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Independent Auditors' Report
(free translation[1])

To the shareholders of
Teraplast S.A.

Opinion

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

2 In our opinion, the accompanying separate financial statements as at and for the year ended 31 December 2016 give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2016 and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with the Order of Minister of Public Finance No. 2844/2016 for approval of accounting regulations in accordance with International Financial Reporting Standards ("OMPF No. 2844/2016").

Basis for Opinion

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

Key Audit Matters

4 Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period

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

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

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These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition (257,296,115 lei)
Note 2 ("Summary of significant accounting policies") and Note 4 ("Revenues") from the separate financial statements

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

Other Matters – Scope of the Audit

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

Other information - Administrators' Report

6 The Other information comprises the Administrators' Report. The Administrators are responsible for the preparation and presentation of the Administrators' Report in accordance with OMPF no. 2844/2016, articles 15 – 19 of the accounting regulations in accordance with International Financial Reporting Standards and for such internal control as Administrators determine is necessary to enable the preparation and presentation of Administrators' Report that is free from material misstatement, whether due to fraud or error.

The Administrators' Report presented from page 1 to 28 is not part of the separate financial statements.

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

In connection with our audit of the separate financial statements as at and for the year ended 31 December 2016, our responsibility is to read the Administrators' Report and, in doing so, consider whether there are material inconsistencies between the Administrators' Report and the separate financial statements, whether the Administrators' Report includes, in all material respects, the information required by the OMPF no. 2844/2016, articles 15 – 19 of the accounting regulations in accordance with International Financial Reporting Standards and whether, based on our knowledge and understanding of the entity obtained during our audit of the separate financial statements, the information included in the Administrators' Report is materially misstated. We are required to report in respect of these matters. Based on the work performed we report that:

a) in the Administrators' Report we have not identified information which is not in accordance, in all material respects, with the information presented in the accompanying separate financial statements;

b) the Administrators' Report identified above include, in all material respects, the information required by OMPF no. 2844/2016, articles 15 – 19 of the accounting regulations in accordance with International Financial Reporting Standards.

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

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

7 Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with the OMPF No. 2844/2016 and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibility for the Audit of Separate Financial Statements

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

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

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

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

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

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

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

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

13 We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and

communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Other matter

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

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

Refer to the original signed Romanian version

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

Aura Stefana Giurcaneanu	**KPMG AUDIT S.R.L.**
registered with the Chamber of Financial Auditors of Romania under no 1517/2003	registered with the Chamber of Financial Auditors of Romania under no 9/2001

Bucharest, 24 March 2017

TERAPLAST S.A.

SEPARATE FINANCIAL STATEMENTS

Prepared in accordance with Minister of Public Finance Order no. 2844/2016 on the approval of the accounting Regulations compliant with the International Financial Reporting Standards for the year ended at
31 DECEMBER 2016

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

CONTENTS	**PAGE**

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

	Note	2015	2016
Revenue	4	267,974,860	257,296,115
Other operating income	5	8,672,432	143,145
Changes in inventories of finished goods and work in progress	6	3,569,237	2,328,093
Raw materials and consumables used	7	(181,116,720)	(166,041,809)
Employee benefits expenses	11	(22,757,385)	(20,513,492)
Expenses with adjustments for depreciation and amortization	10	(11,902,147)	(12,123,400)
Income/ (losses) with provisions	10	(259,068)	1,699,352
(Losses)/Gains from the outflow/evaluation of tangible and intangible assets	8	27,506	(201,064)
(Losses)/Gains from the fair value measurement of investment property	9	(1,242,368)	1,946,754
Other expenses	13	(33,153,455)	(30,590,990)
Operating income		29,812,894	33,392,703
Financial expenses	12	(5,518,339)	(3,163,687)
Financial income	12	8,207,669	14,534,738
Profit before tax		32,502,224	45,313,754
Income tax expense	14	(4,120,239)	(3,802,222)
Profit for the year		28,381,985	41,511,532
Other comprehensive income			
Revaluation of tangible assets		(1,853,175)	596,650
Impact of deferred tax		296,508	(95,464)
Total comprehensive result		26,825,318	42,012,718
Average number of shares		288,875,880	472,970,474
Result per share	31	0.098	0.088

The separate financial statements from pages 3 to 47 were approved by the Board of Directors on 23 March 2017.

SOCIETATEA TERAPLAST 3 S.A.

Hotoleanu Mircea
CEO

Edit Orban
CFO

Semnat pentru identificare
KPMG
24 MAR 2017
Initialed for identification

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

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	Note	31 December 2015	31 December 2016
ASSETS			
Non-current assets			
Tangible assets	15	90,934,897	93,328,915
Investment property	16	19,623,009	19,037,319
Intangible assets	17	559,253	859,260
Investments in subsidiaries and jointly controlled entities	18	11,255,745	11,300,616
Other financial assets	19	15,472	15,472
Non-current trade receivables	30	6,956,956	5,268,525
Total non-current assets		**129,345,332**	**129,810,107**
Current assets			
Inventories	20	34,327,035	42,434,560
Trade and other receivables	21	69,663,633	50,833,900
Prepayments		302,426	221,086
Income tax to be recovered		0	117,060
Cash and short term deposits	32	11,101,333	10,689,973
Total current assets		**115,394,427**	**104,296,579**
Total assets		**244,739,759**	**234,106,686**
EQUITY AND LIABILITIES			
Equity			
Total equity, out of which:		**28,887,588**	**56,643,266**
Subscribed share capital	22	28,887,588	56,643,266
Share capital adjustments	22	-	-
Other equity elements	33	950,500	450,980
Share premium	22	27,384,726	27,384,726
Revaluation reserves		17,045,966	17,547,152
Legal reserves	23	5,443,617	7,737,863
Retained earnings	24	71,518,559	74,558,526
Total equity		**151,230,956**	**184,322,513**
Long-term liabilities			
Interest bearing loans and borrowings	25	8,062,764	9,179,997
Liabilities for employee benefits	26	236,361	238,737
Deferred tax liabilities	14	2,948,367	2,695,521
Total long-term liabilities		**11,247,492**	**12,114,255**
Current liabilities			
Trade and other payables	28	48,195,020	29,667,881
Interest bearing loans and borrowings	25	30,077,116	5,239,688
Income tax payable		815,471	-
Provisions	27	3,173,704	2,762,349
Total current liabilities		**82,261,311**	**37,669,918**
Total liabilities		**93,508,803**	**49,784,173**
Total equity and liabilities		**244,739,759**	**234,106,686**

The separate financial statements from pages 3 to 47 were approved by the Board of Directors on 23 March 2017.

SOCIETATEA TERAPLAST S.A.

Mircea Hotoleanu
CEO

Edit Orban
CFO

TERAPLAST SA
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
for the financial years ended 31 December 2016
(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

	Subscribed share capital	Share capital adjustments	Other equity elements	Share premium	Revaluation reserves	Legal reserves	Retained earnings	Total
Balance as of 1 January 2016	28,887,588	-	950,500	27,384,726	17,045,966	5,443,617	71,518,559	151,230,956
Recognition of legal reserve (Note 23)	-	-	-	-	-	2,294,246	(2,294,246)	-
Share capital increases (Note 22)	27,755,678	-	-	-	-	-	(27,755,678)	-
Dividends to be paid	-	-	-	-	-	-	(7,930,057)	(7,930,057)
Income from own shares issue	-	-	-	-	-	-	21,122	21,122
Repurchase of own shares	-	-	-	-	-	-	(512,706)	(512,706)
Reevaluation reserve surplus	-	-	-	-	501,186	-	-	501,186
Increases/Decreases (Note 33)	-	-	(499,520)	-	-	-	-	(499,520)
Result of the year	-	-	-	-	-	-	41,511,532	41,511,532
Balance as of 31 December 2016	56,643,266	-	450,980	27,384,726	17,547,152	7,737,863	74,558,526	184,322,513

On 28 April 216, according to General Shareholders' Meeting decision, dividends have been granted in amount of 7.930.057 RON for the financial year 2015.

The separate financial statements from pages 3 to 47 were approved by the Board of Directors on 23 March 2017.

Mircea Hotoleanu
CEO

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Subscribed Share capital Other equity Share Revaluation Legal Retained Total

The accompanying notes from 1 to 35 are an integral part of these financial statements.

TERAPLAST SA
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
for the financial years ended 31 December 2016
(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

	share capital	adjustments	items	premium	reserves	reserves	earnings	
Balance as of 1 January 2015	28,887,588	30,092,472	-	42,245,118	18,708,074	4,101,240	(579,354)	123,455,138
Recognition of legal reserve (Note 23)	-	-	-	-	-	1,342,377	(1,342,377)	-
Increases/Decreases	-	(30,092,472)	-	(14,860,393)	(1,556,667)	-	44,952,865	(1,556,667)
Reserves for share based benefits (Note 33)	-	-	950,500	-	-	-	-	950,500
Reevaluation reserve surplus	-	-	-	-	(105,442)	-	105,442	-
Result of the year	-	-	-	-	-	-	28,381,984	28,381,984
Balance as of 31 December 2015	28,887,588	-	950,500	27,384,726	17,045,965	5,443,617	71,518,560	151,230,955

During 2015, through the decision of the General Shareholders' Meeting on 23 March 2015, the Company has decided to cover in full the retained losses from prior years amounting to RON 44.952.911, by using the reserves set for share capital adjustments relating to the adjustments for hyperinflation until 31 December 2003 amounting to RON 30.092.472 and the issue premiums amounting to RON 14.860.393. As of 31 December 2015, revaluation reserves include amounts representing the realized revaluation surplus related both to tangible assets and investment property until the date of their reclassification.

The separate financial statements from pages 3 to 47 were approved by the Board of Directors on 23 March 2017.

Mircea Hotoleanu
CEO

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CFO

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

	Note	2015	2016
Cash flows from operational activities			
Profit before tax	14	32,502,224	45,313,754
Interest expenses	12	1,126,345	672,446
Interest income	12	(10,432)	(31,808)
Loss/(Gains) from the sale or disposal of fixed assets	8	(27,506)	241,671
Profit from the sale of the Teraglass line		(537,927)	-
Trade receivables value adjustments	10	458,274	(1,498,324)
Losses from receivables and sundry debtors	13	125,237	3,018,527
Inventories value adjustments	10	818,940	210,329
Long-term assets amortization and depreciation	10	12,236,504	12,340,064
Non-current assets value adjustments	10	(420,796)	(216,664)
Revaluation income/(losses)	8	86,440	(40,607)
Adjustments of provision for risks and charges, net	10	(816,147)	(411,356)
Loss from the fair value measurement of investment property	9	1,242,366	(1,946,754)
Expense/(Revenue) from the provisions for the retirement benefits obligations	26	(110,041)	2,376
Share based benefits	33	950,000	-
Investment revenues	12	(5,496,136)	(12,312,237)
Unrealized exchange rate differences		(53,179)	(67,853)
Profit before adjustments to working capital		42,072,665	45,273,564
Movements in working capital			
Increase of trade and other receivables		(20,237,372)	18,962,243
Increase of inventories		(1,489,357)	(8,317,854)
(Decrease)/Increase of trade and other payables		3,680,365	(21,004,067)
Cash generated by operating activities		24,026,302	34,913,886
Interest paid		(1,126,345)	(646,978)
Income tax paid		(3,897,931)	(4,808,327)
Net cash flow generated by operating activities		19,002,026	29,458,581
Net cash flow generated from investment activities			
Received interest		10,432	31,808
Payments for the acquisition of tangible and intangible assets		(15,152,791)	(11,424,105)
Payments for financial assets			(44,871)
Receipts from the sale of tangible and intangible assets		135,890	95,961
Repurchase of own share			(512,706)
Gains from own shares sale			21,122
Purchase of Terasteel shares		(2,056,337)	-
Dividends paid			(6,892,037)
Dividends received		5,496,136	12,312,237
Net cash flow used in investment activities		(11,566,670)	(6,412,591)
Net cash flow from finance activities			
Net receipts of loans		7,547,868	5,217,342
(Reimbursements) of loans		(4,818,448)	(27,176,840)
Financial lease payments		(2,526,233)	(1,497,852)
Net cash flow generated from / (used in) finance activities		203,472	(23,457,350)
Net variation of cash and cash equivalents		7,643,828	(411,360)
Cash and cash equivalents at the beginning of the financial year	32	3,457,505	11,101,333
Cash and cash equivalents at the end of the financial year	32	11,101,333	10,689,973

The separate financial statements from pages 3 to 47 were approved by the Board of Directors on 23 March 2017.

SOCIETATEA TERAPLAST S.A.

Hotoleanu Mircea
CEO

Edit Orban
CFO

The accompanying notes from 1 to 35 are an integral part of these financial statements.

1. GENERAL INFORMATION

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

The Company's main activities include the production of PVC pipes and profiles, plasticized and rigid granules, polypropylene pipes, fittings and the trading of cables, polyethylene pipes, steel parts.

Starting with 2 July 2008, Teraplast Company is listed at the Bucharest Stock Exchange under the symbol TRP. The Company holds 50% of the shares of Politub SA (Politub). 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. Prior to the transition to IFRS 11, Politub was classified as jointly controlled unit. Starting with 1 January 2014 (the date of transition to IFRS 11), the Group has decided to classify Politub as joint venture, to which it applies the equity method for consolidation purposes.

