

CARBOCHIM S.A.

SEPARATE FINANCIAL STATEMENTS

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DECEMBER 31, 2022**

**PREPARED IN ACCORDANCE WITH INTERNATIONAL
FINANCIAL REPORTING STANDARDS
ADOPTED BY THE EUROPEAN UNION**

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CARBOCHIM S.A.**INCOME STATEMENT****(All amounts are expressed in RON unless otherwise stated)**

	<u>Note</u>	<u>December 31, 2021</u>	<u>December 31, 2022</u>
Revenue	17	32,745,481	33,156,190
Other income	17	1,384,879	1,192,811
Changes in inventories of finished goods and production in progress		<u>484,455</u>	<u>1,861,324</u>
		<u>34,614,815</u>	<u>36,210,325</u>
Raw materials, goods and consumables used		(10,477,288)	(9,830,826)
Employee benefits expenses	18	(15,508,826)	(18,168,798)
Depreciation and impairment expenses		(2,094,729)	(2,270,735)
Other operating expenses	19	<u>(4,809,630)</u>	<u>(5,897,400)</u>
		<u>(32,890,473)</u>	<u>(36,167,759)</u>
Operating result		1,724,342	42,566
Financial revenues	20	3	96,836
Financing costs	20	<u>(105,558)</u>	<u>(79,249)</u>
Financial net result		<u>(105,555)</u>	<u>17,587</u>
Profit before tax		1,618,787	60,153
Income tax expense	21	(177,576)	(34,086)
Net profit for the year		<u>1,441,211</u>	<u>26,067</u>
Basic earnings and diluted earnings per share (RON per share)	23	<u>0.29</u>	<u>0.01</u>

STATEMENT OF COMPREHENSIVE INCOME

(All amounts are expressed in RON unless otherwise stated)

	<u>Note</u>	<u>December 31, 2021</u>	<u>December 31, 2022</u>
Other comprehensive income			
Profit for the year		1,441,211	26,067
Other comprehensive income:			
Gains / (losses) on revaluation of assets		-	-
Change of deferred income tax recognized in the revaluation reserve		<u>64,082</u>	<u>84,292</u>
Other comprehensive income for the year, net of taxes		<u>64,082</u>	<u>84,292</u>
Total comprehensive result for the year		<u>1,505,293</u>	<u>110,359</u>

CARBOCHIM S.A.**STATEMENT OF FINANCIAL POSITION****(All amounts are expressed in RON unless otherwise stated)**

	Note	December 31, 2021	December 31, 2022
ASSETS			
Non-current assets			
Investment property	8	7,124,302	3,765,120
Other intangible assets	7	69	8,793
Property, plant and equipment	6	65,304,163	31,029,172
Right to use leased assets		0	2,159,049
Investments in owners' equity		38,000	38,000
Total non-current assets		<u>72,466,534</u>	<u>37,000,134</u>
Current assets			
Inventories	10	15,241,090	16,757,830
Assets held for sale		0	54,641,972
Trade receivables	11	6,259,122	6,051,405
Other current assets	11	994,118	1,031,119
Current income tax recoverable	11.21	0	110,680
Cash and cash equivalents	12	900,973	1,066,282
Total current assets		<u>23,395,303</u>	<u>79,659,288</u>
TOTAL ASSETS		<u>95,861,837</u>	<u>116,659,422</u>
OWNERS' EQUITY AND LIABILITIES			
Owners' equity			
Share capital	13	12,313,405	12,313,405
Adjustments in equity	13	0	0
Other components of owners' equity		57,309,069	56,749,810
Retained earnings		10,897,235	11,566,853
Total equity		<u>80,519,709</u>	<u>80,630,068</u>
Long-term debts			
Long-term loans	14	1,165,705	714,465
Finance lease liabilities	15	0	1,721,902
Long-term provisions	5	290,591	276,403
Deferred tax debt	21	6,762,736	6,669,926
Total long-term debts		<u>8,219,032</u>	<u>9,382,696</u>

CARBOCHIM S.A.**STATEMENT OF FINANCIAL POSITION****(All amounts are expressed in RON unless otherwise stated)**

	<u>Note</u>	<u>December 31, 2021</u>	<u>December 31, 2022</u>
Current liabilities			
Current share of long-term loans	14	3,011,953	2,183,952
Current share of finance lease liabilities	15	0	577,192
Trade payables and of other nature	16	4,096,970	23,885,514
Current income tax	16.21	<u>14,173</u>	<u>0</u>
Total current liabilities		<u>7,123,096</u>	<u>26,646,658</u>
TOTAL LIABILITIES		<u>15,342,128</u>	<u>36,029,354</u>
TOTAL OWNERS' EQUITY AND LIABILITIES		<u>95,861,837</u>	<u>116,659,422</u>

The Financial Statements were authorized for issue by the Board of Directors on March 20, 2023 and were signed on its behalf.

Popoviciu Viorel-Dorin

Barabula Mihaela-Maria

Director

Economic Director

STATEMENT OF CASH FLOWS

(All amounts are expressed in RON unless otherwise stated)

	<u>Note</u>	<u>December 31, 2021</u>	<u>December 31, 2022</u>
Cash flows from operating activities			
Receipts from customers and other debtors		39,810,511	42,227,382
Payments to suppliers, employees and other creditors		(25,847,597)	(29,504,390)
Interest paid		(84,799)	(118,415)
Income tax, social security contributions, other charges and taxes paid		(11,550,994)	(11,971,265)
Net cash from operating activities		2,327,121	633,312
		-	-
Cash flows from investing activities			
Payments for acquisition of shares		-	-
Payments to acquire property plant and equipment		(2,828,467)	(18,749,216)
Proceeds from sale of property plant and equipment		-	19,812,137
Interest received		3	96,836
Dividends received		-	-
Net cash from investment activities		(2,828,464)	1,159,757
Cash flows from financing activities			
Proceeds from issue of shares		0	0
Proceeds from loans		1,105,515	173,672
Payment of debts related to financial lease		(42,927)	(347,966)
Dividends paid		(1,010)	(552)
Repayments of amounts borrowed		(638,411)	(1,452,914)
Net cash from financing activities		423,167	(1,627,760)
Cash flows - total		<u>(78,176)</u>	<u>165,309</u>
Cash at the beginning of period		979,149	900,973
Cash at the end of period	12	900,973	1,066,282

CARBOCHIM S.A.

