation reserves</b>	<b>Legal reserve</b>	<b>Treasury shares</b>	<b>Cumulated retained earnings</b>	<b>Capital attributable to controlling interests</b>	<b>Non-controlling interests</b>	<b>Total equity</b>
	<b>RON</b>	<b>RON</b>	<b>RON</b>	<b>RON</b>	<b>RON</b>	<b>RON</b>	<b>RON</b>	<b>RON</b>	<b>RON</b>
<b>Balance as at 1 January 2018</b>	<b>85,691,097</b>	<b>27,384,726</b>	<b>19,652,114</b>	<b>13,939,022</b>	<b>(663,396)</b>	<b>78,250,693</b>	<b>224,254,257</b>	<b>489,480</b>	<b>224,743,737</b>
Result for the year						20,630,692	20,630,692	2,473,652	23,104,343
Other comprehensive income									
<b>Total comprehensive income</b>						<b>20,630,692</b>	<b>20,630,692</b>	<b>2,473,652</b>	<b>23,104,343</b>
Share capital increase from reserves (Note 19)	21,333,430					(21,333,430)			-
Legal reserve setting (Note 20)				1,559,867		(1,559,867)			-
Own shares redemption (Note 19)					(809,529)		(809,529)		(809,529)
Losses related to own shares sale									-
Consolidation adjustments related to Depaco						(449,701)	(449,701)	24,203,710	(23,754,010)
Realized revaluation reserve (Note 16)			2,090,000			(2,090,000)			-
Dividends paid (Note 21)						(10,069,404)	(10,069,404)	(489,481)	(10,558,885)
<b>Balance as at 31 December 2018</b>	<b>107,024,528</b>	<b>27,384,726</b>	<b>17,562,115</b>	<b>15,498,889</b>	<b>(1,472,925)</b>	<b>67,558,983</b>	<b>233,556,314</b>	<b>26,677,362</b>	<b>260,233,676</b>

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

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**TERAPLAST SA**  
**DRAFT CONSOLIDATED CASH FLOW STATEMENT**  
**for the financial year ended 31 December 2018**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

	Not e	Year ended 31 December 2018 RON	Year ended 31 December 2017 RON
<b>Cash flows from operating activities:</b>			
<b>Net profit before tax</b>		<b>27,253,350</b>	<b>21,263,325</b>
Losses from the sale of assets (fixed assets) and retirement		(15,131)	(82,367)
Impairment and amortization of non-current assets		30,286,470	19,100,355
Provisions for risks and expenses, net		208,780	(2,614,451)
Adjustments to doubtful customers		976,719	412,313
Adjustments for inventory impairment		490,375	1,069,278
Dividend revenues		(75,200)	(81,045)
(Gains)/loss from the measurement of investment property			(335)
Interest expense		7,576,796	2,560,186
Gain from gaining control over an associate		-	(2,506,104)
<b>Operating profit before changes in working capital</b>		<b>66,702,159</b>	<b>39,121,156</b>
Increase in trade and other receivables		(47,749,191)	(17,992,153)
Increase in inventories		(52,825,616)	(29,411,790)
Increase in trade and other payables		50,292,903	26,472,743
Income tax paid		(2,008,285)	(2,754,258)
Interest paid, net		(7,576,796)	(2,560,186)
Share of the profit or loss of the joint venture accounted for under the equity method		-	(574,147)
Revenues from subsidies		(753,969)	(463,440)
<b>Cash from operating activities</b>		<b>6,081,205</b>	<b>11,837,924</b>
<b>Cash flows from investment:</b>			
Payments for acquisition of tangible and intangible assets, other long-term receivables		(30,211,128)	(54,561,546)
Acquirement of investments (Depaco)		(7,215,405)	(39,246,960)
Acquisition of control over an associate		-	(8,781,707)
Receipts from the sale of tangible assets		2,048,116	485,130
Own share redemption		(809,529)	(512,689)
Losses related to own shares sale		-	61,727
<b>Net cash from investment</b>		<b>(36,187,946)</b>	<b>(112,648,137)</b>
<b>Cash flows from financing activities:</b>			
Payment of finance lease liabilities		(785,732)	(845,351)
Dividends received		75,200	81,045
Dividends paid		(10,558,885)	(9,764,560)
Loans reimbursement			(17,291,680)
Loans drawings		52,328,014	124,614,189
<b>Net cash from finance activities</b>		<b>41,058,597</b>	<b>96,793,636</b>
Net increase/(decrease) in cash and cash equivalents		10,951,856	(4,016,571)
<b>Cash and cash equivalents at the beginning of the financial year</b>	<b>30</b>	<b>12,015,802</b>	<b>16,032,373</b>
<b>Cash and cash equivalents at the end of the financial year</b>	<b>30</b>	<b>22,967,658</b>	<b>12,015,802</b>

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**TERAPLAST SA**  
**NOTES TO THE DRAFT CONSOLIDATED FINANCIAL STATEMENTS**  
**for the financial year as at 31 December 2018**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

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## **1. GENERAL INFORMATION**

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

The TeraPlast Group includes TeraPlast (producer of pipes, granules and PVC profiles), the subsidiaries TeraSteel Bistrita and TeraSteel Serbia (producer of sandwich panels and zincate metallic structures), TeraGlass (producer of PVC windows and doors), TeraPlast Logistic (starting June 2016, it has been coordinating the logistic activities of the Group), TeraPlast Hungary (distributor), Politub (on 31 December 2017, the Politub business was transferred to Teraplast SA, therefore becoming the Polyethylene Division), and Depaco (producer of metallic tiles), and the Depaco Company (producer of metallic tiles).

The results of 2018 reflect the investments of 2017: Depaco, Terasteel Doo and Politub.

These include the acquisition of the sandwich panel factory in Serbia. Bought in June 2017, the investment amounted to RON 23 million.