In March 2007, the Company has become the major shareholder of Plastsistem SA (Plastsistem) through the purchase of 52.77% of the shares. Plastsistem's main activity is the production of heat insulating panels with polyurethane foam for the construction of warehouses. As of 31 December 2014, Teraplast SA's holding in Plastsistem was of 78.71%. During the period February-October 2015, Teraplast SA purchased from natural persons 19.24% of Plastsistem SA's share capital and, as a result, as of 31 December 2015, the percentage held by Teraplast SA in Plastsistem SA reached 97.95%.

The Company holds another subsidiary, Teraglass Bistrita SRL which was established in 2011, operated for a few months, having as scope of business the production and trading of windows and doors from PVC and aluminum. In August 2011, Teraplast SA has reintegrated in its activity the production and trading of heat insulating glass, windows and doors from PVC and aluminum, as the activity of Teraglass Bistrita SRL has ceased until March 2015, when, following the transfer of the Heat insulating carpentry business line within the parent company, Teraglass Bistrita SRL has recommenced its activity.

On 6 March 2015, by Decision of the Board of Administration, the participation of Teraplast SA as shareholder in setting a limited liability company in the Republic of Moldova was approved. Teraplast SA's participation in this company is of 51%. Through the current report to the Bucharest Stock Exchange from 10 March 2015, the Board of Directors has informed the shareholders and the potential investors about this decision.

The Company is preparing consolidated financial statements for Teraplast SA starting with 2007. These financial statements are available on the company's website (www.teraplast.ro).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

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

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

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of accounting

The financial statements have been prepared on a going concern basis, according to the historical cost convention adjusted to the effects of hyperinflation until 31 December 2003 for tangible and intangible assets, share capital and reserves, except for certain items of tangible assets and investment property, as presented in the notes. The financial statements are prepared based on the statutory accounting evidence kept in accordance with Order no. 2844/2016 (as aligned with the EU IFRS principles). The main accounting policies are presented below.

2.3. Going concern

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

As of 31 December 2016, the Company's current assets exceed its current liabilities by RON 66,626,661 (as of 31 December 2015, current assets had exceeded current liabilities by RON 33,131,118). At the same date, the Company has registered positive comprehensive income of RON 42,012,718 (2015: positive comprehensive income of RON 26,825,318).

As detailed in Note 29a), the Company's degree of indebtedness is of 2% (31 December 2015: 15%), which indicates a low dependence of the Company on financing banks, as also described in Note 25.

The budget prepared by the Company management and approved by the Board of Administration for 2017 indicates positive cash flows from operating activities, an increase in sales and profitability which contributes directly to improving liquidity and allows the Company to fulfill its contractual clauses with the financing banks. Company management believes that the support from banks is sufficient for the Company to continue its activity under normal conditions, on a going concern basis.

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

2.4. Standards, amendments and new interpretations of the standards

A) Changes in accounting policy and disclosures

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

2.5. Cash and cash equivalents

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

2.6. 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.

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KPMG
24 MAR 2017
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Sale of goods

Revenue from the sale of goods is recognized when the following conditions are met:

- The Company has substantially transferred to the buyer all risks and benefits related to the property right over the goods;
- The Company 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;

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 and interest-bearing financial assets classified as available for sale, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of profit or loss.

2.7. Lease

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

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

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

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

2.8. Foreign currency transactions

The Company is operating in Romania and its functional currency is Romanian leu (RON).

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

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

2.9. Costs related to long-term borrowings

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Revenues from temporary investments of loans, until such loans are used for investments in long-term assets, are deducted from the costs related to long-term loans eligible for capitalization.

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

The depreciated cost for all financial assets and liabilities is computed using the effective interest rate method. The computation takes into account any premium or discount upon acquisition and includes the costs of the transaction and fees that are an integrant part of the effective interest rate.

2.10 Government grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions related to these grants and until the grants are received.

Other government grants are recognized systematically as revenues in the same period as the costs it intends to compensate.

2.11. Costs related to retirement rights

Based on the collective labor contract, the Company is under the obligation to pay retirement benefits to its employees depending on their seniority within the Company, between 2 and 3,5 salaries. The Company has registered loss for such payments and reviews the value of this liability each year depending on the employees' seniority within the Company.

2.12. Employees' contribution

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

2.13. Distribution of profit to the employees

The Company recognizes a liability and an expense to distribute the profit to employees, based on a formula taking into account the profit distributable to the holders of the Company's equity, following certain adjustments considered necessary.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group recognizes a liability when it is under the obligation through contract or when there is a constructive liability due to a practice applied in the past.

In 2015, based on the bonuses paid for 2015, the Company approved the plan for share distribution with the following criteria:
- Shares will be granted with no charge;
- Granted through:
  a) Stock option plan, with share distribution after a minim of one year after receiving the option right
  b) Employee stock plan, with immediate new shareholders registrations and payment of all employee contribution. The shares total value should not exceed the Company's estimated costs.
- Employees can select any of the plans presented above, with no other selection criteria except the ones mentioned above.

Shares granted through "stock option plan" are free of charge. The minimal period for "stock option plan" beneficiaries to be able to exert their option of receiving shares free of charge is one year.

2.14. Taxation

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

Current tax

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

Deferred tax

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

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

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

2.15. Tangible assets

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

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

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

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

A tangible asset item and any significant part recognized initially are derecognized upon disposal or when no economic benefits are expected from their use or disposal.

Any gain or earning resulting from the derecognition of an asset (calculated as the difference between net disposal proceeds and the carrying amount of the asset) is included in profit and loss when the asset is derecognized.

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

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

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 appropriate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

2.16. Investment properties

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

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

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

12. 17. Intangible assets

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

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

Licenses	1 – 5 years

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18. Impairment of tangible and intangible assets

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

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

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

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

If an impairment loss is subsequently reversed, the carrying amount of the asset (of the cash generating unit) is increased to the reviewed estimation of its recoverable value, but so as the reviewed carrying amount does not exceed the carrying amount which would have been determined had any impairment loss not been recognized for the respective asset (cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit and loss.
A revaluation surplus is recognized as an item of comprehensive income and credited to the asset's revaluation reserves, except for the cases in which a decrease in value was previously recognized in profit and loss for a revalued asset, case in which the surplus can be recognized in profit and loss within the limit of this prior decrease.

2.19. Inventories

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

2.20 Investments in subsidiaries and jointly controlled entities

Investments ins subsidiaries and jointly controlled entities represent shares owned in this entities.

A jointly controlled entity is a entity of whose shareholders are having jointly control upon and have rights to the entities net assets based on the ownership percentage.

These investments are initially recognized as purchase price and subsequently at purchase cost less accumulated impairment losses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21. Share capital

Common shares are classified in equities.

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

2.22. Dividends

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

2.23. Provisions

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

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

2.24. Segment reporting

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

2.25. Financial assets and liabilities

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and receivables

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

Borrowings and liabilities

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

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

Impairment of financial assets

Financial assets are measured for impairment at each 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 Company'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 Company derecognizes financial assets only when the contractual rights over the cash flows related to the assets expire or it transfers to another entity the financial asset and, substantially, all risks and benefits related to the asset.

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.26. Fair value measurement

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

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

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

The principal or the most advantageous market must be accessible by the Company.

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

2.27. Use of estimates

The preparation of the financial statements requires the performance of estimates and judgments by the management, which affects the reported amounts of assets and liabilities and the presentation of potential assets and liabilities at the balance sheet date, as well as the reported amounts of revenues and expenses during the reporting period. Actual results may be different from these estimates. The estimates and judgments on which these are based are reviewed permanently. The reviews of the accounting estimates are recognized during the period in which the estimate is reviewed, if this review affects only the respective period or during the review period and during future periods, if the review affects both the current period and the future periods.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

3.1. Judgments

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

Investment property

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

- The Company holds a piece of land and a building (previously used for the head office), located in Str. Romana, Bistrita. In January 2012, the management decided that the final purpose of the land was to be held in order to obtain an increase in its value and to be subsequently materialized through sale. As a result, the land was classified in January 2012 as an investment property.
- In December 2012 the assets previously transferred to Teracota Bistrita SRL were reversed. The management decided that the final purpose of the reversed land was to be held in order to obtain an increase in its value and to be subsequently materialized through sale. As a result, the land was classified in December 2012 as an investment property, being valued at fair value as of that date.
- The Company holds land and buildings (previously used as regional warehouses) in Oradea, Constanta and Bucharest. 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.
- Starting 31 March 2015, the buildings and land located in Bistrita, str. Tarpiului 27A, which were the object of a premises rental contract concluded with Teraglass Bistrita SRL, were reclassified as investment properties.

For more details on these assets and their classification, see Note 9 and 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 Company based its assumptions and estimates on parameters available when the separate financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Revaluation of property, plant and equipment and investment properties

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

On 1 April 2015, the building rented to Teraglass was transferred to investment properties. The decrease in value resulting from the revaluation as of that date has been recorded according to IAS 16, by decreasing the current revaluation reserve and the impairment expense.

Impairment of intangible and tangible assets

In the current economic context, the Company analyzed the internal and external sources of information and reached the conclusion that there are no indications concerning the impairment of assets. The Company considers the relationship between its market capitalization and its book value, among other factors, when reviewing for indicators of impairment

Pension benefits

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

The salary increase rate is constant on the average and long term, identifying the following periods – first year increase – 5%, for the following increase year - 3%, and for the following years – 2%. The discount rate is the RON interest rate curve without adjustments as provided by EIOPA for December 2016. The employee turnover in the last year was considered to be constant in time.

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4. REVENUES

An analysis of the Company revenues is detailed below:

	Year ended 31 December 2015	**Year ended 31 December 2016**
Sales from own production	239,056,598	222,944,864
Income from sale of goods	29,959,066	34,818,033
Revenues from other activities	225,327	128,290
Rent and royalty revenues	711,743	1,212,903
Commercial discounts granted	(1,977,874)	(1,807,975)
Total	**267,974,860**	**257,296,115**

Geographical analysis

	Year ended 31 December 2015	**Year ended 31 December 2016**
Sales on the internal market (Romania)	246,262,350	235,635,222
Sales on the foreign market	21,712,510	21,660,893
Total	**267,974,860**	**257,296,115**

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

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

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

Financial year ended 31 December 2015	**Installations and arrangements**	**Joinery profiles**	**Granules**	**Insulated joinery**	**Non-allocated amounts**	**Total**
Total revenues	164,660,697	46,980,048	47,146,039	9,314,675	8,545,833	276,647,292
Expenses with sales, indirect and administrative expenses	(144,082,780)	(43,361,642)	(41,420,671)	(9,961,399)	(8,007,906)	(246,834,398)
Operating result	20,577,917	3,618,406	5,725,368	(646,724)	537,927	29,812,894
Financial result	-	-	-	-	-	2,689,330
Profit before tax	-	-	-	-	-	32,502,224
Profit tax	-	-	-	-	-	(4,120,239)
Result for the year	-	-	-	-	-	28,381,985
Operating assets	128,371,177	44,340,133	34,177,268	-	37,851,182	244,739,759
Non-current assets	51,673,612	26,560,746	13,259,793	-	37,851,182	129,345,332
Current assets	76,697,565	17,779,387	20,917,475	-	-	115,394,427
Operating liabilities	59,795,250	16,012,389	17,701,163	-	-	93,508,797
Long-term liabilities	7,479,695	1,803,315	1,964,484	-	-	11,247,492
Current liabilities	52,315,556	14,209,074	15,736,679	-	-	82,261,305

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4. REVENUES (continued)

Financial year ended 31 December 2016	Installations and arrangements	Joinery profiles	Granules	Insulated joinery	Non-allocated amounts	Total
Total revenues	144,615,897	51,821,272	60,526,346	475,745	-	257,439,260
Expenses with sales, indirect and administrative expenses	(124,797,066)	(47,553,284)	(50,872,270)	(273,937)	-	(223,496,557)
Operating result	19,818,831	4,267,988	9,654,076	201,808	-	33,942,703
Financial result						11,371,051
Profit before tax	-	-	-	-	-	45,313,754
Profit tax	-	-	-	-	-	(3,802,222)
Result for the year	-	-	-	-	-	41,511,532
Operating assets	109,301,827	50,677,504	39,091,044	-	35,621,932	234,692,307
Non-current assets	49,575,373	29,267,592	15,345,210	-	35,621,932	129,810,107
Current assets	59,726,454	21,409,912	23,745,834	-	-	104,882,200
Operating liabilities	26,134,348	10,428,223	13,807,220	-	-	50,369,791
Long-term liabilities	7,107,777	2,119,098	2,887,380	-	-	12,114,255
Current liabilities	18,440,953	8,309,125	10,919,840	-	-	37,669,918

The non-allocated revenues and expenses for 2015 mainly relate to the transfer of the insulated joinery line to Teraglass (Note 5).

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

5. OTHER OPERATING INCOME

	Year ended 31 December 2015	Year ended 31 December 2016
Compensations, fines and penalties	33,100	28,935
Other operating revenues (business line transfer)	8,545,833	-
Other revenues	93,499	114,210
Total	8,672,432	143,145

In 2015, the Company transferred the insulated joinery line to Teraglass Bistrita SRL. The selling price was determined to be the fair value of transferred assets, as determined by an independent appraiser. The transferred assets relate to:

- Tangible assets, mostly equipment, with a net carrying amount as at the transfer date RON 3,321,187. The transfer fair value was RON 3,859,114.
- Inventories with a carrying amount RON 4,686,563. The transfer fair value equaled the carrying amount.