STATEMENT OF CHANGES IN EQUITY

(All amounts are expressed in RON unless otherwise stated)

	<u>Notes</u>	<u>Share capital</u>	<u>Adjustments in share capital</u>	<u>Other reserves</u>	<u>Retained earnings and undistributed</u>	<u>Total owner' equity</u>
Balance as at January 1, 2021		<u>12,325,438</u>	<u>(39,466)</u>	<u>57,427,211</u>	<u>9,301,233</u>	<u>79,014,416</u>
Profit for 2021		-	-	-	1,441,211	1,441,211
<u>Other comprehensive income for the period</u>						
Distribution of profit or loss in legal reserve		-	-	80,940	(80,940)	-
Movements in revaluation reserve		-	-	-	-	-
Distribution from previous year's profit to other reserves		-	-	-	-	-
Realization of revaluation reserve		-	-	(263,164)	263,164	-
Deferred income tax related to revaluation and legal reserve		-	-	(12,950)	-	(12,950)
Deferred income tax resulted from reevaluation carried forward		-	-	77,032	-	77,032
<u>Transactions with shareholders</u>						
Dividends paid to company shareholders		-	-	-	-	-
Share capital increase		-	-	-	-	-
Own shares held		(12,033)	39,466	-	(27,433)	-
Total comprehensive profit		<u>12,313,405</u>	<u>=</u>	<u>57,309,069</u>	<u>10,897,235</u>	<u>80,519,709</u>
Balance as at December 31, 2021		<u>12,313,405</u>	<u>=</u>	<u>57,309,069</u>	<u>10,897,235</u>	<u>80,519,709</u>

CARBOCHIM S.A.

STATEMENT OF CHANGES IN EQUITY

(All amounts are expressed in RON unless otherwise stated)

	<u>Notes</u>	<u>Share capital</u>	<u>Adjustments in share capital</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total owners' equity</u>
Balance as at January 1, 2022		<u>12,313,405</u>	<u>0</u>	<u>57,309,069</u>	<u>10,897,235</u>	<u>80,519,709</u>
Profit for 2022		-	-	-	26,067	26,067
<u>Other comprehensive income for the period</u>						
Distribution of profit or loss in legal reserve		-	-	3,007	(3,007)	-
Movements in revaluation reserve		-	-	-	-	-
Distribution from previous year's profit to other reserves		-	-	-	-	-
Realization of revaluation reserve		-	-	(646,558)	646,558	-
Deferred income tax related to revaluation and legal reserve		-	-	(481)	-	(481)
Deferred income tax resulted from reevaluation carried forward		-	-	84,773	-	84,773
<u>Transactions with shareholders</u>						
Dividends paid to company shareholders		-	-	-	-	-
Share capital increase		-	-	-	-	-
Own shares held		-	-	-	-	-
Total comprehensive profit		<u>12,313,405</u>	<u>-</u>	<u>56,749,810</u>	<u>11,566,853</u>	<u>80,630,068</u>
Balance as at December 31, 2022		<u>12,313,405</u>	<u>-</u>	<u>56,749,810</u>	<u>11,566,853</u>	<u>80,630,068</u>

The Company complies with the national rules in force on the distribution of reserves to Shareholders.

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

1. GENERAL INFORMATION

CARBOCHIM S.A. was set up as a joint-stock company in 1991, by transforming the former I.I.S. CARBOCHIM and has its registered office in Romania, CLUJ-NAPOCA City, Piata 1 Mai nr.3.

The Company was founded in 1949, initially for the production of coal products, and the activity scope had changed by subsequent investment, leading to the production and sale of abrasive products: vitrified bonded grinding wheels, bakelite bonded grinding wheels, elastic bonded grinding wheels, mineral bonded abrasives, abrasive cutting and deburring grinding wheels, abrasive paper, canvas - paper combined, and volcano fiber. Other activities include internal and external trade, maintenance and repair of machinery, and rental of production and office space.

CARBOCHIM SA is a public Company, the Company's shares are listed on the Bucharest Stock Exchange in the 2nd category, **CBC** symbol.

At December 31, 2022, the structure of holders of financial instruments holding at least 10% of the share capital of Carbochim S.A. is as follows:

	<u>No. of Shares</u>	<u>Percentage of Ownership (%)</u>
SC CARBO EUROPE SRL	3,825,903	77.6776
Legal entities	664,354	13.4884
Individuals	435,105	8.8340
TOTAL	<u>4,925,362</u>	<u>100</u>

CARBOCHIM SA holds a participating interest in CARBOREF SA from Cluj-Napoca, of 25% of the share capital, an investment of RON 37,500.

In 2005, CARBOCHIM SA participated as a founding member in the creation of Association of Producers and Importers of Equipment for Wood Industry in Romania (A.P.I.E.L. - Romania), its contribution to the initial assets of the association being RON 500, which represents a share of 7.14%.

CARBOCHIM SA has no subsidiaries or shareholdings in other companies than those mentioned above.

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The main Accounting Policies applied in preparing these Financial Statements are set out below. These Policies have been applied consistently to all Financial Years disclosed, unless otherwise stated.

2.1 Basis of preparation

The Financial Statements of Carbochim S.A. as at December 31, 2022 have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union.

The provisions of the Order of the Minister of Finance 2844/2016 approving the Accounting Regulations in accordance with the International Financial Reporting Standards have been taken into account.

In this regard, the statement of financial position, a component part of the Annual Financial Statements ended December 31, 2022, includes information corresponding to the end of the reporting year and the end of the Financial Year prior to the reporting year. In addition, the statement of comprehensive income includes information relating to the current Financial Year and the Financial Year prior to the reporting year.

The preparation of Financial Statements IFRS-compliant requires the use of certain critical accounting estimates. It also requires management to exercise professional judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of complexity and judgement, or areas where assumptions and estimates have a significant impact on the Financial Statements, are disclosed in Note 4.

2.1.1 Changes in Accounting Policies and in disclosure of information

(a) *New and amended standards adopted by the Company*

The Accounting Policies adopted are consistent with those used in the previous year.

The following standards, amendments to existing standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the European Union are effective for the current period and have been adopted in the Separate Financial Statements. The impact of these new and revised standards has been considered in the Financial Statements and estimated to be immaterial, except for the disclosures.

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

- IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Annual Improvements 2018-2020 (Amendments)

The amendments are effective for annual periods beginning on or after January 1, 2022, with early application permitted. IASB has issued amendments with limited scope to IFRS Standards as follows:

- **IFRS 3 Business Combinations (Amendments)** updates a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without amending the accounting requirements for business combinations
- **IAS 16 Property, Plant and Equipment (Amendments)** precludes a company from deducting from the cost of property, plant and equipment the amounts received from the sale of items produced while the company prepares the asset for operation in the manner intended by the management. Instead, a company will recognize such revenues and related costs in the income statement.
- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specifies the costs a company includes in determining the cost of performing a contract for the purpose of assessing whether a contract is onerous
- **Annual Improvements 2018-2020** bring minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and Illustrative Examples Accompanying IFRS 16 Leasing

IFRS 16 Leases - Covid 19 Rent-Related Concessions (Amendment)

The amendment is effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted, including in Financial Statements not yet authorized at the date of issue of the amendment. In March 2021, the Board amended the terms of the practical expedient in IFRS 16, that exempts lessees from applying the requirements in IFRS 16 regarding the lease modification for lease concessions arising as a direct consequence of the Covid-19 pandemic.

As a result of the amendment, the practical expedient currently applies to lease concessions for which any reduction in lease payments only affects payments initially due on or before June 30, 2022 if the other conditions for applying the practical expedient are met.