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

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

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

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

### **Subsidiaries, associates and acquisitions.**

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

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

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

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

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

**TERAPLAST SA**  
**NOTES TO THE DRAFT CONSOLIDATED FINANCIAL STATEMENTS**  
**for the financial year as at 31 December 2018**

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

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**1. GENERAL INFORMATION (continued)**

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

On 26 November 2015, the Board of Directors approved through a Decision, Teraplast SA's participation as a shareholder in the setting of a limited-liability company in Romania: Teraplast Logistic SRL. Teraplast SA's participation in this company is 99%. Teraplast Logistic has undertaken the logistic activity of the Group.

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

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

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

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

On 1 March 2017, Teraplast signed an agreement with the shareholders of Depaco SRL for the acquisition of 50% of the shares. The transaction was finalized after being approved by the Teraplast SA General Shareholders Meeting and receiving the approval from the Romanian Competition Council.

Subsequently, Teraplast has contracted the acquisition of another 17% of the Depaco SRL shares, the investment being disclosed in the Statement of Financial Position under Other long-term financial investments. As at 31 December 2017, this shareholding was not recorded with the Trade Register; therefore, Teraplast SA did not control Depaco.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.1. Statement of compliance**

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

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

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

**TERAPLAST SA**  
**NOTES TO THE DRAFT CONSOLIDATED FINANCIAL STATEMENTS**  
**for the financial year as at 31 December 2018**

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

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

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.

### **2.2. Basis of accounting**

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

### **2.3. Going concern**

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

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

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

### **Basis for consolidation**

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

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

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

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

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

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) First time adoption of new or revised standards**

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

### **2.5. Summary of accounting and valuation principles**

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

#### **2.5.1. Cash and cash equivalents**

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

#### **2.5.2. Revenue recognition**

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;

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**for the financial year as at 31 December 2018**

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

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

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

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

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

**Dividend and interest revenues**

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

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

**2.5.3. Lease**

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

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

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

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

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

**2.5.4 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.

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

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

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>EUR 1</b>	4.6639	4.6597
<b>USD 1</b>	4.0736	3.8915
<b>CHF 1</b>	4.1404	3.9900

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

### **2.5.5. Costs related to long-term borrowings**

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

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

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

### **2.5.6. 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.

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

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

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

### **2.5.8. Employees' contribution**

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

### **2.5.9. 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.

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

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

### **2.5.10. 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 revalued value of the asset.

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

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

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

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

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

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

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:

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

### **2.5.11. Investment properties**

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

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

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

### **2.5.12. Intangible assets**

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

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

	<u>Years</u>
Licenses	1 – 5

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

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

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

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

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

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

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

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

### **2.5.14. Inventories**

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

### **2.5.15. Share capital**

Common shares are classified in equities.

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

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

### **2.5.17. Provisions**

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

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

### **2.5.18. Segment reporting**

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

### **2.5.19. 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.

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

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

### **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, for 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.

#### **2.5.20 Fair value measurement**

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

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

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

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

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

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.

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

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

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

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

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

At each reporting date, Group's management analyses the movements in the values of assets and liabilities which are required to be remeasured or reassessed 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 the notes and fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

**2.5.21 Use of estimates**

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

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

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

#### **3.1. Judgments**

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

##### **Investment properties**

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

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

##### **Acquisition of Depaco shareholding**

As at 30 June 2017, Teraplast concluded the transaction for the acquisition of 50% of Depaco SRL. The transaction was finalized after its approval by the Teraplast SA General Shareholders Meeting and receiving the approval from the Romanian Competition Council.

In 2017, the Company signed agreements for the acquirement of an additional 17% shareholding in Depaco. TeraPlast undertook control over Depaco in January 2018, after a favorable approval issued by the Competition Council and the recording with the Trade Register of the additional 17% shareholding.

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

More details on this transaction are included in Note 16.

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

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

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

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

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

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

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

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

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

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

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

The cash generating units identified are:

1. The cash generating unit Installations and Arrangements;
2. The cash generating unit Granules;
3. The cash generating unit PVC Joinery Profiles;

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

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

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

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

**Acquisition of Politub**

Teraplast SA acquired the remaining 50% shareholding in Politub SA from the French partner New Socotub, in October 2017, for the amount RON 11,432,250.

The Group acquired this shareholding and integrated the activity of the Polyethylene Division, in order to be able to provide to its clients an integrated system for water and sewerage.

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

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**4. REVENUE AND OPERATING SEGMENTS**

An analysis of the Group revenues is detailed below:

	<b>Year ended 31 December 2018</b>	<b>Year ended 31 December 2017</b>
	<b>RON</b>	<b>RON</b>
Sales from own production	685,179,875	384,186,206
Revenues from sale of commodities	126,426,813	42,165,328
Revenues from other activities	3,455,859	1,245,812
Commercial discounts awarded	(10,092,650)	(5,327,276)
<b>Total</b>	<b>804,969,897</b>	<b>422,270,070</b>

**Geographical analysis**

	<b>Year ended 31 December 2018</b>	<b>Year ended 31 December 2017</b>
	<b>RON</b>	<b>RON</b>
Sales on the internal market (Romania)	644,810,473	319,206,210
Sales on the external market	160,159,425	103,063,860
<b>Total</b>	<b>804,969,897</b>	<b>422,270,070</b>

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

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

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**4. REVENUE AND OPERATING SEGMENTS (continued)**