The property, plant and equipment and the inventories have been sold, and the receivable will be recovered in installments over five years starting with April 2016. The long-term portion of this receivable is disclosed under Non-current trade receivables and the present value is computed according to the interest rate applied for the loans received by Teraglass Bistrita.

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6. CHANGES IN INVENTORIES OF FINISHED GOODS AND WORK IN PROGRESS

	Year ended 31 December 2015	Year ended 31 December 2016
Changes in inventories of finished goods and work in progress	3,569,237	2,328,093
Total	**3,569,237**	**2,328,093**

7. RAW MATERIALS, CONSUMABLES USED AND COMMODITIES

	Year ended 31 December 2015	Year ended 31 December 2016
Raw material expenses	146,221,555	128,911,507
Consumable expenses	11,903,080	9,490,517
Commodity expenses	22,410,200	26,932,964
Consumed packaging	581,885	706,821
Total	**181,116,720**	**166,041,809**

8. OTHER GAINS AND LOSSES

Gains/losses from disposal of tangible and intangible assets	Year ended 31 December 2015	Year ended 31 December 2016
Revenues from the disposal of the tangible and intangible assets	135,890	95,961
Expenses with the disposal of the tangible and intangible assets	(108,384)	(337,632)
Loss/(Gain) from reevaluation of tangible assets	-	40,607
Total	**27,506**	**(201,064)**

9. GAINS AND LOSSES ON THE FAIR VALUE MEASUREMENT OF INVESTMENT PROPERTIES

	Year ended 31 December 2015	Year ended 31 December 2016
Gain from the fair value measurement of investment properties	212,314	1,984,715
(Loss) on the fair value measurement of investment properties	(1,454,680)	(37,961)
Total	**(1,242,366)**	**1,946,754**

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10. EXPENSES WITH PROVISIONS, IMPAIRMENT ADJUSTMENTS AND AMORTIZATION

	Year ended 31 December 2015	Year ended 31 December 2016
Impairment adjustments for current assets and provisions		
Setting of inventory impairment adjustments (Note 20)	818,940	210,329
Setting of receivables impairment adjustments (Note 21)	458,274	(1,498,324)
Provisions for risks and expenses Note 27) - reversals	(818,147)	(411,356)
Total impairment adjustments for current assets and provisions	259,068	(1,699,351)
Expenses with impairment, net (Note 15 and Note 17)	(334,358)	(216,664)
Amortization expenses (Note 15 and Note 17)	12,236,504	12,340,064
Total provisions, impairment adjustments and amortization	12,161,215	10,424,049

11. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December 2015	Year ended 31 December 2016
Wages	18,057,332	15,638,364
Contributions to the public social security fund	3,501,828	3,903,047
Other taxes and contributions related to the salaries	161,301	197,648
Meal tickets	788,619	776,257
Other employee benefits, provision for pensions	(110,041)	2,376
Revenues from operating subsidies for employees' salaries	(13,654)	(4,200)
Total	22,757,385	20,513,492

Average number of employees during the reporting year:

	Year ended 31 December 2015	Year ended 31 December 2016
Production staff	275	221
Administrative personnel	88	91
Management	20	18
TOTAL	383	330

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12. FINANCIAL COSTS AND REVENUES

	Year ended 31 December 2015	Year ended 31 December 2016
Finance costs		
Interest expense	1,126,345	672,446
Expenses with exchange rate differences	3,488,959	2,147,892
Financial discounts granted	584,178	341,407
Other financial expenses	318,857	1,942
Total	5,518,339	3,163,687

	Year ended 31 December 2015	Year ended 31 December 2016
Financial revenues		
Interest revenues	10,432	31,808
Revenues from exchange rate differences	2,678,619	2,169,431
Investment revenues	5,496,136	12,312,237
Gains on operations with derivatives held for trading	-	-
Other financial income	22,483	21,262
Total	8,207,669	14,534,738
Net financial gain/(loss)	2,689,330	11,371,051

Other financial expenses for 2016 include the amount RON 20,740 representing the difference between the nominal value and the present value of the receivable to Teraglass, as resulting from the sale of the insulated joinery line.

Investment revenues include dividends received from Terasteel (former Plastsistem) in an amount RON 8,149,707, from Politub in an amount RON 4,000,000 and from CERTIND in amount of 162,530 RON.

13. OTHER OPERATING EXPENSES

	Year ended 31 December 2015	Year ended 31 December 2016
Transport costs	9,307,412	8,655,302
Expenses with utilities	5,641,963	5,002,130
Expenses with third party services	3,179,452	5,884,842
Expenses with compensations, fines and penalties	13,866	16,869
Entertainment, promotion and advertising expenses	981,211	1,219,087
Expenses with other taxes and duties	902,325	875,673
Repair expenses	814,824	738,109
Travelling expenses	490,277	541,861
Rent expenses	863,799	649,733
Mail and telecommunication expenses	271,145	287,622
Insurance premium expenses	534,430	1,005,356
Other general expenses	125,237	3,018,527
Losses from receivables and other debtors	2,019,764	2,695,879
Carrying amount of the fixed assets transferred to Teraglass (Note 8)	3,321,187	-
Carrying amount of the inventories transferred to Teraglass	4,686,563	-
Total	33,153,455	30,590,990

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14. INCOME TAX

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

	Year ended 31 December 2015	Year ended 31 December 2016
Profit before tax	32,502,224	45,313,754
Theoretical tax calculated in a 16%	5,200,356	7,250,201
Elements assimilated to income (realized revaluation reserve)	92,013	55,708
Deductions	(2,004,244)	(2,091,443)
Non-taxable revenues	(2,036,597)	(3,344,027)
Non-deductible expenses	3,787,668	3,317,726
Sponsorship (tax credit)	(681,699)	(1,037,633)
Total current profit tax	4,357,499	4,150,532
Current profit tax recognized in the profit and loss statement	(4,357,499)	(4,150,532)
Deferred profit tax recognized in the profit and loss statement- (expense)/revenue	237,260	348,310
Profit tax recognized in the profit and loss statement	(4,120,239)	(3,802,222)

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

The components of the net deferred tax liabilities

	Statement of financial position		Recorded in the income statement		Charged to the revaluation reserve	
	2015	2016	2015	2016	2015	2016
Tangible assets and investment properties	(3,516,565)	(3,183,268)	224,465	433,485	298,508	(95,464)
Investments in subsidiaries	392,000	392,000		-	-	
Employee benefit liability	37,818	38,198	(17,606)	380	-	
Trade and similar liabilities	138,380	-	30,401	(85,555)	-	
Total	(2,948,367)	(2,695,522)	237,260	348,310	298,508	(95,464)

Reconciliation of deferred tax liabilities, net	**2015**	**2016**
Balance as at 1 January	(3,482,136)	(2,948,368)
Revenues from/(expenses with) the tax during the period recognized in the profit and loss statement	237,260	348,310
Revenues from/(expenses with) the tax during the period recognized in other comprehensive income	298,508	(95,464)
Closing balance at 31 December	(2,948,368)	(2,695,522)

As at 31 December 2016, the Company has no tax losses carried forward.

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15. PROPERTY AND EQUIPMENT

	Land	Buildings	Tools and equipment	Installations and furniture furniture	Tangible assets in progress	Total
COST						
Balance as at 1 January 2015	8,072,090	55,015,654	135,391,613	1,127,153	2,568,249	202,174,759
Increases:	-	-	219,040	-	14,481,164	14,700,204
Out of which: increases from the internal production of non-current assets	-	-	10,033	-	1,450,704	1,460,737
Transfers in/from tangible assets in progress	-	1,084,367	13,049,162	148,983	(14,282,512)	-
Transfers in/from other fixed asset categories	-	120,029	(87,615)	(32,414)	-	-
Transfers from inventory items	-	-	20,763	-	-	20,763
Accumulated depreciation for revalued tangible assets	-	(539,116)	-	-	-	(539,116)
Revalution decreases having an impact on reserves	-	(1,853,175)	-	-	-	(1,853,175)
Revaluation decreases having an impact on the profit and loss account	-	(86,440)	-	-	-	(86,440)
Transfers – investment properties	(1,321,074)	(6,186,740)	-	-	-	(7,507,814)
Transfer of joinery line Teraglass	-	-	(9,932,682)	(15,413)	-	(9,948,095)
Disposals and other decreases	-	(113,648)	(1,123,825)	-	-	(1,237,473)
Balance as at 31 December 2015	6,751,016	47,440,931	137,536,456	1,228,310	2,766,901	195,723,614
ACCUMULATED DEPRECIATION						
Balance as at 1 January 2015	346	7,083,449	93,815,318	633,742	-	101,532,854
Depreciation recorded during the year	346	2,142,070	9,684,183	105,998	-	11,932,596
Transfers in/from other fixed asset categories	-	80,397	(79,332)	(1,065)	-	-
Transfers from inventory items	-	-	20,763	-	-	20,763
Accumulated depreciation for revalued tangible assets	-	(539,116)	-	-	-	(539,116)
Transfer of joinery line Teraglass	-	-	(6,600,487)	(7,900)	-	(6,608,387)
Disposals and other decreases	-	(11,049)	(1,118,152)	-	-	(1,129,201)
Impairment	-	(318,694)	(102,101)	-	-	(420,796)
Balance as at 31 December 2015	691	8,437,057	95,620,191	730,776	-	104,788,714
Net carrying amount as at 1 January 2015	8,071,744	47,932,206	41,576,296	493,411	2,568,249	100,641,905
Net carrying amount as at 31 December 2015	6,750,325	39,003,875	41,916,264	497,534	2,766,901	90,934,899

15. PROPERTY, PLANT AND EQUIPMENT (continued)

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	Land	Buildings	Tools and equipment	Installations and furniture furniture	Tangible assets in progress	Total
COST						
Balance as at 1 January 2016	6,751,016	47,440,931	137,536,456	1,228,310	2,766,901	195,723,614
Increases:	-	-	138,979	-	11,343,144	11,482,123
Out of which: Increases from the internal production of non-current assets	-	-	-	-	*948,238*	*948,238*
Transfers In/from tangible assets in progress	-	361,171	10,229,502	65,289	(10,675,583)	(19,621)
Transfers in/from other fixed asset categories	-	-	-	-	-	-
Transfers from inventory items	-	-	41,676	-	-	41,676
Accumulated depreciation for revalued tangible assets	(1,037)	(6,128,890)	-	-	-	(6,129,927)
Reevaluation decreases having an impact on reserves	347,387	249,264	-	-	-	596,651
Reevaluation decreases having an impact on the profit and loss account	-	40,607	-	-	-	40,607
Transfers – investment properties	1,659,152	892,913	-	-	-	2,552,065
Transfer of joinery line Teraglass	-	-	-	-	-	-
Disposals and other decreases	-	(6,493)	(1,584,127)	-	(123,763)	(1,714,383)
Balance as at 31 December 2016	8,756,518	42,849,503	146,362,486	1,293,599	3,310,699	202,572,805
ACCUMULATED DEPRECIATION						
Balance as at 1 January 2016	691	8,437,059	95,620,191	730,776	-	104,788,717
Depreciation recorded during the year	346	2,060,011	9,825,944	113,141	-	11,999,442
Transfers in/from other fixed asset categories	-	-	-	-	-	-
Transfers from inventory items	-	-	41,676	-	-	41,676
Accumulated depreciation for revalued tangible assets	(1,037)	(6,128,890)	-	-	-	(6,129,927)
Transfer of joinery line Teraglass	-	-	-	-	-	-
Disposals and other decreases	-	(3,201)	(1,236,153)	-	-	(1,239,354)
Impairment	-	(297,391)	80,727	-	-	(216,664)
Balance as at 31 December 2016	-	4,067,588	104,332,385	843,917	-	109,243,890
Net carrying amount as at 1 January 2016	6,750,325	39,003,872	41,916,265	497,534	2,766,901	90,934,897
	8,756,518	38,781,915	42,030,101	449,682	3,310,699	93,328,915
Net carrying amount as at 31 December 2016	691	8,437,059	95,620,191	730,776	-	104,788,717

The accompanying notes from 1 to 35 are an integral part of these financial statements.

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15. PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant and equipment include vehicles and equipment used as part of finance leases with values detailed below:

	31 December 2015	31 December 2016
Net value – vehicles	1,379,004	1,035,557
Net value – equipment	5,744,473	4,088,252
Total	7,123,477	5,123,809

As at 31 December 2016, the Company had pledged in favor of financial institutions non-current assets and investment properties with a net carrying amount RON 48,327,144 (31 December 2015: RON 65,644,376).

- Land, buildings and investment property in amount of RON 29,926,669;
- Equipment, machinery in amount of RON 18,400,475.

The impairment adjustments set in 2016 are related to unused assets.

16. INVESTMENT PROPERTIES

Investment properties include the following items:

- The Company holds a piece of land located in Str. Romana, Bistrita (previously, the Company head office was located on this land). Starting 2012, the final purpose of the land was to be held in order to obtain an increase in its value and to be subsequently materialized through sale. As a result, the land was classified in January 2012 as an investment property. As of that date, the carrying amount of the land approximated its fair value, and no additional value adjustment was needed (according to IAS 16 and IAS 40), And the subsequent changes in value were charged to the profit and loss statement.

- The piece of land took over from SC Teracota Bistrita SRL (after it became bankrupt) is held in order to obtain an increase in its value and to be subsequently materialized through sale. As a result, the land was classified in December 2012 as an investment property, being valued at fair value as of that date. The increase in the fair value was charged to the revaluation reserves (according to IAS 16 and IAS 40).