- (b) *New standards, amendments and interpretations issued but not yet effective for the financial year as of 1 January 2022, therefore not adopted:*

- Amendment to IFRS 10. Consolidated Financial Statements and IAS 28. Investments in associates and joint ventures: sale or contribution of

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

assets between an investor and its associate or joint venture. The amendments relate to an inconsistency identified between the requirements of IFRS 10 and IAS 28, in relation to the sale and asset sharing between an investor and its associate or joint venture. The main consequence of the amendments is that a total gain or loss is recognized when the transaction involves an enterprise (whether or not it is a subsidiary). A partial gain or loss is recognized when a transaction involves assets that are not an enterprise, even if they are in the form of subsidiaries. In December 2015, IASB postponed indefinitely the date of entry into force of this amendment. Amendments have not yet been adopted by the EU.

- IAS 1 Presentation of Financial Statements: Classification of liabilities as at Current or Non-Current (Amendments)

The amendments are effective for annual periods beginning on or after January 1, 2024 and early adoption is permitted. The amendments are intended to promote consistency in the application of requirements by assisting companies in determining whether liabilities and other payable obligations with an uncertain settlement date should be classified as current or non-current in the statement of financial position. The amendments affect the presentation of liabilities in the statement of financial position and do not change the existing requirements for the measurement or timing of recognition of any asset, liability, income or expenses, nor the disclosures that entities publish regarding these items. Moreover, the amendments clarify the classification requirements for liabilities that may be settled by the company issuing own equity instruments. These amendments have not yet been adopted by the EU.

- IAS 1 Presentation of Financial Statements and Practical Statement IFRS No. 2: Presentation of Accounting Policies (Amendments)

The amendments are effective for annual periods beginning on or after January 1, 2023 and early adoption is permitted. The amendments provide guidance on the application of the principle of materiality in disclosures related to accounting policies. In particular, the amendments to IAS 1 replace the requirement to disclose "significant" accounting policies with a requirement to disclose "material" accounting policies. Guidance and illustrative examples are also added to the Practice Statement to assist in applying the concept of materiality when making judgements about disclosures to accounting policies.

- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)

The amendments are effective for annual periods beginning on or after January 1, 2023 and early adoption shall be permitted and shall apply to changes in accounting policies and changes in accounting estimates occurring on or after the

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

commencement date of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in Financial Statements that are subject to measurement uncertainty. The amendments also clarify what constitutes changes in accounting estimates and how they differ from the changes in accounting policies and the correction of errors.

- IAS 12 Income tax: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments).

The amendments are effective for annual periods beginning on or after January 1, 2023 and early adoption is permitted. In May 2021, the IASB issued amendments to IAS12 that reduce the scope of the exception on initial recognition provided for in IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. Under the amendments, the exception regarding initial recognition does not apply to transactions that give rise to equal amounts of deductible and taxable temporary differences on initial recognition. It applies only when the recognition of a lease asset and a lease liability (or a decommissioning liability and a decommissioning asset) gives rise to deductible and taxable temporary differences that are not equal.

- IFRS 16 Leases: Lease Liability in a Sale and Leaseback (Amendments)

The amendments are effective for periods beginning on or after January 1, 2024, with early adoption permitted. The amendments are intended to improve the requirements that a lessee-seller uses in measuring lease liabilities arising from a sale and leaseback transaction under IFRS 16, while not changing the accounting for leases unrelated to sale and leaseback transactions.

2.2 Segment reporting

A business segment is a distinctive component of the Company:

- a) Which engages in business activities from which it may earn income and from which it may incur expenses,
- b) The results of which from activities are reviewed regularly by the chief operating decision maker of the Company for the purpose of making decisions about the allocation of resources to the segment and evaluating its performance, and
- c) For which separate financial information is available.

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

IFRS 8. Operating segments should apply to the Separate Financial Statements of the Company the owners' equity instruments which are traded in a public market (Bucharest Stock Exchange).

The disclosure of information about products and services and geographical areas in which the Company carries out its activity is mandatory, even for those entities that identify a single reportable business segment, considering the quantitative thresholds and aggregation criteria set out in the Standard.

Given the quantitative thresholds and aggregation criteria set out in the Standard in terms of business segments, the Company does not identify distinguishable components in terms of the related risks and benefits.

Presentation of geographical areas in which the Company operates:

Outlet market	Share (%) 2021	Amount of revenue December 21, 2021	Share (%) 2022	Amount of revenue December 31, 2022
Externally (Poland, Hungary, Germany, Slovakia, Belgium, Italy, Ireland, Austria, Spain, Greece, Switzerland, The Netherlands, Luxembourg, Canada, England, Israel)	5	1,621,752	4	1,612,378
Internally (Romania)	95	32,993,063	96	34,597,947
Total operating revenue	100	34,614,815	100	36,210,325

Disclosure of information on the Company's products and services:

Product or service	Share (%) 2021	Amount of revenue December 21, 2021	Share (%) 2022	Amount of revenue December 31, 2022
Grinding wheels	61.04	21,128,834	57.43	20,797,339
Coated grinding wheels	32.10	11,110,084	31.19	11,293,712
Other products	0.27	95,045	1.41	509,458
Rental income	3.56	1,233,442	3.47	1,255,086

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

Revenue from sale of goods	0.82	283,437	1.06	382,080
Subsidy income for staff payments	-	0	-	0
Other income, including changes in stocks of finished goods and work in progress	2.21	763,973	5.44	1,972,650
Total operating revenue	100.00	34,614,815	100.00	36,210,325

2.3 Foreign currency translation*(a) Functional and disclosure currency*

Items included in the Company's Financial Statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Financial Statements are presented in Romanian lei ("RON"), which is the functional and disclosure currency of the Company.

Exchange rates as at December 31, 2022 and December 31, 2021 are as follows:

	2022	2021

EUR	4.9474	4.9481
USD	4.6346	4.3707

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate at the date of the transactions or valuation for items that are revalued. Foreign exchange gains and losses arising on these transactions and on the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in other components of equity as qualifying cash flow hedge instruments and qualifying net investment hedge instruments.

Foreign exchange gains and losses relating to loans and leases are disclosed in the Income Statement under "Financial income or expense".

All other foreign exchange gains and losses are included in "Other (losses)/gains - net" in the Income Statement.

2.4 Accounting of the hyperinflation effect

The Romanian economy has a history of high levels of inflation and was considered to be hyperinflationary under IAS 29 "Financial Reporting in Hyperinflationary Economies".

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

IAS 29 requires that Financial Statements prepared in the currency of a hyperinflationary economy be stated in terms of purchasing power as of December 31, 2003. Therefore, the amounts expressed in terms of purchasing power as at December 31, 2003 are taken as the basis for the accounting amounts in these Financial Statements.

The restatement was calculated on first-time adoption of IFRS using the evolution of the consumer price index ("CPI") published by the National Institute of Statistics ("INSSE").

2.5 Property, Plant and Equipment

Land and buildings include factories, offices and commercial spaces.
The remaining property, plant and equipment are mainly technological equipment used in the production process.

Land and buildings are disclosed at fair value as at December 31, 2022. For buildings and equipment, the revalued amount as at December 31, 2018 less the losses of the impairment for 2019, 2020, 2021 and 2022 is used. The revalued amount as at December 31, 2018 is used for land.