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

2017	Heat insulated joinery	Metal tiles – not consolidated in 2017	Installations and fittings	Joinery profiles	Granules	Joinery works	Total
Turnover	172,344,707		115,573,235	57,395,489	53,994,501	22,962,138	422,270,070
Other operating income	2,965,693		173,918	119,261	492,923	12,571	3,764,366
<b>Operating income, Total</b>	<b>173,099,516</b>		<b>120,533,878</b>	<b>55,250,663</b>	<b>54,175,670</b>	<b>22,974,709</b>	<b>426,034,436</b>
Raw materials, consumables used up and merchandise	(131,195,758)		(76,346,217)	(40,034,691)	(41,394,946)	(13,345,942)	(302,317,553)
Expenses with employee benefits	(9,705,524)		(19,687,355)	(2,904,383)	(3,143,423)	(4,907,316)	(40,348,001)
Amortization and adjustments for the depreciation of assets and provisions	(2,718,139)		(9,200,100)	(4,597,305)	(1,306,992)	(62,257)	(17,884,793)
Other expenses	(13,445,001)		(9,890,448)	(9,734,520)	(4,244,984)	(3,941,684)	(41,256,636)
Expenses related to sales, indirect and administrative related expenses	(157,064,422)		(118,269,540)	(55,217,890)	(48,997,933)	(22,257,200)	(401,806,983)
<b>Operating result</b>	<b>16,035,094</b>		<b>2,264,338</b>	<b>32,773</b>	<b>5,177,737</b>	<b>717,510</b>	<b>24,227,453</b>
<b>EBITDA</b>	<b>18,753,233</b>		<b>11,464,438</b>	<b>4,630,078</b>	<b>6,484,729</b>	<b>779,767</b>	<b>42,112,245</b>

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

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**4. REVENUE AND OPERATING SEGMENTS (continued)**

<b>2018</b>	<b>Heat insulated joinery</b>	<b>Metal tiles</b>	<b>Installations and fittings</b>	<b>Joinery profiles</b>	<b>Granules</b>	<b>Joinery works</b>	<b>Total</b>
Turnover	262,449,153	220,999,584	173,537,733	55,970,409	63,091,541	28,921,475	804,969,895
Other operating income	738,618	330,137	287,096	293,442	73,602	9,809	1,732,704
Operating income, Total	<b>263,187,771</b>	<b>221,329,722</b>	<b>173,824,829</b>	<b>56,263,851</b>	<b>63,165,143</b>	<b>28,931,284</b>	<b>806,702,600</b>
Raw materials, consumables used up and merchandise	(206,326,031)	(169,454,257)	(123,390,712)	(34,141,646)	(48,130,720)	(14,554,262)	(595,997,628)
Expenses with employee benefits	(11,730,128)	(17,275,016)	(23,067,877)	(6,475,778)	(3,942,754)	(5,907,989)	(68,399,542)
Amortization and adjustments for the depreciation of assets and provisions	(4,810,927)	(4,804,444)	(13,910,835)	(4,754,750)	(1,512,569)	(746,257)	(30,539,782)
Income from subsidies	445,858	304,734	-	-	-	-	750,592
Adjustments for the depreciation of non-current assets	(151,934)	(704,978)	(289,473)	(211,007)	-	(109,702)	(1,467,094)
Other expenses	(18,400,289)	(19,173,521)	(17,216,379)	(11,948,741)	(3,824,170)	(5,091,513)	(75,654,613)
Expenses related to sales, indirect and administrative related expenses	(240,973,452)	(211,107,482)	(178,075,276)	(57,531,922)	(57,410,213)	(26,409,723)	(771,508,067)
<b>Operating result</b>	<b>22,214,319</b>	<b>10,222,239</b>	<b>(4,250,446)</b>	<b>(1,268,071)</b>	<b>5,754,930</b>	<b>2,521,561</b>	<b>35,194,532</b>
<b>EBITDA</b>	<b>26,579,388</b>	<b>14,721,949</b>	<b>9,860,389</b>	<b>3,486,679</b>	<b>7,267,499</b>	<b>3,267,818</b>	<b>65,183,722</b>

EBITDA = Operating result + amortization and the adjustments for the depreciation of non-current assets and provisions – Income from subsidies

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

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**5. SUNDRY INCOME**

**Financial income/expenses**

	<b>Year ended 31 December 2018 RON</b>	<b>Year ended 31 December 2017 RON</b>
Loss from foreign exchange differences	(650,353)	(1,084,680)
Other financial income	73,571	25,546
Interest revenues	888	1,581
Dividend revenues	75,200	81,045
Other financial expenses	(943)	-
Financial discounts granted	(61,868)	-
Interest expense	(7,577,684)	(2,561,767)
<b>Net financial loss</b>	<b>(8,141,189)</b>	<b>(3,538,275)</b>

**Other operating income**

	<b>Year ended 31 December 2018 RON</b>	<b>Year ended 31 December 2017 RON</b>
Compensations, fines and penalties	364,854	140,349
Other revenues	617,257	3,164,626
Subsidies income	750,592	459,391
<b>Total</b>	<b>1,732,703</b>	<b>3,764,366</b>

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

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

	<b>Year ended 31 December 2018 RON</b>	<b>Year ended 31 December 2017 RON</b>
Raw material expenses	461,947,666	257,553,283
Consumable expenses	24,989,710	15,570,250
Commodity expenses	114,542,555	39,505,799
Consumed packaging	3,711,235	714,728
<b>Total</b>	<b>605,191,166</b>	<b>313,344,060</b>

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**7. OTHER GAINS AND LOSSES**