- The Company holds land and buildings (previously used as regional warehouses) in Bucharest, Oradea and Constanta. In September 2013 (Bucharest), November 2013 (Oradea) and January 2013 (Constanta), the management decided that the final purpose of these land and buildings was to be held in order to obtain an increase and value and to be subsequently materialized through sale. As a result, the land and buildings were classified in 2013 as investment properties. The revaluations as at 31 December 2013 were recognized in the profit and loss statement, in accordance with IFRS.

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16. INVESTMENT PROPERTIES (continued)

- Starting 31 March 2015, the buildings and land located in Bistrita, str. Tarpiului 27A, which were the object of a premises rental contract concluded with Teraglass Bistrita SRL, were reclassified as investment properties. On the initial recognition date - 31 March 2015, the revaluation results were recorded according to IAS 16 and as at 31 December 2015, they were charged to the income statement, as appropriate.
- As at 31 October 2016, land and buildings located at Otopeni, Ilfov County which were the object of a rental contract, were reclassified as investment properties, and the evaluation results from 31december 2016 were recorded according to IAS 16.

As at 31 December 2016 and 2015, the fair value of investment properties is based on the valuation report prepared by an independent appraiser and the impact of these valuations was charged to the income statement. The valuation methods used are in accordance with the International Valuation Standards.

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

Price per square meter for land	Range 6 – 120 EUR/sq. m.

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

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

	31 December 2015	31 December 2016
Opening balance at 1 January	13.357.561	19.623.009
Increases/(Reductions)	7.507.814	(2.532.444)
Net loss from valuation of investment properties at fair value	(1.242.366)	1.946.754
Closing balance at 31 December	**19.623.009**	**19.037.319**

	31 December 2015	31 December 2016
Rental revenues from investment properties	543,266	666,182
Direct operational expenses	(121,871)	(157,526)
Net profit resulting from investment properties recorded at fair value	**421,395**	**508,656**

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17 OTHER INTANGIBLE ASSETS

	Licenses	Intangible assets in progress	Total
Cost			
Balance as at 1 January 2015	4,138,762	57,213	4,195,975
Increases	374,291	169,082	543,373
Transfers	37,339	(37,339)	-
Teraglass Transfer	(612,869)	-	(612,869)
Disposals and other decreases	(282,283)	-	(282,283)
Balance as at 31 December 2015	3,655,239	188,956	3,844,195
Accumulated amortization			
Balance as at 1 January 2015	3,559,204	-	3,559,204
Amortization expense	303,907	-	303,907
Teraglass Transfer	(295,997)	-	(295,997)
Decreases	(282,171)	-	(282,171)
Balance as at 31 December 2015	3,284,943	-	3,284,943
Net carrying amount as at 1 January 2015	579,558	57,213	636,771
Net carrying amount as at 31 December 2015	370,297	188,956	559,253

	Licenses	Intangible assets in progress	Total
Cost			
Balance as at 1 January 2016	3,655,240	188,956	3,844,196
Increases	44,400	603,796	648,196
Transfers	785,315	(785,315)	-
Teraglass Transfer	-	-	-
Disposals and other decreases	(42,318)	(7,437)	(49,755)
Balance as at 31 December 2016	4,442,637	-	4,442,637
Accumulated amortization			
Balance as at 1 January 2016	3,284,943	-	3,284,943
Amortization expense	340,623	-	340,623
Teraglass Transfer	-	-	-
Decreases	(42,189)	-	(42,189)
Balance as at 31 December 2016	3,583,377	-	3,583,377
Net carrying amount as at 1 January 2016	370,297	188,956	559,253
Net carrying amount as at 31 December 2016	859,260	-	859,260

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18 INVESTMENTS IN SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

As at 31 December 2016 and 31 December 2015, the Company holds investments in three subsidiaries and one jointly controlled entity.

Subsidiary	Country	Share-part	31 December 2015	Share-part	31 December 2016
		%	RON	%	RON
Terasteel S.A. Bistrita	Romania	97.95%	10.960.083	97.95%	10,960,083
Teraglass Bistrita SRL	Romania	100%	50.000	100%	50,000
Politub SA	Romania	50%	245.000	50%	245,000
Teraplast Group SRL	Republica Moldova	51%	662	51%	662
Teraplast Logistic SRL	Romania	-	-	99%	990
Teraplast Hungaria	Ungaria	-	-	100%	43,881
		-	11.255.745	-	11,300,616

Terasteel SA (former Plastsistem SA)

In March 2007, the Company became the majority shareholder of Plastsistem SA (Plastsistem) by purchasing 52,77% of the shares. As at 31 December 2014, the Teraplast shareholding in Plastsistem is 78,71%. The main activity of Plastsistem is the production of panels insulated with polyurethane foam for the building of industrial halls and warehouses.

In 2008, the Company participated in the increase of the share capital of Plastsistem, which resulted in an increase in shareholding by 0,71%. Additionally, the Company increased its investment in Plastsistem by 1,4% in 2008.

In 2010, changes in the percentages held by Teraplast SA in the share capital of Plastsistem were recorded in the form of an increase in the share capital by a contribution in kind (a real estate property located in Bistrita, str. Tarpiului nr. 25) with a value RON 2.316.000, which resulted in an increase in investment by 6,17%. At the end of 2011, the shareholding of Teraplast in Plastsistem was 78,71%, this percentage being applicable until 31 December 2014.

During the period February-October 2015, Teraplast SA acquired, from individuals, for the amount RON 2.055.674, 19,24% of the share capital of Plastsistem SA; therefore, as at 31 December 2015, the percentage held by Teraplast SA in Plastsistem SA reached 97,95%.

Teraglass Bistrita SRL

Teraglass Bistrita SRL Company was established in 2011 and is owned 100% by Teraplast SA. The main activity was the production of plastic items for constructions and it has a share capital of RON 50.000. In December 2011, the activity of Teraglass Bistrita SRL was integrated into Teraplast SA. During the period 2012-March 2015, Teraglass Bistrita SRL performed no activity. It was resumed starting March 2015 following the transfer of the Insulated Joinery business line from the parent.

Teraplast Group SRL Republic of Moldova

On 6 March 2015, a Board of Directors Decision approved the participation of Teraplast SA, in capacity of shareholder, to the set-up of a limited-liability company in the Republic of Moldova. The Teraplast SA shareholding in this company is 51%.

Politub SA

The Company holds 50% of the shares of a jointly controlled entity - Politub SA, with the head office in Bistrita, Romania. 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.

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Teraplast Hungary KFT

On 29 September 2016, a Board of Directors Decision approved the participation of Teraplast SA, in capacity of the main shareholder, to the new set-up of a limited-liability company in Hungary, Teraplast Hungary KFT. The Teraplast SA shareholding in this company is 100%, and the share capital was subscribed in December 2016.

19 OTHER FINANCIAL ASSETS

The details of the financial assets of the Company are as follows:

Investment description	Country	Share-part	31 December 2015	Share-part	31 December 2016
		%	RON	%	RON
CERTIND SA	Romania	7.50%	14,400	7.50%	14,400
Sustainable development partnership	Romania	7.14%	1,000	7.14%	1,000
Tera Tools SRL	Romania	24%	72	24%	72
Total		-	**15,472**	-	**15,472**

CERTIND Company is an independent certification body accredited by Greek Accreditation Body / ESYD for the following certification services: quality management system certification according to ISO 9001, environmental management system certification according to ISO 14001, food safety management system certification according to ISO 22000.

The Company has undertaken no obligation and has made no payment on behalf of the entities in which it holds securities as investments in associates.

20 INVENTORIES

	31 December 2015	31 December 2016
Finished goods	20,779,219	22,571,073
Raw materials	10,195,305	16,942,278
Commodities	4,607,661	4,265,668
Consumables	1,785,567	1,807,772
Inventory items	66,253	89,371
Semi-finished goods	742,114	824,489
Residual products	122,266	148,219
Goods to be purchased	641,626	382,746
Packaging	103,889	130,138
Inventories – gross value	**39,043,900**	**47,161,754**
Value adjustments on raw materials and materials	(1,549,350)	(1,738,397)
Value adjustments for finished products	(2,222,640)	(2,170,923)
Value adjustments for commodities	(944,875)	(817,874)
Total	**34,327,035**	**42,434,560**

The value adjustments are made for all categories of inventory (see above), using both general methods and specific methods according to their age and analyses on the probability to use them in the future. The categories of inventories with the age above one year are 100% adjusted.

The Company inventories are pledged in favor of the banks.

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21 TRADE AND SIMILAR RECEIVABLES

	31 December 2015	31 December 2016
Trade receivables	44,744,164	37,139,409
Non-chargeable trade notes	34,655,342	18,280,715
Advances paid to suppliers of assets	122,316	988,685
Advances paid to suppliers of inventories and services	396,194	3,891,188
Commercial guarantees paid	78,187	61,289
Advances paid to employees	3,099	(1,482)
Other receivables	3,464,642	2,776,084
Adjustments for trade receivables impairment	(13,800,312)	(12,301,988)
Total	**69,663,633**	**50,833,900**

The changes in adjustment for impairment on doubtful receivables

	31 December 2015	31 December 2016
Balance at the beginning of the year	(13,342,038)	(13,800,313)
Increase in impairment adjustment charged to profit and loss	(458,274)	1,498,325
Balance at the end of year	(13,800,313)	(12,301,988)

When determining the recoverability of a receivable, the Company takes into consideration any change in the crediting quality of the concerned receivable starting with the credit granting date until the reporting date. The concentration of the credit risk is limited taking into consideration that the client base is large, but they are not related to each other. The Company management considers that the adjustment for doubtful receivables is sufficient to bring trade and similar receivables to their recoverable amount.

The Company receivables are pledged in favor of the banks.

22 SHARE CAPITAL

	31 December 2015	31 December 2016
Share capital called-up and paid in full	28,887,588	56,643,266
Total	**28,887,588**	**56,643,266**

As at 31 December 2016, the value of the share capital called-up of the Company includes, 566,432,660 authorized shares issued and paid in full at a value RON 0,1 and having a total nominal value RON 56,643,266. Common shares bear a vote each and give the right to dividends.

Based on General Shareholders Meeting from 7 December 2015, a share capital increase was approved in amount of RON 8,874,589 by issuing of 88,745,890 new shares, with a nominal value of RON 0,1 per share. Capital increase was done through incorporation of reserves in amount of RON 8,874,589, from year 2014 profit.

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22 SHARE CAPITAL (continued)

Based on General Shareholders Meeting from 28 April 2016, a share capital increase was approved in amount of RON 18,881,089 by issuing of 188,810,890 new shares, with a nominal value of RON 0,1 per share. Capital increase was done through incorporation of reserves in amount of RON 18,881,089, from year 2015 profit.

Capital increases was registered at ORC Bistrita Nasaud with excerpt nr. 2853/09 February 2016 and at ASF,
Capital increases were registered at ORC Bistrita Nasaud with excerpt nr 2853/09 February 2016 and at ASF, Sector of Financial Investment Tools with security excerpt nr AC-3420-3 dated 24.02.2016, respectively ORC Bistrita Nasaud with excerpt nr 10589/16 May 2016 and at ASF, Sector of Financial Investment Tools with security excerpt nr AC-3420-4 dated 07.07.2016.

Shareholding structure

	31 December 2015		31 December 2016	
	Number of shares	% ownership	Number of shares	% ownership
Goia Dorel	135,124,842	46.78%	264,955,049	46.78%
Viciu Emanoil	25,240,069	8.74%	25,891,150	4.57%
Marley Magyarorszag (Gemencplast Szekszard)	22,885,589	7.92%	44,874,446	7.92%
SILVANIA CENTER SA	10,578,610	3.66%	18,806,296	3.32%
KJK Fund II Sicav-SIF	29,000,000	10.04%	56,863,685	10.04%
FONDUL DE PENSII ADMINISTRAT PRIVAT NN/NN PENSII S.A.F.P.A.P.S.A.	-	-	37,707,112	6.66%
Other individuals and legal entities	66,046,770	22.86%	117,334,922	20.72%
Total	**288,875,880**	**100%**	**566,432,660**	**100%**

23 LEGAL RESERVE

	31 December 2015	31 December 2016
Opening balance	4,101,240	5,443,617
Set during the period	1,342,377	2,294,246
Total	**5,443,617**	**7,737,863**

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 Company is needed. The transfer may account up to 5% of the profit before tax, until the reserve becomes 20% of the share capital.

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

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24 RETAINED EARNINGS

	31 December 2015	31 December 2016
Balance at the beginning of the year	(579,356)	71,518,559
Realized revaluation reserve	105,442	-
Capital increase from reserves	-	(27,755,678)
Dividends paid from financial result	-	(7,930,057)
Own shares repurchase	-	(491,584)
Coverage of the loss carried forward from share capital inflation	30,092,472	-
Coverage of the loss carried forward from share premium	14,860,393	-
Legal reserves	(1,342,377)	(2,294,246)
Result for the year	28,381,985	41,511,532
Balance at the end of year	71,518,559	74,558,526

25 LOANS AND FINANCE LEASE LIABILITIES

	Short-term		Long-term	
	31 December 2015	31 December 2016	31 December 2015	31 December 2016
Bank loans	6,246,666	2,826,744	5,971,281	8,642,715
Credit line	22,132,797	836,051	-	-
Lease liabilities	1,697,653	1,576,893	2,091,484	537,282
Total	30,077,116	5,239,688	8,062,765	9,179,997

Bank loans are classified as follows:

BANK	Balance as at 31 December 2015		Balance as at 31 December 2016	
	Short term	Long term	Short-term	Long-term
Banca Transilvania	4,121,793	-	835,877	-
BRD	16,702,035	-	607,813	4,534,430
Unicredit	7,220,572	5,615,436	1,897,253	4,074,496
Porsche Bank	335,063	355,845	321,853	33,789
Leasing	1,697,653	2,091,484	1,576,892	537,282
Total	30,077,116	8,062,765	5,236,6888	9,179,997

All loans have a floating interest rate.