Revaluations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation at the date of revaluation is restated on a pro rata basis with the change in the gross carrying amount of the asset, so that the carrying amount of the assets, subsequent to revaluation, equals its revalued amount.

Subsequent costs are included in the asset carrying amount only when it is probable that future economic benefits associated with the item will belong to the Company, and its cost can be measured reliably. The carrying amount of the replaced item is derecognized. All other repairs and maintenance expenses are charged to the income statement in the financial period in which they are incurred.

The impairment method used is the straight-line method.

The useful life of fixed assets is determined in accordance with the "Catalogue on classification and useful life of fixed assets", approved by Government Decision 2139 / 30 November 2004 updated. Given that this catalogue provides a choice of the normal functioning from a range with a minimum and a maximum value, the Technical Committee reviewed the conditions and environment in which the fixed assets operate and decided to use a lifetime equal to the middle range.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amount to the residual value, over the estimated useful lives, as follows:

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

Building	25-40 years
Machinery	10-15 years
Vehicles	3-5 years
Furniture, fittings and equipment	3-8 years

Residual values and useful lives of assets are reviewed and adjusted if appropriate, at the end of each reporting period.

The carrying amount of the asset is written down immediately to its recoverable amount if the asset carrying amount is higher than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds from disposal with the carrying amount and are recognized in "Other (losses) / gains – net" in the Income Statement.

On the sale of revalued assets, the amounts included in other reserves are transferred to retained earnings.

2.6 Intangible assets

(a) Trademarks and Licenses

Trademarks and licenses acquired separately are recorded at historical cost. Trademarks and licenses have finite useful life and are carried at cost less the accumulated amortization.

The amortization is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful life of 1-3 years.

2.7 Investment property

Investment property is real estate (land, buildings or parts of buildings) held by the Company for rental purposes in order to increase the value or rental or both, rather than to:

- Be used in the production or supply of goods or services or for administrative purposes; and
- Be sold in the ordinary course of business.

An investment property is measured initially at cost, including transaction costs. The cost of a purchased investment property consists of the purchase price plus all directly attributable expenses (professional fees for legal services, the property transfer taxes and other transaction costs).

Company's accounting policy on further valuation of property investments is based on the fair value model. This policy is applied uniformly to all investment properties held. Measuring the fair value of investment properties is performed by valuers who are members of the National Association of Authorized Romanian Valuers (ANEVAR).

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

As a result, depreciation is no longer recognized and the investment property is revalued at fair value on a sufficiently regular basis. Gains or losses arising from changes in the fair value of investment property are recognized in the Income Statement in the period in which they arise.

As at December 31, 2018, property investment revaluations were carried out by an authorized valuer.

2.8 Investments in equity elements

Investments in equity elements include participating interests in CARBOREF SA from Cluj-Napoca in a proportion of 25% of the share capital and a contribution to the initial assets of the A.P.I.E.L. Romania association, which represents a share of 7.14%. The shareholdings do not give us control or any significant influence on the Company's activity or association. Carboresf SA is a Company listed on Bucharest Stock Exchange, so the investment is valued at cost. The Company did not recognize adjustments for their impairment.

2.9 Impairment of non-financial assets

Assets that are subject to amortization are assessed for impairment whenever events or changes occur indicating that the carrying amount may not be recoverable. An impairment loss is recognized as the difference between the carrying amount and the recoverable amount of the asset. The recoverable amount is the higher of an asset's fair value minus the costs to sell and the value in use.

For the purpose of impairment assessing, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that have been impaired are reviewed at each reporting date for possible reversal of the impairment.

2.10 Financial assets

2.10.1. Classification

In accordance with IFRS 9, an entity shall classify financial assets as subsequently measured at either amortized cost or fair value through other comprehensive income, or at fair value through profit or loss based on the two criteria below:

- a) The entity's business model for the management of the financial assets, and
- b) The characteristics of the contractual cash flow of the financial asset.

Financial assets that meet both of the conditions listed below are subsequently measured at amortized cost:

- The financial asset is held within a business model the objective of which is to hold financial assets to collect contractual cash flows; and

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(All amounts are expressed in RON unless otherwise stated)

- The contractual terms of the financial asset give rise to cash flows that represent only principal payments and interest on the principal outstanding at specific dates.

Instruments that meet both of the following conditions are then measured at fair value through other comprehensive income (**FVOCI**):

- The financial assets are held within a business model the objective of which is achieved both by collecting the contractual cash flows and by selling the financial assets; and
- The contractual terms of the financial asset give rise to cash flows that represent only principal payments on the principal outstanding at specific dates.

All other financial assets will be subsequently measured at fair value through profit or loss (**FVPL**)

(a) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities payable than twelve months after the end of the reporting period. They are classified as current assets.

(b) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in the first category presented. They are included in current assets unless the investment matures or the management intends to dispose of within twelve months after the end of the reporting period.

(c) *Gas emission allowances*

As of January 1, 2013, the Company's plant is no longer subject to the greenhouse gas emission trading scheme under Directive 2009/29/EC and has therefore not received any EUAs since 2013.

In 2014, the Company sold all of the 2,196 allowances held in its account at the beginning of the year, otherwise risking losing them.

2.10.2. Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade date - the date on which the Company commits to purchase or sell the asset.

Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Available-for-sale financial assets are

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subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method.

Investments in equity that do not have a quoted market price in an active market and whose fair value cannot be measured reliably must not be designated at fair value through profit or loss.

2.11 Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of finished products is determined using the standard cost method.

The cost of production of finished goods and work in progress comprises the design costs, raw materials, direct productive labor force, other direct costs and appropriate indirect production costs (based on normal production capacity). Borrowing costs are not included.

Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Provisions for obsolete and slow-moving items are made where necessary. Individually identified obsolete inventories are provided for at integrated value or derecognized. For slow moving inventories, an age estimate is made for each major category based on inventory turnover.

2.12 Trade receivables

Trade receivables are amounts due from customers for stocks sold or services provided in the ordinary course of business. If they are expected to be collected within one year or less than one year (or later in the normal course of business), they will be classified as current assets. Otherwise, they will be disclosed as non-current assets.

Trade receivables are initially recognized at fair value and subsequently for receivables with a credit period in excess of 6 months, the measurement is performed at amortized cost using the effective interest method less adjustments for impairment.

2.13 Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash in current accounts with banks, other short-term highly liquid investments and original maturity periods of up to three months and bank overdrafts.

2.14 Share capital

Ordinary shares are classified as owner's equity.

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(All amounts are expressed in RON unless otherwise stated)

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Trade payables

Trade payables are obligations to pay for goods or services purchased from suppliers in the ordinary course of business. Trade accounts payable are classified as current liabilities if payment is to be made within a year or less than one year (or later in the normal course of business). Otherwise, they will be disclosed as long-term liabilities. Trade payables are recognized initially at fair value and subsequently liabilities with a maturity of less than 6 months are measured at amortized cost based on the effective interest method.