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

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

	<b>Year ended 31 December 2018 RON</b>	<b>Year ended 31 December 2017 RON</b>
Expenses with non-current assets impairment	(981,715)	(1,319,067)
Revenues from reversal of non-current assets impairment	434,199	439,906
Amortization and depreciation expenses	(29,738,954)	(18,221,194)
<b>Net adjustments for non-current assets impairment</b>	<b>(30,286,470)</b>	<b>(19,100,355)</b>
Inventory impairment expenses	(4,815,438)	(4,283,633)
Revenues from inventory impairment reversal	4,325,063	2,321,429
<b>Net adjustments for inventory impairment</b>	<b>(490,375)</b>	<b>(1,962,204)</b>
Expenses with current assets impairment	(3,419,299)	(1,433,685)
Revenues from current assets impairment reversal	3,082,933	3,015,601
Current receivables charged to expenses	(640,353)	(1,101,303)
<b>Net adjustments for current assets impairment</b>	<b>(1,466,719)</b>	<b>480,613</b>
Provisions expenses	(512,009)	(125,165)
Revenues from provisions reversal/cancellation	303,229	2,739,616
<b>Net adjustments for provisions</b>	<b>(208,780)</b>	<b>2,614,451</b>

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**9. EMPLOYEE BENEFIT EXPENSES**

	<b>Year ended 31 December 2018</b>	<b>Year ended 31 December 2017</b>
	<b>RON</b>	<b>RON</b>
Wages	62,835,217	31,261,109
Contributions to the public social security fund	2,375,285	7,337,821
Meal tickets	3,189,040	1,749,071
<b>Total</b>	<b>68,399,542</b>	<b>40,348,001</b>

**10. OTHER EXPENSES**

	<b>Year ended 31 December 2018</b>	<b>Year ended 31 December 2017</b>
	<b>RON</b>	<b>RON</b>
Transport costs	29,452,780	13,686,868
Expenses with utilities and green certificates	9,436,690	6,706,392
Expenses with third party services	13,858,886	9,401,977
Expenses with compensations, fines and penalties	60,692	52,367
Entertainment, promotion and advertising expenses	5,155,230	2,415,770
Other general expenses	2,606,896	1,978,286
Expenses with other taxes and duties	2,089,813	1,171,398
Repair expenses	3,083,130	1,623,646
Travelling expenses	1,430,360	1,032,822
Rent expenses	3,824,485	691,475
Mail and telecommunication expenses	752,744	566,723
Insurance premium expenses	1,895,228	912,582
<b>Total</b>	<b>73,646,934</b>	<b>40,240,306</b>

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**12. PROPERTY, PLANT AND EQUIPMENT**

	Land	Buildings	Plant and equipment	Installations and furniture	Tangible assets in progress	Total
	RON	RON	RON	RON	RON	RON
<b>COST</b>						
<b>Balance as at 1 January 2017</b>	<b>11,478,397</b>	<b>61,838,472</b>	<b>184,640,358</b>	<b>1,492,654</b>	<b>4,089,305</b>	<b>263,548,186</b>
Increases:	1,095,000	23,254,245	17,807,621	156,795	29,445,440	71,759,102
Out of which:						
Increases from Politub	1,095,000	5,205,210	10,270,811	35,471	-	16,606,492
Increases from the internal production of assets	-	-	-	-	2,855,664	2,855,664
Transfers in/from tangible assets in progress	-	9,505,876	18,307,961	78,946	(27,892,784)	-
Transfers to non-current assets held for sale	(156,965)	(535,514)	-	-	-	(692,478)
Increases/(decreases) from value adjustments with impact on reserves	144,534	-	-	-	-	144,534
Disposals and other decreases	-	(2,392,901)	(1,669,703)	(44,138)	(308,000)	(4,414,742)
<b>Balance as at 31 December 2017</b>	<b>12,560,965</b>	<b>91,670,179</b>	<b>219,086,237</b>	<b>1,684,258</b>	<b>5,342,961</b>	<b>330,344,600</b>
<b>Balance as at 1 January 2018</b>	<b>12,560,965</b>	<b>91,670,179</b>	<b>219,086,237</b>	<b>1,684,258</b>	<b>5,342,961</b>	<b>330,344,600</b>
Increases:	2,303,313	10,825,911	35,766,903	1,723,315	15,344,776	66,277,507
Out of which:						
<i>Increases from 100% conso of Depaco Group</i>	2,096,125	8,706,647	27,321,950	585,653	24,908	38,735,283
<i>Increases from the internal production of assets</i>	-	-	-	-	1,018,220	1,018,220
Transfers in/from tangible assets in progress	908,804	1,751,837	9,419,807	127,407	(12,218,540)	(10,684)
Transfers from inventory items	-	-	49,884	-	-	49,884
Transfers to non-current assets held for sale	(1,137,491)	(728,069)	-	-	-	(1,865,560)
Transfers from investment property	599,425	622,201	-	-	-	1,221,626
Increases/(decreases) from value adjustments	(521,661)	(432,682)	-	-	-	(954,344)
Disposals and other decreases	-	(216,349)	(13,315,845)	(204,848)	-	(13,737,042)
<b>Balance as at 31 December 2018</b>	<b>14,713,354</b>	<b>103,493,029</b>	<b>251,006,986</b>	<b>3,330,133</b>	<b>8,469,196</b>	<b>381,012,698</b>

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**12. PROPERTY, PLANT AND EQUIPMENT (continued)**