The classification according to the currencies is as follows:

Currency	31 December 2015	31 December 2016
EUR	20,299,677	5,954,817
RON	17,840,204	8,463,848
Total	38,139,881	14,418,665

25. LOANS AND FINANCE LEASE LIABILITIES (continued)

Bank loans as at 31 December 2016 are as follows:

A. A short-term credit contract signed with BRD on 10 April 2010 and expressed in EUR for financing the working capital. The initial amount was EUR 1,500,000, supplemented up to EUR 3,300,000 starting 15 April 2011. On 25 October 2016 the upper limit was split in EUR 1,800,000 available in EUR and EUR 1,500,000 available in RON. The amount remaining from this amount as at 31 December 2016 is RON 174,10 (31 December 2015: RON 14.430.926 (EUR 3,189,507.27). On 18 June 2015, the credit line was converted into a Multicurrency (RON, EUR, USD) Multioption Cap (Credit Line, Letter of Bank Guarantee, Letters of Credit) with the maturity 18 June 2017.

B. An investment contract signed with BRD on 24 May 2016 and expressed in RON. The total approved amount is RON 13,000,000. The amount remaining as at 31 December 2016 under this contract is RON 5,133,317.33. The maturity is 24 May 2022. Accrued interest at 31 December 2016 is 8,751.14.

C. A credit contract – credit line for supporting the current activity, resigned with Unicredit Tiriac Bank on 1 October 2013 and expressed in RON for the amount EUR 2,800,000 which is a decreased value of the initial EUR 4,800,000 (a loan formed by combining the revolving credit line with Unicredit dated 4 September 2016 in amount of EUR 3,500,000 and a short-term working capital loan in amount of EUR 1,300,000) decreased initially by EUR 3,000,000 and afterwards increased on 28 November 2014 by EUR 1,000,000, split as follows: EUR 2,000,000 – a credit line usable in RON and EUR 800,000 – a credit line usable in EUR. The outstanding amount for this contract as at 31 December 2016 is RON 0 for the credit line usable in RON (31 December 2015: RON 0) and RON 0 (EUR 0) for the credit line usable in EUR (31 December 2015: RON 3,565,522.72 (EUR 788,047.9), the outstanding balance of the credit line amounting EUR 1,000,000 is not used. The maturity is 3 October 2017.

D. An investment contract signed with Unicredit Tiriac Bank on 5 February 2015 and expressed in EUR and usable in RON. The approved amount was EUR 2,000,000 with a 12 month use and grace period, respectively. The outstanding balance as of 31 December 2016 was RON 5,955,032.86. The credit repayment is performed in monthly equal instalments amounting RON 156,712 starting the month following the expiry of the grace period until the maturity, i.e., 4 February 2020. Accrued interest at 31 December 2016 is RON 16,716.44

E. An investment contract signed with Porsche Bank on 28 November 2013 and expressed in RON for the purchase of cars. The initial amount was RON 1,189,532. The amount remaining under this contract as at 31 December 2016 is RON 293,737.22 (31 December 2015: RON 601,617.87). The maturity is 27 November 2017.

F. An investment contract signed with Porsche Bank on 31 March 2015 and expressed in RON for the purchase of cars. The initial amount was RON 111,596. The amount remaining under this contract as at 31 December 2016 is RON 61,903.96 (31 December 2015: RON 89,290.86). The maturity is 1 March 2019.

G. A credit contract - credit line relating to a revolving short-term credit cap for financing the current activity signed with Banca Transilvania Bank on 27 August 2013 and expressed in RON for the amount RON 13,250,000, which represents the increased by RON 2,000,000 value of the initial RON 11,500,000 revolving credit line for financing the working capital, amended on 28 April 2014. The total amount remaining under this contract as at 31 December 2016 is RON 835,876.94 (31 December 2015: RON 4,121,792.91). The maturity is 20 August 2017.

H. A credit contract – credit line for financing the current activity signed with Raiffeisen Bank on 1 July 2016 with. The amount of the agreement is RON 5,000,000. The outstanding balance as of 31 December 2016 is RON 0. The maturity date is 20 August 2017.

I. On 27 August 2013, the Company signed with Banca Transilvania Bank a contract – a multicurrency letters of bank guarantee with multiple use and valid until 24 August 2015, which was extended for 24 months starting 20 August 2015. The upper limit is RON 1,750,000.

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25. LOANS AND FINANCE LEASE LIABILITIES (continued)

As at 31 December 2016, the Company has a letter of guaranty in amount of RON 360,000 issued for ROMPETROL DOWNSTREAM with availability period 30.05.2016-30.06.2017.

As at 31 December 2016 the Company has unused credit facilities in amount of EUR 2,600,000, RON 33,307,973 and investment facilities in amount of RON 8,366,693

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

Lease contracts

Finance leases relate to motor vehicles and equipment for 5-6 years. The Company has the option to buy the equipment for a nominal amount at the end of the contractual periods. The Company finance lease obligations are secured with the lessee's ownership on the assets.

Finance lease liabilities

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

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2015	31 December 2016	31 December 2015	31 December 2016
Present value of minimum lease payments				
Amounts payable in one year	1,824,169	1,619,149	1,697,654	1,576,893
More than one year but less than five years	2,139,178	542,720	2,091,484	537,282
Total lease liabilities	**3,963,347**	**2,161,869**	**3,789,138**	**2,114,175**
Minus future financial expenses	174,209	47,694	-	-

The present value of finance lease liabilities, as included on the financial statements:

Short-term loans	1,576,893 RON
Long-term loans	537,282 RON

26 EMPLOYEE BENEFIT LIABILITIES

The Company has established a benefit plan according to which the employees are entitled to receive retirement benefits according to the seniority within the Company when they turn the retirement age of 65 for men and of 61 for women. There are no other post-retirement employee benefits. The provision represents the present value of the retirement benefit as calculated on an actuarial basis. The main estimates in the actuarial valuation were based on a discount rate of 4% for the first year, of 3% for the following year and of 2% for the following years and represent the average RON interest rate curve without adjustments as provided by EIOPA on 31 December 2016.

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

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26 EMPLOYEE BENEFIT LIABILITIES (continued)

During the financial year 2016, the Company constituted provisions amounting to RON 2,376. (2015: reversal of RON 110,041) related to the rights to compensate employees based on the actuarial calculation, for the amounts granted to the employees on retirement; these amounts are provided under the collective labor agreement.

Employee benefits	**31 December 2015**	**31 December 2016**
Opening balance	346,402	236,361
(Decreases) /increases	(110,041)	2,376
Closing balance	**236,361**	**238,737**

27 CURRENT PROVISIONS

	31 December 2015	**Movements**			**1 January 2015**
		Reversal of provision not used	**Reversal of provision used**	**Provision in addition**	
Provisions for environmental expenses	2,917,490	(826,216)	-	140,933	2,232,207
Provisions for litigation	559,916	(158,524)	-	156,319	557,711
Other provisions	514,445	(163,124)	-	32,465	383,786
Closing balance	**3,991,851**	**(1,147,864)**	**-**	**329,717**	**3,173,704**

	31 December 2016	**Movements**			**1 January 2016**
	RON	**Reversal of provision not used RON**	**Reversal of provision used RON**	**Provision in addition RON**	**RON**
Provisions for environmental expenses	2,232,207	(1,104,795)	-	676,096	1,803,508
Provisions for litigation	557,711	-	-	-	557,711
Other provisions	383,786	-	-	17,344	401,130
Closing balance	**3,173,704**	**(1,104,795)**	**-**	**693,440**	**2,762,349**

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

Furthermore, the Company has set provisions for different litigations.

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28 TRADE AND SIMILAR LIABILITIES

	31 December 2015	31 December 2016
Trade payables	40,249,775	23,988,360
Trade notes payable	318,169	413,320
Liabilities from the purchase of long-term assets	574,003	1,044,241
Advance payments from clients	922,638	397,983
Other payables	6,130,435	3,823,977
Total	48,195,020	29,667,881

Other payables

	31 December 2015	31 December 2016
Salary-related payables to employees and social security payables	2,952,778	1,657,483
VAT payable	2,514,514	753,285
Unclaimed employee rights	86,074	87,255
Sundry creditors	458,836	231,989
Dividends	-	737,892
Commercial guarantees received	90,431	95,837
Other taxes payable	27,802	260,236
Total	6,130,435	3,823,977

29 FINANCIAL INSTRUMENTS

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

(a) Capital risks management

The Company manages its capital to ensure the going concern principle and, at the same time, maximize revenues for the shareholders, by optimizing the balance of liabilities and equity.

The structure of the Company's capital consists of liabilities, which include the loans presented in note 25, cash and cash equivalents and equity belonging to the parent-entity equity holders. Equity includes share capital, reserves and retained earnings, as presented in notes 22, 23 and 24, respectively.

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

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

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29 FINANCIAL INSTRUMENTS (continued)

The degree of indebtedness as at 31 December 2016 and 2015 was as follows:

	2015	2016
Total loans	38,139,881	14,419,685
Cash	(11,101333)	(10.689.973)
Net debt	27,038,548	3.729.712
Total equities	**150,967,408**	**184,322,513**
Total equity and net debt	**178,005,956**	**188,052,225**
Gearing ratio	**15%**	**2%**

The Company is subject to capital requirements provided by the legal regulations in force governing the net-asset-to-share-capital ratio. The net asset, calculated as the difference between total assets and total liabilities must exceed 50% of the share capital amount. According to the Company Law 31/1990, as republished, when this requirement is not met, the administrators must immediately convene the Extraordinary General Meeting to decide on whether to increase the share capital or decrease the share capital by an amount at least equal to the losses that cannot be covered from the existing reserves, or to dissolve the company.

The Company met this requirements and needed no share capital increase as at 31 December 2016 and 31 December 2015.

(b) Objectives of the financial risk management

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

(c) Market risk

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

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

(d) Foreign currency risk management

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

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29 FINANCIAL INSTRUMENTS (continued)

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

	31 December 2015		31 December 2016	
Profit or (loss)	4,785,419	(4,785,419)	831,177	(831,177)

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

(e) Interest rate risk management

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

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

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

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

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

	31 December 2015		31 December 2016	
Profit or (loss)	381,399	(381,399)	144,197	(144,197)

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29 FINANCIAL INSTRUMENTS (continued)

(f) Other price risks

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

(g) Credit risk management

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

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

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

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

The Company considers the exposure to the credit risk in relation to a counterparty or a group of similar counterparties by analyzing the receivables individually and making impairment adjustments together with the client credit management department. The Company defines the counterparties as having similar characteristics when they are affiliated entities.

(h) Liquidity risk management

The ultimate responsibility for liquidity risk management lies with the Board of Directors, which have developed an appropriate liquidity risk management framework in terms of ensuring funding for the Company on the short, medium and long-term and managing liquidities. The Company manages the liquidity risks by maintaining appropriate reserves, bank facilities and reserve loan facilities, by continuously monitoring actual cash flows and by correlating the maturity profiles of financial assets and liabilities. Note 25 includes a list of additional facilities not drawn by the Company, which the Company has in order to further reduce the liquidity risk.