2.16 Loans

Loans are recognized initially at fair value, net of transaction costs recorded. Borrowings are subsequently stated at amortized cost, with any difference between proceeds (net of transaction costs) and redemption value being recognized in the income statement over the period of the borrowings using the effective interest method.

2.17 Current and deferred income taxes

Tax expense for the period includes current tax and deferred tax. Tax is recognized in the income statement unless it relates to the items recognized in other comprehensive income or directly in owner's equity. In this case, the related tax is recognized in other comprehensive income or directly in owner's equity.

Current income tax expense is calculated on the basis of tax regulations in force at the end of the reporting period. Management periodically evaluates tax return positions regarding situations in which applicable tax regulations are subject to interpretation. Where necessary, provisions are made based on the estimated amounts due to the tax authorities.

Deferred income tax is recognized, based on the balance sheet obligation method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements.

However, the deferred tax arising from the initial recognition of an asset or liability in a transaction other than a business combination and at the time of transaction does not affect the accounting profit and the taxable profit is not recognized. Deferred income tax is determined using tax rates (and laws) in force until the end of the reporting period and to be applied in the period in which the deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only to the extent in which it is probable to obtain in the future taxable profit from which temporary differences will be deducted.

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Deferred tax assets and liabilities are offset when there is legally enforceable right to offset current tax liabilities current tax liabilities and when the deferred tax assets and liabilities relate to the income taxes levied by the same taxation authority or the same taxable entity, or by different taxable entities where there is an intention to offset balances on a net basis.

2.18 Employee benefits

In the normal course of business, the Company makes payments to the Romanian State on behalf of its employees for health, pension and unemployment benefits. All employees of the Company are members of the Romanian State pension scheme, which is a fixed contribution plan. These costs are recognized in the income statement together with the salary expenses.

(a) Obligations relating to pensions

According to the Collective Bargaining, the Company must pay to the employees upon the retirement a compensatory amount equal to the gross salary. The Company recorded a provision for such payments (see Note 5).

(b) Other benefits

The Company incurs personnel costs related to the provisions of benefits such as healthcare services. These amounts primarily include implicit costs of annual medical checks.

(c) Termination of employment benefits

In accordance with the Collective Bargaining, in the event of collective redundancies, the Company will provide compensation as follows, depending on the seniority of such employees:

- For a seniority up to 10 years, 3 basic salaries of the redundant;
- For a seniority between 10 years and 15 years, 5 basic salaries of the redundant;
- For a seniority between 15 and 20 years, 7 basic salaries of the redundant;
- For a seniority between 20 years and 25 years, 9 basic salaries of the redundant;
- For a working experience of 25 years, 12 basic salaries of the redundant;

(d) Profit-sharing plans and bonuses

In addition to wages and salaries, the company provides its employees with additional bonuses, such as payroll bonuses, vouchers and holiday bonuses.

Employees can benefit from an employee profit-sharing fund, with a share of up to 10% of the net profit, as decided by the General Meeting of Shareholders.

2.19 Provisions

Provisions for liabilities are recognized when the Company has a present, legal or constructive obligation, as a result of past events; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and the amount has been reliably estimated.

Where there is more than one similar obligation, the probability that an outflow of resources will be required to settle the obligation is determined by considering the class of obligations as a whole. A provision is recognized even if the probability of an outflow for an individual element is reduced.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax interest rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized in interest expense.

2.20 Revenue recognition

IFRS 15 has replaced previous IFRS requirements for revenue recognition and applies to all revenues from contracts with customers. In accordance with the new Standard, revenue is recognized to reflect the transfer of the goods and services to the customer, at the amount that reflects the price at which the Company expects to be entitled in exchange for these goods and services. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Company.

The Company recognizes revenue when or as the customer obtains control over the goods or services. The Company bases its estimates on historical results, taking into account the type of customer, the type of transaction and the specifics of each commitment.

The Company adopted the new Standard starting January 1, 2018 using the modified retrospective method, with the cumulative adjustments in the initial adoption recognized in the original balance of the retained earnings in the year of the initial adoption. Consequently, the Company did not apply the requirements of IFRS 15 for prior periods disclosed.

According to IFRS 15 Revenue from Contracts with Customers and IFRS 15. Revenue from Contracts with Customers (Clarifications), we have not identified transactions in which the

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

Company acts as an agent. An agent recognizes revenue for its commission on the fee payable in exchange for facilitating the transfer of goods or services.

Initial application of IFRS 15 had no impact on the retained earnings of the Company as of January 1, 2018.

The application of IFRS 15 had no impact on the income statement and the statement of comprehensive income for the year 2018, nor on the financial position and cash flows.

(a) Sale of finished products

The Company manufactures the full range of grinding wheels products, except super grinding wheels.

The main outlet market is domestic, only approx. 5% of deliveries are made to the foreign market.

The Company sells finished products through retailers, direct sales to business customers and through retail through its store.

Sales of finished goods are recognized when the customer obtains control of the goods or services.

The Company operates a warehouse for the sale of grinding wheel products. Sales of products are recognized when the Company sells a product to a customer. Retail sales are usually paid in cash or by bank card.

The finished products are often sold with volume discount. Sales are recorded based on the price stated in the sales and purchase agreement, net of estimated volume discounts and estimated returns at the time of sale. The experience gained is used for the estimation and provisioning for discount and returns. Volume discount is measured based on expected annual purchases. It is considered that there are no financing elements, as sales are made on credit terms of a maximum 60-90 days in line with the normal market practice.

(b) Income from royalties

Income from royalties is recognized on an accrual basis in accordance with the relevant contractual provisions.

The Company has leased property investments in order to generate income.

2.21 Interest income

Interest income is recognized using the effective interest method.

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(All amounts are expressed in RON unless otherwise stated)

2.22 Dividend income

Dividend income is recognized when the right to receive such amounts is established.

2.23 Leases

Leases for property, plant and equipment where the Company undertakes all the risks and benefits of ownership are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between liabilities and finance charges. Rental obligations, net of finance charges, are included in other non-current liabilities. The interest element of the financing cost is recorded in the income statement over the lease term, so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the useful life of the asset.

IFRS 16 which entered into force on January 1, 2019 replaces the existing lease instructions, including *IAS 17 Leases*, *IFRIC 4 Determining whether an Arrangement contains a Lease*, *SIC 15 Operating Leases – Incentives* and *SIC 27 Evaluating the Substance of Transactions in the Legal Form of a Lease*.

The Standard removes the current dual accounting model for lessees and requires companies to account for the majority of leases into the Balance Sheet in a single model, removing the distinction between operating and finance leases. In accordance with IFRS 16, a contract is or contains a lease if it confers the right to control the use of an asset identified for a period of time in return for compensation. For such contracts, the new model requires the lessee to recognize an asset related to the right of use and a liability related to the lease. The assets related to the right of use are amortized over the lease term, and the liability generates interest. Interest expenses are recorded in the profit and loss account for the lease period, being calculated on the remaining balance of the lease liability for each period. For most leases, this will result in higher expenses at the beginning of the lease, even if the lessee pays constant rents. Lessor's accounting remains largely unaffected by the introduction of the new Standard, and the distinction between the operational and finance leases shall be maintained.