	<b>Land RON</b>	<b>Buildings RON</b>	<b>Plant and equipment RON</b>	<b>Installatio ns and furniture RON</b>	<b>Tangible assets in progress RON</b>	<b>Total RON</b>
<b>ACCUMULATED DEPRECIATION</b>						
<b>Balance as at 1 January 2017</b>	-	<b>4,054,395</b>	<b>124,800,786</b>	<b>995,443</b>	-	<b>129,850,624</b>
Depreciation recorded during the year	346	3,241,780	14,340,091	158,931	-	17,741,149
Disposals and decreases	-	(2,342,257)	(1,618,847)	(41,875)	-	(4,002,979)
Impairment	-	(363,877)	278,145	-	964,893	879,161
Transfers to non-current assets held for sale active	-	(39,263)	-	-	-	(39,263)
<b>Balance as at 31 December 2017</b>	<b>346</b>	<b>4,550,778</b>	<b>137,800,175</b>	<b>1,112,499</b>	<b>964,893</b>	<b>144,428,691</b>
<b>Balance as at 1 January 2018</b>	<b>346</b>	<b>4,550,778</b>	<b>137,800,175</b>	<b>1,112,499</b>	<b>964,893</b>	<b>144,428,691</b>
Depreciation recorded during the year	346	4,495,501	21,449,797	310,261	-	26,255,904
Depaco Group _ cumulated depreciation as of Dec 2017	-	558,539	9,561,031	161,246	-	10,280,816
Disposals and decreases	-	(212,989)	(13,182,992)	(154,637)	-	(13,550,618)
Impairment	-	(1,397,086)	311,808	-	(226,357)	(858,923)
Transfers to non-current assets held for sale	-	(98,784)	-	-	-	(98,784)
<b>Balance as at 31 December 2018</b>	<b>692</b>	<b>7,895,958</b>	<b>155,989,702</b>	<b>1,429,369</b>	<b>1,191,250</b>	<b>166,506,971</b>
<b>NET CARRYING AMOUNT</b>						
<b>Net carrying amount as at 1 January 2018</b>	<b>12,560,619</b>	<b>87,119,401</b>	<b>81,286,062</b>	<b>571,759</b>	<b>4,378,068</b>	<b>185,915,909</b>
<b>Net carrying amount as at 31 December 2018</b>	<b>14,712,662</b>	<b>95,597,071</b>	<b>95,017,284</b>	<b>1,900,764</b>	<b>7,591,236</b>	<b>214,505,727</b>

## 12. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

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

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

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

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**13. INTANGIBLE ASSETS**

	<b>Licenses and other intangible assets</b>	<b>Intangible assets in progress</b>	<b>Total</b>
	<b>RON</b>	<b>RON</b>	<b>RON</b>
<b>Cost</b>			
<b>Balance as at 1 January 2017</b>	<b>6,030,198</b>	<b>6,618</b>	<b>6,036,816</b>
Increases	482,882	287,110	769,992
Politub acquisition	2,680	-	2,680
Transfers from / into non-current assets in progress	290,631	(290,631)	-
Disposals and other decreases	(17,542)	-	(17,542)
<b>Balance as at 31 December 2017</b>	<b>6,786,169</b>	<b>3,097</b>	<b>6,789,266</b>
<b>Balance as at 1 January 2018</b>	<b>6,786,169</b>	<b>3,097</b>	<b>6,789,266</b>
Increases, out of which:	1,875,496	748,328	2,623,824
Increases from the 100% conso of Depaco Group	1,304,386	63,437	1,367,824
Wetterbest brand	27,351,076	-	27,351,076
Commercial relations	7,427,844	-	7,427,844
Transfers from / into non-current assets in progress	333,162	(322,479)	10,685
Disposals and other decreases	(216,139)	-	(216,139)
<b>Balance as at 31 December 2018</b>	<b>43,557,609</b>	<b>428,946</b>	<b>43,986,554</b>
<b>Cumulated amortization</b>			
<b>Balance as at 1 January 2017</b>	<b>4,665,213</b>	-	<b>4,665,213</b>
Amortization expense	479,245	-	479,245
Decreases	(17,542)	-	(17,542)
<b>Balance as at 31 December 2017</b>	<b>5,126,916</b>	-	<b>5,126,916</b>
<b>Balance as at 1 January 2018</b>	<b>5,126,916</b>	-	<b>5,126,916</b>
Amortization expense	2,463,237	-	2,463,237
Depaco Group _ cumulated depreciation as of Dec. 2017	503,771	-	503,771
Depreciation	56	-	56
Decreases	(215,606)	-	(215,606)
<b>Balance as at 31 December 2018</b>	<b>7,878,375</b>	-	<b>7,878,375</b>
<b>Net carrying amount</b>			
<b>As at 31 December 2017</b>	<b>1,659,253</b>	<b>3,097</b>	<b>1,662,350</b>
<b>As at 31 December 2018</b>	<b>35,679,233</b>	<b>428,946</b>	<b>36,108,179</b>

#### 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), located in Bistrita, Drumul Cetatii, is held in order to obtain an increase in its value and to be subsequently materialized through sale. As a result, the land was classified in December 2012 as an investment property, being valued at fair value as of that date.
- The Group holds land and buildings (previously used as regional warehouses) in Constanta. In January 2013, the management decided that the final purpose of these land and buildings was to be held in order to obtain an increase and value and to be subsequently materialized through sale. As a result, the land and buildings were classified in 2013 as investment properties.

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

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

	<u>EUR/sq. m.</u>
Price per square meter for land	15 – 135

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

	<u>EUR/sq. m.</u>
Rent for industrial and commercial premises	2.5 – 5.5
	<u>%</u>
Non occupancy rate for logistic and industrial premises	10 – 15
Average rate of return for Category II Cities (locations)	9 – 10
Average rate of return for Category III Cities (locations)	9,5 – 10,5

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

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**15. SUBSIDIARIES AND OTHER FINANCIAL INVESTMENTS**

As of 31 December 2018 and 31 December 2017, the parent entity held investments as follows:

<b>Subsidiary</b>	<b>Place of establishment and of operations</b>	<b>Basic activity</b>	<b>Shareholding percentage 31 December 2018 (%)</b>	<b>Shareholding percentage 31 December 2017 (%)</b>
Terasteel S.A. Bistrita	Romania	Production of heat insulating panels	97,95	97,95
Teraglass Bistrita SA	Romania	Production of heat insulating joinery	100	100
Politub SA		Polyethylene pipes production	99,99	99,99
Teraplast Logistic SRL	Romania	Logistic services	99	99
Teraplast Hungary	Hungary	Distributor	100	100
Terasteel DOO Serbia	Serbia	Production of heat insulating panels	100	100
Depaco SRL	Romania	Production of metal tiles	67	50

***During 2018, the following changes in the Company's shareholding occurred:***

On 1 March 2017, Teraplast has concluded a contract with the shareholders of Depaco SRL for the purchase of 50% of its capital shares. The transaction was finalized after its approval by the Teraplast SA's General Meeting of Shareholders and after receiving the approval of the Romanian Competition Council.