(i) Fair value of financial instruments

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

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29 FINANCIAL INSTRUMENTS (continued)

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

	31 December 2015	31 December 2016
Not payable	63,438,219	37,722,356
Overdue, but not impaired	2,481,320	5,395,780
Impaired and provisioned in full	13,800,312	12,301,988
Total	**79,719,851**	**55,420,124**
Overdue, but not impaired		
Below 3 months	2,459,665	4,700,367
3 to 6 months	5,455	145,314
6 to 9 months	-	243,693
Above 9 months	16,200	306,406
Total	**2,481,320**	**5,395,780**
Impaired and provisioned in full		
Below 6 months	804,111	1,848,106
6 to 12 months	221,635	95,833
Above 12 months	12,774,566	10,258,049
Total	**13,800,312**	**12,301,988**

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

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

2015	Below 1 month	1-3 months	3 months to 1 year	1-3 years	3 - 5 years	Total
Non-Interest bearing						
Trade payables and other liabilities	(20,906,180)	(24,258,719)	835,073	(29,975)	-	(44,359,802)
Interest-bearing instruments						
Short and long-term loans	(730,927)	(1421,509)	(27,883,038)	(6,054,968)	(2,049,439)	(38,139,881)
Future interest	(215,827)	(423,343)	(1,769,090)	(244,104)	(88,974)	(2,741,339)
Non-Interest bearing						
CASH AND CASH EQUIVALENTS	11,101,333	-	-	-	-	11,101,333
RECEIVABLES	27,202,205	37,742,697	4,398,944	119,796	-	69,463,642

2016	Below 1 month	1-3 months	3 months to 1 year	1-3 years	3 - 5 years	Total
Non-interest bearing						
Trade payables and other liabilities	(29,058,550)	(3,254)	(105,745)	(500,332)	-	(29,667,881)
Interest-bearing instruments						
Short and long-term loans	(357,927)	(724,890)	(4,156,871)	(6,145,916)	(3,034,081)	(14,419,685)
Future interest	(6,722)	(11,641)	(23,894)	(5,437)	-	(47,694)
Non-Interest bearing						
CASH AND CASH EQUIVALENTS	10,689,973	-	-	-	-	10,689,973
RECEIVABLES	22,644,505	24,338,777	3,770,000	20,784	59,834	50,833,900

30. RELATED-PARTY TRANSACTIONS

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

31 December 2015

Subsidiaries
Plastsistem SA Bistrita
Politub SA Bistrita
Teraglass Bistrita SRL Bistrita
Teraplast Group SRL Republic of Moldova
Related entities (shareholding/joint decision-maker)
Omniconstruct S.A.
Magis Investment SRL
Ditovis Impex SRL
ACI Cluj S.A
Ferma Pomicola Dragu SRL
GM Ecoinstal SRL
La Casa Ristorante Pizzeria Pane Dolce S.A
Art Investment& Management S.R.L
Condmag SA
Electrogrup SA
RSL Capital Advisors SRL
KJK Caramida SRL
Eurohold AD

31 December 2016

Subsidiaries
Teraglass Bistrita SRL
Terasteel SA
Politub SA
Teraplast Group SRL
Teraplast Logistic SRL
Teraplast Hungaria

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
Ditovis Impex SRL Romania
Electrogrup SA Romania
RSL Capital Advisors SRL
KJK Caramida SRL.
Eurohold AD
Optoel SRL
CEMACON SA
Compet SA
Mundus Services AD
Crisware Holdings Limited
Crisware Holdings SRL
Prefera Foods SA
Policol SA
Hotoleanu Mircea PFA

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

30. RELATED-PARTY TRANSACTIONS (continued)

Transactions and balances with subsidiaries	31 December 2015	31 December 2016
Sales of inventories and services	10,201,862	18,169,099
Re-invoice	2,527,314	2,150,870
Purchases of inventories and services	5,053,989	14,715,733
Purchases of fixed assets	-	159,431
Sale of insulation joinery line to Teraglass	9,181,000	
Debit balances from transactions with inventories and services	4,151,083	3,839,099
Credit balances from transactions with inventories and services	216,977	2,148,757
Debit balances from the insulation joinery line	8,238,821	6,977,692
Borrowing balance, granted to Teraglass Bistrita	1,402,042	-
Borrowing balance, granted to Teraplast Logistic SRL	-	401,186

The selling price for the insulation joinery line, amounting to RON 9,181,000 and the account balance as of 31 December 2016 is RON 6,977,692 which will be collected by the company in monthly payments until April 2021. The long-term portion, amounting to RON 5,268,525 is disclosed under tangible asset receivables and the short-term-portion amounting to RON 1,709,167 is disclosed as trade receivable. The value of 6,977,692 represents the discounted value of the debt

Compensations to the members of senior management

The remuneration of the directors, other members of senior management and executive personnel amounts to RON 3,236,415 (2015: RON 3,058,932) is determined by the shareholders, according to the persons' performance and payment conditions.

31. EARNINGS PER SHARE

The basic earnings per share are calculated by dividing the profit of the Company shareholders to the weighted average number of ordinary shares being issued during the year, excepting the ordinary shares purchased by the Company and held as equity.

	31 December 2015	31 December 2016
Profit attributable to the Company shareholders	28,381,985	41,511,532
Average number of shares	288,875,880	472,970,474
Earnings per share	0.098	0.088

The diluted earnings per share equals the basic earnings per share.

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

32. CASH AND CASH EQUIVALENTS

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

	31 December 2015	31 December 2016
Cash in bank	11,071,368	10,630,436
Cash on hand	24,410	37,604
Cash equivalents	5,555	21,933
Total	**11,101,333**	**10,689,973**

33. SHARE-BASED PAYMENT

During 2015, the Company decided to implement a program of remuneration named "stock option plan" by which those employees who have made a significant contribution to the results of 2015 will receive their shares in the general plan of stock options (PGOA). Therefore, the amount of RON 950,500 will be settled in shares and included in the reserve for share-based benefits at 31 December 2015. The total performance bonus in 2015 was RON 1,328,000.

Following this decision, the Company started on 8th of February 2016 repurchase of own shares to be used for this program.

In May 2016, a part of this program was completed, so a total amount of 840 947 shares were granted with a value of RON 499,520, with a value of 478,247 RON at the purchase price of (0.56 Ron / share).

In February 2017 has been completed the repurchase and distribution of 1,159,053 shares in total.

The Company had no stock options plans in 2016.

34. COMMITMENTS AND CONTINGENT LIABILITIES

On 27 August 2013 the Company signed an agreement with Banca Transilvania – a revolving multicurrency guarantees framework agreement valid until 24 August 2015, extended to 24 months from 20 August 2015. The upper limit is RON 1.750.000. Within the framework, as of 31 December 2016 letter of guarantees are issued in favor ROMPETROL DOWNSTREAM with a value of RON 360.000 and validity period 30.05.2016-30.06.2017.

Letters of bank guarantees issued:

Issuing bank	Availability period	Amount	Currency	Beneficiary
Banca Transilvania	30.05.2016-30.06.2017	360,000	RON	ROMPETROL DOWNSTREAM

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34. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

As at 31 December 2016, tangible assets and investment properties, in a net carrying amount RON 48,327,144 are set as a security for credits and credit lines. For the loans from banks, the Company guaranteed by means of all current and future cash, the merchandise and product inventories, either current or future, and assigned the current and future rights of debt, and their accessories arising from current and future contracts with its clients, in capacity of assigned debtors. Moreover, the Company has assigned the rights resulting from the insurance policies issued for movable and immovable properties set as guarantee.

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

Potential tax liabilities

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

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

Environmental matters

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

Transfer pricing

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

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35. EVENTS AFTER THE BALANCE SHEET DATE

In 2017 Board of Directors approved the sale of its share part in Teraplast Group (Moldova) at their nominal value of MDL 2,754 to other shareholders of the company and also setting up a company in Hungary (Teraplast Hungary), where Teraplast SA is the sole shareholder.

On March 1, 2017 Teraplast signed an agreement with Depaco SRL shareholders for the acquisition of 50% of its share capital. The transaction will be completed after approval by the General Meeting of Shareholders of Teraplast SA after receiving the approval of the Competition Council in Romania.

These separate financial statements from pages 3 to 49 were approved by the Board of Directors on 23 March 2017.

SOCIETATEA TERAPLAST S.A.

Mircea Hotoleanu
CEO

Edit Orban
CFO

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The Board of Directors report on the stand alone financial statements of Teraplast SA prepared in accordance with Ministry of Finance Order no. 1286/2012

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Financial year: 2016

Name of the company: TERAPLAST S.A.

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

Phone/fax: 0263 238202; Fax: 0263 231221

Sole registration number at the Trade Register Office: 3094980

Trade Register No: J06/735/1992

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

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

Main features of securities issued by the trading company:

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

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

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

Equity – 184,323 thousand lei

Turnover – 257,296 thousand lei

Net result of the exercise – **profit** – 41,512 thousand lei

The financial statements have been drawn up in accordance with:

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

(ii) Provisions of Ordinance no. 1286/2012.

Our company has submitted starting from 2012 individual financial statements drawn up in accordance with Ordinance no. 1286/2012 for the approval of accounting Regulations pursuant to the International Financial Reporting Standards, applicable to trading companies whose securities are admitted to trading on a regulated market, with any subsequent amendments and clarifications.

Teraplast has been audited by KPMG Audit SRL, independent auditor. The audit results are presented in the Report of independent auditor KPMG Audit SRL.

1. Business analysis

1.1. a) Description of the basic business activity of the company:

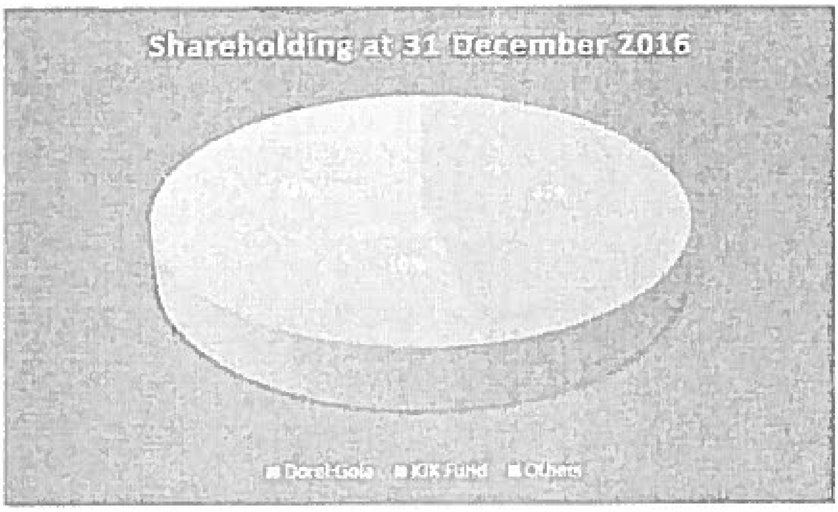
Our company is operating based on Company Law 31 / 1990 (with subsequent amendments and additions) and the Stock-market Law 297/2004. According to item 6 of the Memorandum of Association our field of activity is: "Manufacture of plastic plates, sheets, tubes and profiles".

b) Date of establishment:

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

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

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



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

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

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

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

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

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

d) Describing acquisitions and/or sale of assets;

The total company assets as of 31st December 2016 was **234.106.686**, with 10.633.073 lei less than the value recorded at the beginning of the year, out of which:

- 11.097.848 lei representing decreases of the company's circulating assets (stocks, receivables, cash);
- 464.775 lei representing an increase of the company's fixed assets

e) The main results of the company auditing;

- **Profit and loss account** – the cost-to-income ratio, namely costs and income grouped according to their source in 2016 are as follows:

Profit and loss account (thousand lei)	2016	2015
Net turnover	**257.296**	**267.975**
Variation of stocks of finished products and underway production – balance C/(D)	2.328	3.569
Other operating income	143	8.672
Operating income – TOTAL	**259.767**	**280.216**
Costs with raw materials, used consumables and goods	(166.042)	(181.117)
Employee entitlement expenses	(20.513)	(22.757)
Provisions, adjusting entries for amortisation and depreciation	(10.424)	(12.161)
Earnings/losses from tangible and intangible assets	(201)	28

Earnings/losses from investment evaluation at their actual value	1.947	(1.242)
Other operating expenses	(30.591)	(33.153)
Operating expenses – TOTAL	**(225.824)**	**(250.403)**
Operating profit	**33.395**	**29.813**
Financial income	14.535	8.208
Financial costs	(3.164)	(5.518)
Financial result	**11.371**	**2.689**
Total income	**283.545**	**298.631**
Total expenses	**242.033**	**268.249**
Gross result	**45.314**	**32.502**
Tax on profit	(3.802)	(4.120)
Net profit	**41.512**	**28.382**
EBITDA	**56.821**	**46.608**

- The company has determined the EBITDA as follows:

Indicators (thousand lei)	**2016**	**2015**
Net profit	**41.512**	**28.382**
Interest expense	672	1.126
Amortisation expense	12.340	12.237
Fixed and current asset depreciation	1.505	743
Current tax expense and deferred tax expense	3.802	4.120
EBITDA	**56.821**	**46.608**

- The changes in assets are:

Assets (thousand lei)	**2016**	**2015**	**Differences**
1.1. Fixed assets, out of which:	**129.810**	**129.345**	**465**
1.1.1. Tangible assets	93.329	90.935	2.394
1.1.2. Real estate investment	19.037	19.623	(586)
1.1.3. Intangible assets	859	559	300
1.1.4. Investments in subsidiaries	11.301	11.256	45
1.1.5. Other financial fixed assets	15	15	-
1.1.6. Fixed trade receivables	5.269	6.957	(1.688)
1.2. Current assets, out of which:	**104.297**	**115.394**	**(11.097)**
1.2.1. Stocks	42.435	34.327	8.108
1.2.2. Trade receivables and similar	50.834	69.664	(18.830)
1.2.3. Early expenses	221	302	(81)
1.2.4. Recoverable tax on profit	117	-	117
1.2.5. Cash and short term deposits	10.690	11.101	(411)
1.3. Assets for sale	-	-	
Total assets	**234.107**	**244.739**	**(10.632)**

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

Liabilities (thousand lei)	**2016**	**2015**	**Differences**
1.1.Total share capital, out of which:	**56.643**	**28.888**	**27.755**
1.1.1. Subscribed capital	56.643	28.888	27.755
1.1.2. Share capital reorganization	0	0	0
1.1.3. Other elements of capital	451	951	(500)
1.2. Share premiums	27.385	27.385	0

1.3. Revaluation reserve	17.547	17.046	501
1.4. Legal reserves	7.738	5.444	2.294
1.5. Reported result	74.559	71.519	3.040
Total equity	**184.323**	**151.233**	**33.090**
1.2. Long-term debts			
1.2.1. Interest bearing credits and loans	9.180	8.063	1.117
1.2.2. Debts related to employee entitlements	239	236	3
1.2.3. Debts related to deferred taxes	2.696	2.948	(252)
1.3. Current debts			
1.3.1. Trade debts and similar	29.668	48.195	(18.527)
1.3.2. Interest bearing credits and loans	5.240	30.077	(24.837)
1.3.3. Other current trade debts	0	0	0
1.4. Tax due on profit	0	815	(815)
1.5. Provisions	2.762	3.174	(412)
Total debts	**49.785**	**93.508**	(43.723)
Total own capital (equity) and debts	**234.108**	**244.741**	(10.633)

Company's **Equities** increased in fiscal year 2016 by 33,090 thousand lei.