In addition, the Company considered the following issues related to contracts that were subject to IFRS 16 as of December 31, 2019:

- No right-of-use asset and no lease liability has been recognized in respect of contracts due to expire within 12 months or less from the date of application;

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- No right-of-use assets or lease liabilities were recognized in connection with low-value contracts (below USD 5,000);

The initial application of IFRS 16 did not result in the recognition of any right-of-use assets nor lease liabilities either as at January 1, 2019 or December 31, 2019.

2.24 Distribution of dividends

The distribution of dividends to Shareholders is recognized as a liability in the Financial Statements in the period in which the dividends are approved by the Company's Shareholders.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

Due to the nature of the activities carried out, the Company is exposed to various risks including: market risk (including currency risk, interest rate risk on fair value, interest rate risk on cash flow and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse impact on the Company's financial performance. The Company does not use derivative financial instruments to hedge certain risk exposures.

(a) *Market risk*

(i) *Currency risk*

The Company is exposed to currency risk through exposure to various currencies, particularly USD and EUR. Currency risk is associated with assets and liabilities recognized, in particular loans.

In April 2018, the Company entered into a framework contract for derivative financial transactions for FORWARD foreign exchange operations to partially hedge foreign exchange risk for USD, therefore the Company started to apply the hedge accounting. As at December 31, 2022, the Company did not have any derivative financial transactions in progress.

The following table shows the Company's exposure to potential changes in exchange rates applied at the end of the reporting period:

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

	As at December 31, 2021			As at December 31, 2022		
	<u>Monetary</u> Financial assets	<u>Monetary</u> Financial liabilities	Net amount on Statement of Financial <u>Assets</u>	<u>Monetary</u> Financial assets	<u>Monetary</u> Financial liabilities	Net amount on Statement of Financial <u>Assets</u>
RON	7,992,461	7,488,345	504,116	7,939,479	26,260,088	(18,320,609)
EUR	143,960	800,456	(656,496)	276,961	2,822,937	(2,545,976)
USD	17,792	0	17,792	43,046	0	43,046
Total	<u>8,154,213</u>	<u>8,288,801</u>	<u>(134,588)</u>	<u>8,259,486</u>	<u>29,083,025</u>	<u>(20,823,539)</u>

The above analysis includes only monetary assets and liabilities items.
The following table shows how the items in the Income Statement and the Statement of changes equity would be affected by a 10% change in the exchange rates used by the National Bank of Romania at the Balance Sheet in relation to the Company's functional currency, with all other variables constant, as follows:

	<u>2022</u>	<u>2021</u>
EUR	5.4421	5.4429
USD	5.0981	4.8078

Impact on profit or loss account:

	<u>2022</u>
EUR increasing by 10%	(254,598)
	<u>2021</u>
EUR increasing by 10%	(65,650)

(ii) Interest rate risk

The Company is exposed to interest rate risk through its long and short-term loans, most of which have variable rates based on to ROBOR index for RON loans, EURIBOR for loans in EUR respectively.

The Company has entered into interest-bearing loan agreements with Unicredit Bank, Banca Comerciala Romana and Raiffeisen Bank.

The status of committed appropriations was the following:

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(All amounts are expressed in RON unless otherwise stated)

- As at December 31, 2021

<u>Financial institution</u>	<u>Currency</u>	<u>Interest rate</u>	<u>Threshold</u>	<u>Loan balance as at December 31, 2021 (RON)</u>
Unicredit Bank	RON	Negotiated	800,000	0
Banca Comerciala Romana	RON/ EUR	Negotiated	3,000,000	538,303
Raiffeisen Bank	RON/ EUR	Negotiated	4,350,000	1,481,335
Raiffeisen Bank - long term	RON	Negotiated	2,235,000	541,074
				1,616,946
Total				4,177,658

- As at December 31, 2022

<u>Financial institution</u>	<u>Currency</u>	<u>Interest rate</u>	<u>Threshold</u>	<u>Loan balance as at December 31, 2022 (RON)</u>
Unicredit Bank	RON	Negotiated	800,000	158,585
Banca Comerciala Romana	RON/ EUR	Negotiated	3,000,000	1,488
Raiffeisen Bank	RON/ EUR	Negotiated	4,350,000	1,141,823
Raiffeisen Bank - long term	RON	Negotiated	2,235,000	430,815
				1,165,705
Total				2,898,416

At December 31, 2022, a potential increase in the interest rate of 1% would have an impact of RON 1,174 on the income statement.

(b) Credit risk

Credit risk arises mainly from cash and cash equivalents and trade receivables. The Company has developed a number of policies the application of which ensures that the sales of products and services are sold to adequate customers. The carrying amount of receivables, net of provisions for doubtful debts, represents the maximum exposure to credit risk.

The credit risk of trade receivables that are not provisioned but not past due, can be assessed through internal analysis since there is no external information about risk indicators for customers.

December 31, 2021December 31, 2022

NOTES TO FINANCIAL STATEMENTS

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Customers for which the recovery of receivables is under 30 days	2,357,616	3,071,635
Customers for which the recovery of receivables is between 30 and 90 days	3,419,762	2,132,502
Customers for which the recovery of receivables is between 90 and 180 days	25,387	582,568
Total	<u>5,802,765</u>	<u>5,786,706</u>

Although the collection of receivables may be affected by economic factors, Management believes that there is not a significant risk of loss in excess of the provisions already recorded.

Cash is invested in financial institutions which, at the time of investment, were considered to have a minimal risk of default.

Bank's financial indicator	Bank	<u>December 31, 2021</u>	<u>December 31, 2022</u>
Baa1	Raiffeisen Bank	2,031	3,389
Baa1	BRD	5,159	7,825
n/a	Treasury	2,744	9,537
Baa1	BCR	82,780	246,585
Bbb	Unicredit Tiriac Bank	17,792	0
Bb	CEC Bank	765,364	765,364
n/a	Eximbank	0	1,000
Total		<u>875,870</u>	<u>1,033,700</u>

Where:

Financial institutions rated with indicator D have moderate financial strength, with a possible need for external support, and the financial institutions rated with indicator E have very modest financial strength with a high probability of needing external support on a regular basis.

(c) *Liquidity risk*

Prudent liquidity risk management included maintaining sufficient cash and the availability of funding through an appropriate level of committed credit facilities.

Cash flows forecasting is performed by the Company's finance department, which monitors projections of the Company's liquidity needs to ensure that there is sufficient cash to meet the operational requirements, while always maintaining a sufficient margin in undrawn committed lending facilities, so the Company does not breach the limits of loans or arrangements relating to loans for all credit facilities.