Subsequently, Teraplast has purchased 17% more of the capital shares of Depaco SRL, the investment being presented in the Statement of Financial Position within Other long-term financial investments. As of 31 December 2017, this shareholding was not registered with the Trade Register and, therefore, the control over Depaco was exercised jointly with the other shareholders.

After receiving the approval from the Competition Council for the sole control over Depaco SRL, in January 2018, the holding of 67% in Depaco was registered with the Trade Register. Therefore, starting with January 2018, the Company consolidates 100% of Depaco Group.

Depaco is the second player on the metal tiles market in Romania, through the Wetterbest brand.

***The purchase of Politub SA***

Starting with October 2017, Teraplast SA has become the major shareholder of Politub SA, with a 99.99% shareholding.

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

***Other financial investments***

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

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

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-	16,472	-	16,472
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**15. SUBSIDIARIES AND OTHER FINANCIAL INVESTMENTS (continued)**

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

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

The other Group companies do not have any financial investments.

**16. Depaco**

As of 30 June 2017, Teraplast has concluded the transaction of purchasing 50% of Depaco SRL. The transaction was completed after its approval by the Shareholders' General Meeting of Teraplast SA and receiving the approval from the Romanian Competition Council.

In 2017, the Company has concluded agreements for the purchase of an additional investment of 17% din Depaco. TeraPlast took control of Depaco in January 2018, after obtaining the favorable approval of the Competition Council and registering the additional holding of 17% with the Trade Register.

Also in 2017, Teraplast has concluded a sale-purchase promise with the minority shareholders of Depaco, for the rest of their investment up to 100% of the company. The transaction will be carried out within 4 years at most, for a price correlated with Depaco's results in the following years.

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**17. INVENTORIES**

	<b>31 December 2018</b>	<b>31 December 2017</b>
	<b>RON</b>	<b>RON</b>
Finished goods	49,110,922	40,509,329
Raw materials	124,955,640	55,406,294
Commodities	13,419,833	7,047,070
Consumables	3,577,615	2,655,109
Inventory items	260,198	234,237
Semi-finished goods	3,908,861	711,610
Residual products	909,669	288,142
Goods to be purchased	4,305,035	1,212,587
Packaging	1,684,609	189,869
<b>Inventories – gross value</b>	<b>202,132,382</b>	<b>108,254,247</b>
	<b>31 December 2018</b>	<b>31 December 2017</b>
	<b>RON</b>	<b>RON</b>
Value adjustments for raw materials and consumables	(2,968,793)	(2,143,987)
Value adjustments for finished products	(4,463,451)	(4,755,119)
Value adjustments for merchandise	(947,781)	(890,543)
<b>Total value adjustments</b>	<b>(8,380,025)</b>	<b>(7,789,649)</b>
<b>Total inventories – net value</b>	<b>193,752,357</b>	<b>100,464,598</b>

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

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

**18. TRADE AND OTHER RECEIVABLES**

<b>Other short-term receivables</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
	<b>RON</b>	<b>RON</b>
Trade receivables	124,238,872	96,849,345
Advances paid to suppliers of assets	6,404,825	3,233,906
Advances paid to suppliers of inventories and services	1,204,997	1,463,081
Advances paid to employees	(4,780)	1,199
Other receivables	9,660,045	5,512,526
Adjustments for trade receivables impairment, out of which:	(17,519,504)	(17,293,076)
<b>Total</b>	<b>149,683,414</b>	<b>89,766,981</b>

Other receivables include the amount of RON 8,773,733 (2017: RON 4,529,020) representing VAT recoverable (Teraglass Bistrita SRL and Terasteel Doo Serbia).

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**18. TRADE AND OTHER RECEIVABLES (continued)**

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

	<b>31 December 2018</b>	<b>31 December 2017</b>
	<b>RON</b>	<b>RON</b>
<b>Balance at the beginning of the year</b>	<b>(17,293,076)</b>	<b>(18,205,487)</b>
Receivables transferred to expenses during the year	640,353	1,101,303
Impairment adjustment charged to profit and loss for trade receivables	(866,782)	(188,892)
<b>Balance at the end of year</b>	<b>(17,519,505)</b>	<b>(17,293,076)</b>

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

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

**19. SHARE CAPITAL**

	<b>31 December 2018</b>	<b>31 December 2017</b>
	<b>RON</b>	<b>RON</b>
Common shares paid in full	107,024,527	85,691,097
<b>Total</b>	<b>107,024,527</b>	<b>85,691,097</b>

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

On 12 December 2018, the Financial Supervisory Authority has issued the Securities Registration Certificate no. AC-3420-7/12.12.2018 related to the increase of the share capital approved through the Decision of the Extraordinary Shareholders' General Meeting of Teraplast SA no.1 from 27 April 2017, with the amount of RON 21,333,483, through the issue of 213,334,304 new shares, having a nominal value of RON 0.1/share.

On 03 July 2017, the Financial Supervisory Authority has issued the Securities Registration Certificate no. AC-3420-5/03.07.2017 related to the increase of the share capital approved through the Decision of the Extraordinary Shareholders' General Meeting of Teraplast SA no.1 from 27 April 2017, with the amount of RON 29,047,831, through the issue of 290,478,310 new shares, having a nominal value of RON 0.1/share.