The **legal reserve** amounts to7,738 thousand lei and represents 13.66% of the company's share capital.

Company's **Total debts** decreased by 43,723 thousand lei mainly following decrease of debts towards suppliers (by 18,527 thousand lei) and decrease of liabilities towards financial institutions (by 23,720 thousand lei).

Company's **Provisions** decreased by 412 thousand lei mainly following reversal of provisions for environment expenses.

- The evolution of current asset and current liabilities is as follows:

Assets (thousand lei)	**2016**	**2015**
Current assets	104.297	115.394
Current liabilities	37.670	82.261
Net current assets	66.627	33.133

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

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

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

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General evaluation elements

a) **Profit/(loss):**

Indicators (thousand lei)	Actual 2016	Actual 2015
Gross profit (loss)	45.314	32.502
Net profit (loss)	41.512	28.382

The evolution of the net profit was mainly supported by a significant improvement of our operating performance, i.e. Teraplast achieved in 2016 an **operating result** of 33.39 million lei as compared to 29.81 million lei for the similar 2015 period. The net profit was also backed by the higher **financial result**, based on dividend income. In 2016, Teraplast cashed dividends amounting to **12.31 million lei** from TeraSteel (ex Plastsistem), Politub and Certind, following 2015 profit allocation.

b) **Turnover:**

Indicators (thousand lei)	Actual 2016	Budget 2016	Actual 2015	▲% vs 2015	▲% vs Budget
Turnover	257.296	315.368	267.975	-3,98%	-18,41%

The **turnover** evolution was influenced by the construction market evolution, mainly the infrastructure segment, which starting with July entered a deadlock. In the new budgetary exercise 2014-2020 the environment infrastructure (water and sewage) has over 6.32 billion EUR available non-returnable financing. However, after 2 years since the launch of the new financing axis none of the 43 new environment infrastructure projects is in the working contracts signing phase, most of them being at the most in the projecting phase.

c) **Export:**

Indicators (thousand lei)	2016	2015	▲% vs 2015
Turnover	**257.296**	**267.975**	**-3,98%**
Export/EUR	4.770	4.799	-0,60%
Export/LEI	21.661	21.713	-0,24%

In 2016, the amount of income earned from export operations decreased by about 0.24% as compared to the previous year.

d) **Expenses:**

Expenses (thousand lei)	2016	2015
Raw materials, used consumables and goods		
Costs with raw materials	128.912	146.222
Costs with consumables	9.491	11.903

Costs with goods	26.933	22.410
Used packages	707	582
TOTAL	**166.043**	**181.117**
Employee entitlement expenses		
Salaries	15.638	18.057
National insurance fund contributions	3.903	3.874
Other employee related taxes and contributions	198	161
Meal vouchers	776	789
Other benefits for employees	2	(110)
Income from employee wage subsidy	(4)	(14)
TOTAL	**20.513**	**22.757**
Other expenses		
Transportation costs	8.655	9.307
Electricity bills	5.002	5.642
Third party services costs	5.885	3.179
Compensation, fines and penalty costs	17	14
Entertainment, advertising and publicity expenses	1.219	981
Other general expenses	5.714	10.153
Other taxes and bills expenses	876	902
Repairing expenses	738	815
Travel expenses	542	490
Hiring costs	650	864
Postage and telecommunication costs	288	271
Insurance premium costs	1.005	534
Cash flow from operating subsidies for other operating expenses	-	-
TOTAL	**30.591**	**33.152**

e) Market share:

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

f) Cash flow:

There were 10,690 thousand lei in our company's accounts as of 31st December 2016.

1.1.2 Evaluation of the Company's technical level

a) Teraplast SA is the largest entity of the Teraplast Group, and the company's product portfolio covers the entire range of fittings and installations (minus heating and ventilation equipment). Teraplast's range of products is organised on three lines of business: Fittings & Arrangement, Joinery profiles and Granules. The PVC windows&doors line of business has been transferred, as of April 2015, to a separate entity – Teraglass.

In 2016 a part of Teraplast's systems were completed with new markers, and in 2017 we intend to continue the developing trend of all our lines of business. Teraplast' sales system includes its own network of storehouses opened in key towns, as well as partnerships with countrywide distributors. Teraplast also conducts export businesses on Central and Eastern European markets, as well as on Western European markets.

b) Rate of sales within 2016's turnover:

1.1.3 Evaluating the provision of technical and material supplies

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

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

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

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

1.1.4 Evaluating the sales activity

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

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

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

c) Teraplast's trading policy does not allow exposure rates of over 6% per customer. During 2016 the rates of receivables for a single customer did not go beyond 3% of the turnover.

1.1.5 Evaluating aspects related to the Company's employees/staff

The minimum number of employees decreased during this period from 383 in 2015 to 330 employees in 2016. The staff organisation was the following:

	2016	2015
Directors	2	2
Managers	16	18
Managing staff	91	88
Operating staff	223	275
Total	333	383

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

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

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

1.1.5. Evaluating aspects related to the impact of the basic Company activity on the environment

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

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

The following permits and licences were in force for 2015:

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

Evaluating the research and development aspects

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

In 2016 the Research Centre developed the following themes:

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

1.1.6. Evaluating the company's activity in terms of risk management

Credit risk

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

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

Liquidity risk

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

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

Foreign exchange risk management

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

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

Managing interest rate risk

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

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

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

Market risk

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

Other price-related risks

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

Managing credit risk

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

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

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

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

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

The just value of financial instruments

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

1.1.7. Elements of perspective on the trading company's activity

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

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

- Turnover: 259.263.360 lei
- Total Expenses: 287.833.386 lei
- EBITDA: 52.054.388 lei

- Net Profit: 33.104.353 lei

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

The Company's tangible assets

1.2. The company had 5 business facilities in Romania at the end of 2015, located in the following cities: Bucharest, Brasov, Deva, Galati, Iasi. In each of these locations, the company had its own or rented **storehouses** from where deliveries are made to appointed customers, in order to be as close as possible to the customers and to provide short deliveries.

Moreover, Teraplast had at the end of 2015 the following **manufacturing facilities**:

- **PVC Pipe, Profile and Granule Plant** – including the PVC pipe department, PVC Profile department, PVC joinery profile department and the Batching-Mixing department.
- **Polyolefin plant** – including the Polyethylene manhole and PP, PVC, PE Fittings.

All these plants are located in Teraplast Industrial Park, situated in the unincorporated area of the municipality of Bistrita, Bistrita-Nasaud County.

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

1.4. Not applicable.

2. The Company's securities market

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

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

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

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

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

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

2.5. Not applicable

3. Company Management

3.1 Directors presentation

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

Dorel Goia – Chairman

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

Magda Palfi-Tirau – Independent non-executive Director

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

Petru-Raul Ciurtin – Non-executive Director

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

Razvan Lefter - Non-executive Director

Mrs. Razvan Lefter has the profession of economist and he was elected in the Board of Directors of Teraplast in 2014, at the proposal of KJK Fund, shareholder in Teraplast with 11%. Mr. Lefter is single shareholder and Director of the company

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RSL Capital Advisors and he is also Director in the Board of Directors of the companies Conpet Ploiesti, KJK Caramida Bucharest and Eurohold AD Sofia.

Mircea Hotoleanu – Executive Director

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

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

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

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

d) List of persons affiliated to our trading company

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

3.2. Members of the executive team

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

Mircea HOTOLEANU

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

Born in 1964

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

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

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

Edit ORBAN

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

Born in 1970

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

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

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

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

4.3 Corporate governance

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

Governance structures

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

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

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

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

The General Meeting of Shareholders

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

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

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

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

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

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

a. discuss, approve or modify the annual financial reports in agreement with the reports submitted by the Board of Directors or the financial auditor, as the case may be, and to set dividends;

b. elect and dismiss members of the Board of Directors;

c. establish the remuneration due for the ongoing tax year to the members of the Board of Directors, unless established by the Memorandum of association, considering their specific duties and the company's economic situation;

d. decide on the management of the Board of Directors;

e. appoint and establish the minimum length of the audit contract, and dismiss the financial auditor;

f. set the income and expenses budget and the next tax year's schedule, accordingly;

g. decide upon pledging, hiring out or liquidating one or several of the Company's facilities;

h. decide to bring action against company directors and managers for damaging the company by failure to observe their responsibilities towards the Company;

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

a. changing the Company's legal status;

b. relocating the Company's headquarters to a different county;

c. changing the Company's scope of activity;

d. increasing the share capital;

e. decreasing the share capital or reintegrating it by issuing new shares;

f. mergers or divisions;

g. anticipated liquidation of the Company;

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

i. conversion of shares from one category to another;

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

l. issuing bonds;

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

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

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

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

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

The Board of Directors

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

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

Responsibilities of the Board of Directors include:

a. setting the main course of action and development for the Company;
b. establishing the accounting and financial control system and approving the financial planning;
c. appointing and revoking managers and establishing their remuneration considering specific responsibilities and the Company's economic situation;
d. supervising managers' activity;
e. preparing the annual report, organising General Meetings and implementing its decisions;
f. filing a request for the opening of the procedure of company insolvency, in line with Law no. 85/2006 on insolvency proceedings;
g. ensuring the management of the Company business;
h. approving the Company's organisation structure and staff organisation chart;
i. approving the creation of consultants committees, appointing members and responsibilities;
j. setting principles and policies of employment and dismissal of the Company's staff, including the executive managers;
k. setting the remuneration principles of the hired staff according the their roles and responsibilities within the Company;
l. approving the marketing strategy;
m. defining the strategy for the implementation of the approved budget;
n. granting shareholders access to documents and information, pursuant to legal provisions;
o. approval on entering into on Company's behalf any legal documents except those for which OGM/EGM approval is required, according to law;
p. appointing and revoking the General Manager and the other managers of the Company;
q. establishing the number of managers and the organisation of their activity;
r. concretely establishing which of the general responsibilities of the Board of Directors are delegated to managers;

s. representing the Company in its relationships to managers;

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

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

1. In its **19 January 2016** meeting the Board of Directors nominated the financial services company BT Securities to represent Teraplast in the share buyback process of maximum 2,000,000 own shares. The General Meeting of Shareholders approved, in the session dated December 7th 2015, the repurchase by Teraplast SA of its own shares.
2. In its **4 February 2016** meeting the Board of Directors approved a „stock option plan" by which a number of Group employees will receive Teraplast SA (symbol TRP) shares. The shares of the „stock option plan" will be given to the beneficiaries for free.
3. In its **5 February 2016** meeting the Board of Directors approved the beginning of the buyback program by respecting and in the conditions approved in the decision no. 1 of the EGMS, dated December 7th 2015.
4. In its **10 May 2016** meeting the Board of Directors decided to put on hold until June 24th 2016, of the share buyback program, so that at the registration date established by the OGMS and the EGMS, dated April 28th 2016, regarding the dividends and the free shares, the company not to have owned shares, because they don't give the right to dividends or free shares.
5. In its **18 May 2016** meeting the Board of Directors decided to contract from BRD - Groupe Societe Generale S.A an investment loan of LEI 13.50 million, for a period of 72 months, of which 12 months grace period, in order to finance a part of the investment plan approved for 2016.
6. In its **6 June 2016** meeting the Board of Directors decided to contract from Raiffeisen Bank S.A a credit line of LEI 5 million, for a period of 12 months.
7. In its **14 June 2016** meeting the Board of Directors decided to renew the multi-option threshold, multicurrency threshold, worth 3,300,000 Euro, from BRD - Groupe Societe Generale S.A., for a period of 12 (twelve) months.
8. In its **3 august 2016** meeting the Board of Directors decided to extent for 1 year the credit line worth 13,250,000 lei and the multicurrency threshold for letters of guarantee worth 1,750,000 lei, both accessed from Banca Transilvania SA.
9. In its **19 August 2016** meeting the Board of Directors approved the decision to file for a government assistance in order to develop an investment project in amount of LEI 65.63 million, according to the government decision no. 807/2014.
10. In its **29 September 2016** meeting the Board of Directors decided to establish, as sole associate, a limited liability company in Hungary. The purpose of this action is to develop Teraplast's presence on the Hungarian market and it is part of the company's strategy to increase the value of exports.
11. In its **27 October 2016** meeting the Board of Directors elected Mr. Dorel Goia as President of the Board of Directors.

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

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

Executive Management

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

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

Managers' responsibilities include:

a) approval of major tenancy agreements (regardless if the Company is landlord or tenant);
b) negotiating the collective agreement with employees' representatives;
c) setting the development strategy and policies of the Company, including the Company's organisational chart, and establishing operations departments;
d) entering into documents or deeds with third parties in the name and on behalf of the Company, in compliance with provisions of the Memorandum of Association on double signatures and the aspects reserved to the competence of the General Meeting or the Board of Directors;
e) employing and dismissing, setting tasks and responsibilities of the Company staff in line with the Company's employment policy;
f) taking every measure that may be necessary and useful for the Company management according to the daily management of each department or delegated by the General Meeting or the Board of Directors, except for those reserved to the General Meeting of Shareholders or the Board of Directors by law or the Memorandum of association;
g) recommending to shareholders distribution of profits.