The maturity of financial liabilities is reviewed in the table below:

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

	Up to <u>1 year</u>	Between <u>1 and 2 years</u>	Between <u>2 and 5 years</u>	Over <u>5 years</u>
As at December 31, 2021				
Loans (Note 14)	3,011,953	451,241	714,464	-
Financial lease (Note 15)	-	-	-	-
Trade payables and of other nature (Note 16)	4,096,970	-	-	-
Current income tax	14,173			
Total	<u>7,123,096</u>	<u>451,241</u>	<u>714,464</u>	<u>-</u>
	Up to <u>1 year</u>	Between <u>1 and 2 years</u>	Between <u>2 and 5 years</u>	Over <u>5 years</u>
As at December 31, 2022				
Loans (Note 14)	2,183,952	451,241	263,224	-
Financial lease (Note 15)	577,192	520,511	1,201,391	-
Trade payables and of other nature (Note 16)	23,885,514	-	-	-
Current income tax	-	-	-	-
Total	<u>26,646,658</u>	<u>971,752</u>	<u>1,464,615</u>	<u>-</u>

3.2 Capital management

Company's capital management objectives aim at protecting the ability of the Company to continue as a going concern in the future, so as to provide returns to Shareholders and benefits to other stakeholders and maintain an optimal capital structure to reduce the cost of capital.

Like other companies operating in this sector, the Company monitors the capital on the basis of debt-to-equity ratio indicator. This indicator is calculated by dividing the net debt to the total capital. Net debt is calculated by subtracting from the total loans (including "current and long-term loans", as shown in the statement of financial position) cash and cash equivalents. Total capital is calculated by adding the net debt to the "owners' equity" in the statement of financial position.

In 2022, the Company's strategy, unchanged from 2021, consisted in reducing the debt-to-equity ratio, mainly through repayments to credit lines and on the investment loan.

Debt-to-equity ratio indicators as of December 31, 2022 and 2021 were as follows:

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(All amounts are expressed in RON unless otherwise stated)

	<u>2021</u>	<u>2022</u>
Total loans	4,177,658	2,898,417
Less: cash and cash equivalents	900,973	1,066,282
Net liability	3,276,685	1,832,135
 Total owner's equity	 80,519,709	 80,630,068
 Total owners' equity and net liabilities	 <u>83,796,394</u>	 <u>82,462,203</u>
Debt-to-equity ratio	4%	2%

3.3 Fair value measurement

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The fair value of financial instruments that are not traded in an active market is determined by using the valuation techniques.

The carrying amounts, net of allowances, of trade receivables and payables are considered to approximate their fair values. The fair value of financial liabilities with a settlement period in excess of 6 months is estimated by discounting the future contractual cash flows at the current interest rate on the market available to the Company for similar financial instruments.

Fair value measurement is determined using the following hierarchy:

- a) Level 1 - prices listed in active markets for identical assets and liabilities
- b) Level 2 - data other than listed prices that are observable for the asset or liability
- c) Level 3 - data for assets and liabilities that are not based on observable market data

Presentation at the fair value of financial assets and financial liabilities as of December 31, 2022:

	Level 1	Level 2	Level 3
Financial assets:			
Cash and cash equivalents	1,066,282	-	
Receivables and other receivables		-	7,082,524
-			

Financial liabilities:

Loans	-	2,898,417	-
Trade and other payables	-	23,885,514	-
Current income tax	-	-	-

Presentation at the fair value of financial assets and financial liabilities as at December 31, 2021:

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	Level 1	Level 2	Level 3
Financial assets:			
Cash and cash equivalent	900,973	-	-
Receivables and other receivables	-	7,253,240	-
Financial liabilities:			
Loans	-	4,177,658	-
Trade and other payables	-	4,096,970	-
Current income tax	-	14,173	-

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the given circumstances.

4.1 Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income tax

The Company is subject to income tax in a single jurisdiction (Romania). There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for expected tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts initially recorded, such differences will affect the assets and liabilities of current and deferred income tax in the period in which this determination is performed.

(b) Pension-related benefits

The present value of pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any change in these assumptions have an impact on the carrying amount of pension obligations. The Company uses the National Bank of Romania benchmark interest rate as the discount rate for pension obligations at the end of each year.

5. FIRST-TIME APPLICATION OF IFRS

As at December 31, 2012 the Company prepared its first Financial Statements under IFRS. In preparing the statement of financial position according to IFRS as at January 1, 2011 and December 31, 2011, the Company adjusted amounts previously reported in Financial Statements prepared in accordance with the Order of the Minister of Public Finance 3055/2009. The main restatement adjustments under IFRS of Financial Statements in accordance with the Order of the Minister of Public Finance 3055 were as follows:

a) Property, plant and equipment

The Company has not calculated depreciation expense for property, plant and equipment under conservation in prior periods. On adoption of IFRS, property, plant and equipment in conservation will continue to be depreciated over the period in which it is unused.

In order to present them at the fair value, the Company land has been subject to the revaluation process. This revaluation was conducted at the end of 2010 and at the end of 2011 and 2012.

The remaining categories of property, plant and equipment did not record significant fluctuations in fair value until the end of 2012, their results are appropriately reflected in the Financial Statements.

b) Investment property

At the date of adoption of IFRS, the Company applies the fair value method of accounting to buildings classified in this category. As such, the amortization charge is no longer recognized, and investment property is subject to a periodic revaluation for the recognition at fair value. The result of the revaluation will be recognized in the Income and Expenditure Statement (Income Statement).

c) Provision for leave days not taken

The Company estimates a provision for untaken holidays in relation to the Financial Year just ended to cover the salary expense for the period.

d) Provision for pensions

In accordance with the Collective Bargaining, each employee receives compensation equal to a salary upon retirement. In order to recognize this expense, the Company records a provision over the entire period that the employee works within the Company. The value of this provision is updated using the National Bank of Romania's reference interest rate.

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e) Recognition of a deferred tax asset or liability (IAS 12)

When adopting the IFRS, the Company calculates and records the deferred tax impact, determined based on temporary differences between accounting and tax bases of balance sheet items.

6. PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment are as follows:

	<u>Land and buildings</u>	<u>Equipment and vehicles</u>	<u>Furniture, fittings and equipment</u>	<u>Fixed assets in progress</u>	<u>Total</u>
As at January 1, 2021					
Cost or valuation	70,388,380	35,261,029	240,181	3,641,476	109,531,066
Accumulated amortization	(15,902,419)	(28,252,369)	(164,399)	-	(44,319,187)
Net book value	<u>54,485,961</u>	<u>7,008,660</u>	<u>75,782</u>	<u>3,641,476</u>	<u>65,211,879</u>
For the year ended December 31, 2021					
	<u>Land and buildings</u>	<u>Equipment and vehicles</u>	<u>Furniture, fittings and equipment</u>	<u>Fixed assets in progress</u>	<u>Total</u>
Book value net initial	54,485,961	7,008,660	75,782	3,641,476	65,211,879
Inflows	-	606,720	9,402	1,846,527	2,462,649
Transfers	15,390	3,152,564	6,212	(3,174,166)	-
Gain on revaluation	-	-	-	-	-
Loss on revaluation	-	-	-	-	-
Outflows, net	-	-	(27,594)	(248,250)	(275,844)
Transfers to investment property	-	-	-	-	-
Expense on amortization	(790,360)	(1,236,160)	(9,349)	-	(2,035,869)
Amortization of fixed means under conservation	<u>(58,652)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(58,652)</u>
Book value net final	<u>53,652,339</u>	<u>9,531,784</u>	<u>54,453</u>	<u>2,065,587</u>	<u>65,304,163</u>