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**19. SHARE CAPITAL (continued)**

**Shareholding structure**

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

**Treasury shares**

	<b>thousands</b>	<b>RON</b>
<b>As of 31 December 2017</b>	<b>1.663</b>	<b>663,396</b>
Repurchase of own shares, net of exercising the options	1.908	809,528
<b>As of 31 December 2018</b>	<b>3.571</b>	<b>1,472,925</b>

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

**20. LEGAL RESERVES**

	<b>31 December 2018</b>	<b>31 December 2017</b>
	<b>RON</b>	<b>RON</b>
Opening balance	13,939,022	12,407,036
Increases / (decreases) in the period	1,500,532	1,531,986
<b>Total</b>	<b>15,439,552</b>	<b>13,939,022</b>

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

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**20. LEGAL RESERVES (continued)**

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.

**23. LOANS**

	Short-term		Long-term	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Porsche Bank	-	41,398	-	7,392
Transilvania Bank	71,161,194	53,945,847	67,757,841	74,262,300
Raiffeisen Bank	32,563,555	3,741,922	-	-
UniCredit Bank	13,003,801	-	2,616,700	-
Citi Bank	5,724,129	-	-	-
ING Bank	385,238	-	-	-
Leases	674,619	1,049,226	1,303,679	698,355
<b>Total</b>	<b>123,512,536</b>	<b>58,778,393</b>	<b>71,678,220</b>	<b>74,968,047</b>

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

Currency	2018	2017
EUR	5,694,514	-
RON	189,496,242	133,746,440
<b>Total</b>	<b>195,190,756</b>	<b>133,746,440</b>

The distribution of bank loans per companies is as follows:

	Short-term		Long-term	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Teraplast SA	58,948,895	42,475,727	67,218,258	73,084,383
Terasteel SA	27,537,493	14,359,779	-	534,517
Teraglass Bistrita SRL	2,678,585	893,661	539,583	650,792
Depaco SRL	24,349,218	-	2,616,700	-
Terasteel Doo Serbia	9,323,726	-	-	-
<b>Total</b>	<b>122,837,917</b>	<b>57,729,167</b>	<b>70,374,541</b>	<b>74,269,692</b>

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**23. LOANS (continued)**

Bank loans as of 31 December 2018 are the following:

Teraplast SA

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

Terasteel SA

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

Teraglass Bistrita SRL

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

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**23. LOANS (continued)**

Depaco SRL

			On balance as of 31 December 2017	On balance as of 31 December 2018	Short-term as of 31 December 2018	Long-term as of 31 December 2018	Period
<b>Financing bank</b>	<b>Financing type</b>	<b>Date granted</b>					
UniCredit Bank	Investments	-	282,812	28,317	28,317	-	48 MONTHS
UniCredit Bank	Investments	26.05.2017	1,976,283	1,230,674	709,727	520,947	30 MONTHS
UniCredit Bank	Investments	20.04.2016	879,844	580,994	296,592	284,408	60 MONTHS
UniCredit Bank	Investments	26.05.2015	223,046	56,872	56,872	-	48 MONTHS
UniCredit Bank	Investments	28.02.2018	-	1,811,351	-	1,811,351	48 MONTHS
UniCredit Bank	Investments	-	128,490	-	-	-	48 MONTHS
UniCredit Bank	Working capital	09.02.2012	4,390,382	3,497,925	3,497,925	-	12 MONTHS
UniCredit Bank	Working capital	17.01.2017	-	3,970,052	3,970,052	-	24 MONTHS
UniCredit Bank	Working capital	25.02.2011	-	4,443,610	4,443,610	-	12 MONTHS
Transilvania Bank	Working capital	14.12.2016	104,468	23,216	22,505	-	23 MONTHS
Transilvania Bank	Working capital	20.02.2018	-	5,213,545	5,213,545	-	12 MONTHS
CITI Bank	Working capital	29.05.2018	-	5,724,129	5,724,129	-	12 MONTHS
ING Bank	Investments	07.04.2016	806,827	385,238	385,238	-	41 MONTHS
<b>TOTAL</b>			<b>8,792,151</b>	<b>26,965,924</b>	<b>24,349,218</b>	<b>2,616,706</b>	

Terasteel Doo Serbia

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

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

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**24. EMPLOYEE BENEFIT LIABILITIES AND PROVISIONS**

	Short-term		Long-term	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	RON	RON	RON	RON
Employee benefits		-		320,836
Provisions for risks and expenses		975,446		-
<b>Total</b>		<b>975,446</b>		<b>320,836</b>

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 2017 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.

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

<b>Current provisions</b>	<b>31 December 2018</b>	<b>Net movements</b>	<b>31 December 2017</b>
	<b>RON</b>	<b>RON</b>	<b>RON</b>
Provisions for litigation	-	(10,000)	10,000
Other provisions	1,012,935	47,489	965,446
<b>Closing balance</b>	<b>1,012,935</b>	<b>37,489</b>	<b>975,446</b>

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

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

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**25. TRADE AND OTHER PAYABLES**

	<b>31 December 2018</b>	<b>31 December 2017</b>
	<b>RON</b>	<b>RON</b>
Trade payables	149,656,230	66,864,762
Trade notes payable	818,625	1,172,128
Liabilities from the purchase of non-current assets	2,268,058	2,495,030
Other current payables (Note 26)	12,394,228	8,250,800
Advance payments from clients	6,776,050	7,402,253
<b>Total</b>	<b>171,913,191</b>	<b>86,184,973</b>

**26. OTHER CURRENT LIABILITIES**

	<b>31 December 2018</b>	<b>31 December 2017</b>
	<b>RON</b>	<b>RON</b>
Salary-related payables to employees and social security payables	7,849,535	5,349,242
VAT payable	1,210,709	1,506,578
Unclaimed employee rights	91,345	88,536
Sundry creditors	2,376,682	209,712
Deferred income	8,928	184,143
Commercial guarantees received	114,859	123,130
Other taxes payable	507,023	603,193
Dividends payable	235,147	186,265
<b>Total</b>	<b>12,394,228</b>	<b>8,250,799</b>

**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.

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

## **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 Group. Equity includes the share capital, reserves and retained earnings.