Shareholders' rights

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

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

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

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

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

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

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

Degree of compliance with the new BVB Corporate Governance Code as of 31 December 2016	**Compliant YES / NO**
A.1. Any company should hold Internal Regulations of the Board to include reference terms/ responsibilities of the Board and key management roles of the company and to apply, among others, the general principles of this Section.	**YES**
A.2. Provisions pertaining to the management of conflicts of interest should be mentioned in the Board's Regulations.	**YES**
A.3. The Board of Directors should include at least five members.	**YES**
A.4. The majority of the Board's members should hold non-executive roles. At least one member of the Board of Directors or the Supervisory Board should be independent in case of companies included in the Standard Category. Each independent member of the Board of Directors should file a statement at the time of his/her appointment for election or re-election purposes, as well as upon any change of their status, indicating the elements underlying the grounds of independence in terms of his/her character and decision.	**YES**
A.5. Other relatively permanent professional commitments and obligations of a member of the Board, including executive and non-executive positions within the Board held by non-profit companies and institutions should be disclosed to potential shareholders and investors before their appointment and during it.	**YES**
A.6. Any member of the Board should submit to the Board information on any relationship with a shareholder holding directly or indirectly shares representing over 5% of all their rights to vote.	**YES**
A.7. The company should appoint a registrar of the Board whose responsibility is supporting the Board's activity.	**YES**
A.8. The declaration on corporate governance will report on any Board evaluation under the direction of the Chairman or the appointing committee and, if so, it will resume the key measures and changes resulting from it. The company should maintain a policy/guide on the Board's evaluation on the goal, criteria and frequency of the evaluation procedure.	**NO – is on its way to be implemented**
A.9. The declaration on corporate governance should include information on the number of meetings of the Board and committees during the past year, directors' participation (*in person* and *in absentia*) and a report of the Board and committees on their activities.	**YES**
A.10. The declaration on corporate governance should include information on the exact number of independent members of the Board of Directors.	**YES**

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A.11. The companies' board in the Premium Category should establish an Appointments Committee made up of non-executive members, in charge of the procedure of appointing new members of the Committee and of making recommendations to the Committee. The majority of the members of the Appointments Committee should be independent.	**NO - TRP is of the standard category**

Degree of compliance with the new BVB Corporate Governance Code as of 31 December 2016	**Compliant YES / NO**
B.1 The Board should establish an audit committee where at least one member should be an independent non-executive director. Most of the members, including the chair, should have been proven to hold relevant qualification for the Committee's roles and responsibilities. At least one member of the audit committee should have proven and accurate auditing or accounting experience. In case of Premium companies, the audit committee should comprise at least three members and the majority of the members of the Appointments Committee should be independent.	**NO – Internal audit is conducted by an independent entity**
B.2. The chairman of the Appointments Committee should be a non-executive independent member.	**NO – Internal audit is conducted by an independent entity**
B.3. Within its responsibilities, the audit committee should carry out an annual evaluation of the internal control system.	**NO – Internal audit is conducted by an independent entity**
B.4. The evaluation should consider the efficiency and extent of the internal audit role, the degree of adequacy of risk management reports and internal audit submitted to the audit committee of the Board, the accuracy and promptness with which the Company executives settle deficiencies or weaknesses identified following the internal audit and submitting relevant reports to the Board's attention.	**NO – Internal audit is conducted by an independent entity**
B.5. The audit committee should assess any conflict of interest pertaining to transactions of the company and its agencies with the affiliated parties.	**NO – Internal audit is conducted by an independent entity**
B.6. The audit committee should evaluate the efficiency of the internal audit system and the risk management system.	**NO – Internal audit is conducted by an independent entity**
B.7. The audit committee should monitor the enforcement of legal standards of internal audit generally accepted. The audit committee must receive and evaluate the reports of the internal audit team.	**NO – Internal audit is conducted by an independent entity**
B.8. Whenever the Code mentions reports or analyses initiated by the audit committee, such analyses should be followed by periodical reports (at least annual) or *ad-hoc* reports to be subsequently submitted to the Board.	**NO – Internal audit is conducted by an independent entity**
B.9. No shareholder can be given preferential treatment as compared to other shareholders in terms of transactions and agreements concluded by the company with their shareholders and affiliates.	**YES**

B.10. The Board should adopt a policy by which to ensure that any transaction of the company with any of the companies with which it maintains close relationships whose value is equal or exceeding 5% of the company's net assets (according to the latest financial report) is approved by the Board following a mandatory opinion of the audit committee.	YES
B.11. Internal audits should be conducted by a structurally separate division (department of internal audit) within the company or by employing an independent third party.	YES
B.12. For the purposes of ensuring the main roles of the internal audit department, the audit department's functional report should be to the Board by means of an audit committee. For administrative purposes and within the management's responsibility to monitor and reduce risks, the audit committee must report directly to the general manager.	NO – internal audit is conducted by an independent entity

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

Degree of compliance with the new BVB Corporate Governance Code as of 31 December 2016	Compliant YES / NO
D.1. The Company should organise an Investor Relations service – mentioning to the broad public the person/s in charge or the organising company. Outside the mandatory information required by the legal provisions, the company should also mention on its web page a section dedicated to the Investor Relations, in Romanian and English, with any relevant information which may be of interest to investors, including: **D.1.1.** Main corporate regulations: memorandum of association, procedures on general meetings of the company shareholders; **D.1.2.** Professional CVs of the company's management, other professional involvement of the Board members, including executive and non-executive positions in companies Boards of directors or into non-profit organisations; **D.1.3.** Current and periodical reports (quarterly, bi-annual and annual) – at least those mentioned at D.8 above – including current reports with detailed information on incompliance with this Code; **D.1.4.** Information concerning general meetings of shareholders: the meeting agenda and information materials; procedure of electing the members of the Board; arguments supporting application proposals for elections within the Board, along with the members' professional CVs; shareholders' questions on agenda items and the company's replies, including adopted decisions; **D.1.5.** Information on corporate events, such as dividend payment and other distributions to shareholders, or other events leading to acquiring or limiting a shareholder's rights, including deadlines and principles applied to such operations. Such information shall be published within deadlines allowing investors to adopt decisions to invest; **D.1.6.** Names and contact data of a person that could supply, upon request, relevant information; **D.1.7.** Company's presentations (e.g. presentations for investors, presentations on the quarterly outcome etc.), financial situations (quarterly, bi-annual, annual), audit reports and annual reports.	YES

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D.2. The company shall practice a policy on the annual distribution of dividends or other benefits to shareholders. Principles of the annual policies of distribution to shareholders shall be published on the company's web page.	YES
D.3. The company shall adopt a forecast policy, either public or not. The forecast policy is to be published on the company's web page.	YES
D.4. Rules of general meetings should not limit shareholders' participation in general assemblies and exertion of their rights. Amendments to rules and regulations shall become enforceable starting from the next shareholders' meeting at the earliest.	YES
D.5. External auditors will attend the general meeting when their reports are submitted within such meetings.	YES
D.6. The Board will present to the annual general meeting a short assessment of the systems of internal control and management of significant risks, as well as opinions on matters submitted to the general meeting's decision.	YES
D.7. Any financial specialist, consultant, expert or analyst can participate in the shareholders' meeting based on prior invitation from the Board. Authorised journalists can, too, participate in shareholders' general meeting, unless the Chairman of the Board decides otherwise.	YES
D.8. Quarterly and bi-annual reports shall include information both in Romanian and in English on key factors influencing changes in terms of sales, operational profit, net profit and other relevant financial indicators, from one term to another, as well as from one year to another.	YES
D.9. A company shall organise at least two sessions/teleconferences with analysts and investors every year. Information submitted with such occasions is to be published in the investor relations section of the company's web page on the date of the sessions/teleconferences.	YES
D.10. In the event a company displays different forms of artistic and cultural forms of expression, sports activities, educational or scientific activities and considers that their impact on the company's innovative character and competitiveness is a part of the company's development mission and strategy, it will publish its policy on such activity in the field.	YES

4. **Financial and accounting situation**

   a) **Balance sheet elements**

Thousand lei	2016	2015	▲%
Assets			
Fixed assets			
Tangible assets	93.329	90.935	2,63%
Real estate investment	19.037	19.623	-2,98%
Intangible assets	859	559	53,66%
Investment to subsidiaries and jointly controlled facilities	11 301	11.256	0,40%
Other financial fixed assets	15	15	-
Fixed trade receivables	5.269	6.957	-24,26%
Total fixed assets	**129.810**	**129.345**	**0,36%**
Current assets			
Inventories	42.435	34.327	23,62%
Trade receivables and similar	50 834	69.665	-27,03%
Prepayments	221	302	-26,82%
Income tax payable			
Cash and short term deposits	117	0	-
Total current assets	10.690	11.101	-3,70%
Total assets	**104.297**	**115.395**	**-9,62%**
	234.107	**244.740**	**-4,34%**

Total equities and debts			
Equity			
Total share capital, out of which:			
Subscribed capital	56.643	28.888	96,08%
Share capital reorganisation	56.643	28.888	96,08%
Other elements of capital	-	-	-
Share premiums	451	950	-52,52%
Revaluation reserve	27.385	27.385	-
Legal reserves	17.547	17.046	2,94%
Reported result	7.738	5.444	42,14%
Total equity	74.559	71.519	4,25%
	184.323	**151.232**	**21,88%**
Long-term debts			
Finance lease credits and loans			
Debts related to employee entitlements	9.180	8.063	13,85%
Debts related to deferred taxes	239	236	1,27%
Overall long-term debts	2 695	2.948	-8,58%
	12.114	**11.247**	**7,71%**
Current debts			
Trade debts and similar			
Finance lease credits and loans	29.668	48.195	-38,44%
Tax on profit due	5 240	30.077	-82,58%
Provisions	0	815	-100,00%
Total current debts	2.762	3.174	-12,98%
Total debts	**37.670**	**82.261**	**-54,21%**
Total equity and debts	**49.784**	**93.508**	**-46,76%**
	234.107	**244.740**	**-4,34%**

b) Profit and loss account

Thousand lei	2016	2015	▲%
Individual income	**257.296**	**267.975**	**-3,98%**
Other operating income	143	8.672	-98,35%
Variation of stocks of finished products and underway production	2.328	3.569	-34,77%
Raw materials, used consumables and goods	(166.042)	(181.117)	-8,32%
Employee entitlement expenses	(20.513)	(22.757)	-9,86%
Provisions, adjusting entries for amortisation and depreciation expenses	(10 424)	(12.161)	-14,28%
Earnings/loss from costs with tangible and intangible assets	(201)	27	-844,44%
Earnings/loss from investment evaluation at their actual value	1.947	(1.242)	256,76%
Other operating expenses	(30.591)	(33.154)	-7,73%
Financial costs	(3 164)	(5.518)	-42,67%
Financial income	14 535	8.208	77,08%
Profit/(Loss) before tax	**45.314**	**32.502**	**39,42%**
(Costs)/income with tax on profit	(3 802)	(4.120)	-7,72%
Individual profit/(loss) of the tax year	**41.512**	**28.382**	**46,26%**

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a) **Cash flow: Cash flow situation**

Cash-flow (thousand lei)	**2016**	**2015**
Cash flow from operating expenses		
Earnings/(Loss) before tax	45.314	32.502
Interest expense	673	1.126
Interest income	(32)	(10)
(Loss)/Earnings from sale or transfer of fixed assets	242	(28)
Profit from selling the Teraglass line	-	(538)
Earnings/(Loss) from depreciation of trade receivables	1.520	584
Adjusting costs for stock depreciation provisions	210	819
Long-term asset amortisation and depreciation	12 340	12.237
Fixed assets adjustments	(217)	(421)
Decrease in value following re-evaluation	(40)	86
Risk and expense provisions adjustment	(411)	(818)
Earnings/(Loss) from real estate appraisals	(1.947)	1.242
Income from provisions for retirement related obligations	2	(110)
Share-based benefits	-	950
Investment income	(12.312)	(5.496)
Unfulfilled exchange rate differences	(68)	(53)
Operating subsidy income	-	-
Increase/(Decrease) from financial instruments	-	-
	45.274	**42.073**
Circulating capital movements		
Increase/(Decrease) of trade receivables and other receivables	18.962	(20.237)
Increase/(Decrease) of stocks	(8 318)	(1.489)
(Decrease)/Increase of trade debts and other debts	(21.004)	3.679
Cash resulting from operating activities	**34.914**	**24.026**
Paid interest	(647)	(1.126)
Tax on paid profit	(4.808)	(3.898)
Net cash (used)/generated in operating activities	**29.459**	**19.002**
Cash flow from investing activities		
Cashed interest	32	10
Payments corresponding to tangible and intangible assets	(11.424)	(15.153)
Payments corresponding to financial assets	(45)	-
Cash from sale of tangible assets	96	136
Repurchase of own shares	(513)	-
Incomes from selling own shares	21	-
Buying Plastsistem shares	-	(2.056)
Paid dividends	(6.892)	-
Cashed dividends	12.312	5.496
Net cash (used in) investing activities	**(6.413)**	**(11.567)**
Cash flow from financing activities		
Net cashing / reimbursement of loans	(21.959)	2.734
Leasing payments	(1.498)	(2.526)

Subsidy income	0	0
Net cash generated by financing activities	**(23.457)**	**208**
Net increase/decrease of cash and cash equivalent	**(411)**	**7.643**
Cash and cash equivalent at the beginning of the tax year	**11.101**	**3.458**
Cash and cash equivalent at the end of the tax year	**10.690**	**11.101**

5. Signatures

Chairman of the Board of Directors

Dorel Goia

SOCIETATEA TERAPLAST 3 S.A.

Chief Financial Officer

Edit Orban

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