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

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

The 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 requirement and did not require a share capital increase as at 31 December 2018 and 31 December 2017.

### **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).

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

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.

##### **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.

##### **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.

**29. RELATED PARTY TRANSACTIONS**

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

**31 December 2017**

**Subsidiaries and jointly controlled entities**

Teraglass Bistrita SRL  
Terasteel SA  
Politub SA  
Teraplast Logistic SRL  
Teraplast Hungaria\_  
Depaco SRL  
Terasteel DOO Serbia

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

ACI Cluj SA Romania  
Ferma Pomicola Dragu SRL Romania  
La Casa Ristorante Pizzeria Pane Dolce SA Romania  
Omniconstruct SA Romania  
Magis Investment SRL  
Ischia Invest SRL  
Ischia Activholding SRL  
Info sport SRL  
Agrolegumicola Dragu SRL  
New Croco Pizzeria SRL  
Parcserv SRL  
Ditovis Impex SRL Romania  
RSL Capital Advisors SRL

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**29. RELATED PARTY TRANSACTIONS (continued)**

**31 December 2018**

**Subsidiaries**

Teraglass Bistrita SRL  
 Terasteel SA  
 Politub SA  
 Teraplast Logistic SRL  
 Teraplast Hungaria Kft  
 Depaco SRL  
 Terasteel Doo Serbia

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

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

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

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

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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:

	<u>31 December 2018</u>	<u>31 December 2017</u>
	<u>RON</u>	<u>RON</u>
Cash in bank	22,285,894	11,844,996
Bills receivable	235,668	7,184
Cash on hand	192,729	132,618
Cash equivalents	250,856	31,004
<b>Total</b>	<b><u>22,965,147</u></b>	<b><u>12,015,802</u></b>

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

### 31. COMMITMENTS AND CONTINGENT LIABILITIES

#### Teraplast SA

The Company has a bank letter of guarantee ceiling of RON 1,750,000. Within the ceiling, as of 31 December 2018, within the ceiling, a bank letter of guarantee is issued in favor of ROMPETROL DOWNSTREAM, amounting to RON 400,000, valid between 28 June 2018 and 28 June 2019.

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

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

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

In 2017, the Company has granted to Banca Transilvania a guarantee to be liable jointly with Terasteel SA for the reimbursement of the loans amounting to RON 44,269,500, which Terasteel has contracted from Banca Transilvania.

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

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**31. COMMITMENTS AND CONTINGENT LIABILITIES (continued)**

**Terasteel SA**

As of 31 December 2018, the Company has unused loan facilities amounting to RON 5,497,027 (31 December 2017: RON 4,262,604). The Group's long-term borrowings and short-term loans are guaranteed with available cash, both current and future, in the current accounts opened with the banks where the loans are contracted from, with assignments of inventories and commercial contracts and real estate mortgages. As of 31 December 2018, the Company has a letter of credit ceiling amounting to EUR 5,000,000, expiring on 08 July 2019. Within this ceiling, as of 31 December 2018, no valid letters of guarantee/bank letters of credit are issued.

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

As of 31 December 2018, the Company has a ceiling of bank letters of guarantee of RON 1,500,000 expiring on 08 July 2018. As of 31 December 2018, within this ceiling, the following letters of guarantee are issued:

<u>Issuing bank</u>	<u>Validity period</u>	<u>Amount</u>	<u>Currency</u>	<u>Guarantee purpose</u>
Banca Transilvania	01.08.2018-31.07.2019	100,000	RON	ROMPETROL
Banca Transilvania	06.03.2018-06.03.2019	190.334	RON	DOWNSTREAM ANAF

**Teraglass Bistrita SRL**

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

**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 Group administrators are of the view that the tax liabilities of the Group 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 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.

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**31. COMMITMENTS AND CONTINGENT LIABILITIES (continued)**

**Transfer pricing**

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

**Auditor fees**

During 2018, Ernst & Young Assurance Services SRL had a contractual fee of EUR 82,700 (for the statutory audit of the separate and consolidated annual financial statements of the Company and of its subsidiaries and associates). The services contracted from the statutory auditor, other than the audit services, have amounted to EUR 1,500, representing fees for services other than assurance, which are not forbidden by Article 5(1) of the EU Regulation No. 537/2014 of the European Parliament and of the Council.

### 32. INVESTMENT SUBSIDIES

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

	<u>2018</u>	<u>2017</u>
	<u>RON</u>	<u>RON</u>
<b>As at 1 January</b>	<b>2,928,557</b>	<b>3,391,999</b>
On balance as of 01 Jan 2018 _ Depaco	1,873,607	-
Transferred to profit and loss	(750,592)	(463,442)
<b>As at 31 December</b>	<b>4,051,575</b>	<b>2,928,557</b>
Current	453,766	457,814
Long-term	3,597,809	2,470,743

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

### 33. SHARE-BASED PAYMENT

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

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

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

In February 2017, the repurchase and the awarding of a total number of 1,159,053 shares was finalized, the value of the shares at purchase price being RON 512,707.

In November 2017, by BD decision, the commencement of a new stock option plan was approved, having a budget of RON 1,850,000.

In December 2017, within Terasteel, a provision amounting to RON 920,000 was recorded.

In September 2018, the decision from November 2017 was amended, namely reducing the number of repurchased shares and, respectively, the allocated budget to RON 1,480,308.

In December 2018, a provision amounting to RON 552,925 was registered within Teraplast.

**Alexandru Stanean**  
CEO

**Ioana Birta**  
CFO