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

As at December 31, 2021	Land and buildings	Equipment and vehicles	Furniture, fittings and equipment	Fixed assets in progress	Total
Cost or valuation	70,247,558	38,205,242	213,709	2,065,587	110,732,096
Accumulated amortization	(16,595,219)	(28,673,458)	(159,256)	-	(45,427,933)
Net book value	<u>53,652,339</u>	<u>9,531,784</u>	<u>54,453</u>	<u>2,065,587</u>	<u>65,304,163</u>

For the year ended December 31, 2022

	Land and buildings	Equipment and vehicles	Furniture, fittings and equipment	Fixed assets in progress and payments on accounts	Total
Book value net initial	53,652,339	9,531,784	54,453	2,065,587	65,304,163
Inflows	-	10,917	-	20,684,095	20,695,012
Transfers	9,821,550	33,348	-	(9,854,898)	-
Gain on revaluation	-	-	-	-	-
Loss on revaluation	-	-	-	-	-
Outflows, net	-	(108,358)	-	(1,311,572)	(1,419,930)
Transfers to investment property	(3,970,954)	-	-	-	(3,970,954)
Transfers to available-for- sale assets	(47,311,836)	-	-	-	(47,311,836)
Expense on amortization	(788,620)	(1,420,917)	(8,307)	-	(2,217,844)
Amortization of fixed means under conservation	<u>(49,439)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(49,439)</u>
Book value net final	<u>11,353,040</u>	<u>8,046,774</u>	<u>46,146</u>	<u>11,583,212</u>	<u>31,029,172</u>

As at December 31, 2022	Land and buildings	Equipment and vehicles	Furniture, fittings and equipment	Fixed assets in progress and	Total
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NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

				<u>payments</u>	
				<u>on account</u>	
Cost or valuation	13,084,758	34,944,450	201,786	11,583,212	59,814,206
Accumulated amortization	<u>(1,731,718)</u>	<u>(26,897,676)</u>	<u>(155,640)</u>	-	<u>(28,785,034)</u>
Net book value	<u>11,353,040</u>	<u>8,046,774</u>	<u>46,146</u>	<u>11,583,212</u>	<u>31,029,172</u>

Fair value of property, plant and equipment

An independent valuation of land, buildings and other categories of property, plant and equipment was conducted by an independent valuer to determine the fair value of property, plant and equipment as at December 31, 2018. The net revaluation surplus has been recorded in other comprehensive income and is included in "Other reserves" in owners' equity.

Presentation of the fair value of property, plant and equipment as at December 31, 2022:

	Level 1	Level 2	Level 3	
Land	-	9,318,663	-	
Buildings and special constructions		-	2,034,377	-
Total land and buildings	-	11,353,040	-	
Equipment and vehicles	-	8,046,774	-	
Furniture, fittings and equipment	-	46,146	-	

Presentation of the fair value of property, plant and equipment as at December 31, 2021:

	Level 1	Level 2	Level 3	
Land	-	43,602,422	-	
Buildings and special constructions		-	10,049,917	-
Total land and buildings	-	53,652,339	-	
Equipment and vehicles	-	9,531,784	-	
Furniture, fittings and equipment	-	54,453	-	

Vehicles and equipment include the following amounts for which the Company is the lessee, within financial leases:

	<u>2021</u>	<u>2022</u>
Cost	0	0
Accumulated depreciation	0	0
Net book value	<u>0</u>	<u>0</u>

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

For committed appropriations, the Company has recorded the following guarantees over the property, plant and equipment:

Buildings

	<u>2021</u>	<u>2022</u>
Cost	11,838,113	0
Accumulated depreciation	<u>5,162,480</u>	<u>0</u>
Net book value	<u>6,675,633</u>	<u>0</u>

Related land:

	<u>2021</u>	<u>2022</u>
Cost	8,536,060	3,765,120

- As at December 31, 2022, the following property, plant and equipment (land and buildings), current assets and available bank accounts are mortgaged under the loan agreements the Company has entered into with the financial institutions Unicredit Bank Cluj, Banca Comerciala Romana Cluj and Raiffeisen Bank Cluj:

<u>No.</u>	<u>Subject matter of mortgage or pledge</u>	<u>Value of mortgage or pledge</u>	<u>Beneficiary of mortgage or pledge</u>	<u>Mortgage rank</u>
1.1	Land located outside the built-up area of Feleacu Commune, Valcele Village, Cluj County recorded in Land Register 50468 of Feleacu (53,029 sq m) and in Land Register 50546 of Feleacu (27,700 sq m)	RON 3,000,000 + related interest and fees	BANCA COMERCIALA ROMANA	I
2.1	Mortgage or pledge on the inventory of raw materials	RON 3,000,000 + related interest and fees	BANCA COMERCIALA ROMANA	-
2.2.	Mortgage on trade receivables under the mortgage agreement	RON 4,350,000 + related interest and fees	RAIFFEISEN BANK	-
2.3	Mortgage or pledge on the inventory of finished products	RON 800,000 + related interest and fees	UNICREDIT BANK	-
2.4	Pledge or mortgage on current and future available funds / credit balances on present and future accounts and sub-accounts opened with the bank under the Agreement pledge, registered with the Electronic Archive of Pledges	RON 800,000 + related interest and fees	UNICREDIT BANK	-
2.5	Pledge or mortgage on current and future available funds / credit balances on present and future accounts and sub-accounts opened with the bank under the Agreement pledge, registered with the Electronic Archive of Pledges	RON 3,000,000 + related interest and fees	BANCA COMERCIALA ROMANA	-

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

2.6	Pledge or mortgage on current and future available funds / credit balances on present and future accounts and sub-accounts opened with the bank under the Agreement pledge, registered with the Electronic Archive of Pledges	RON 4,350,000 + related interest and fees	RAIFFEISEN BANK	-
2.7.	Pledge or mortgage on current bank accounts, mortgage on the purchased equipment	RON 2,235,000 + related interest and fees	RAIFFEISEN BANK	-

The carrying amount that would have been recognized had the assets would have been accounted for under the cost model is shown in the table below. This cost represents the cost at the date of transition to IFRS.

<u>Description</u>	<u>Land and buildings</u>	<u>Equipment and vehicles</u>	<u>Furniture, fittings and equipment</u>	<u>Fixed assets in progress and payments on account</u>	<u>Total</u>
<u>Year ended as at December 31, 2021</u>					
Cost	50,003,374	30,122,885	213,709	2,065,587	82,405,555
Accumulated depreciation	<u>13,820,237</u>	<u>21,439,771</u>	<u>159,256</u>	<u>0</u>	<u>35,419,264</u>
Net book value	<u>36,183,137</u>	<u>8,683,114</u>	<u>54,453</u>	<u>2,065,587</u>	<u>46,986,291</u>
<u>Year ended as at December 31, 2022</u>					
Cost	12,560,200	27,633,192	201,786	11,583,213	51,978,391
Accumulated depreciation	<u>1,436,410</u>	<u>20,248,862</u>	<u>155,640</u>	<u>0</u>	<u>21,840,912</u>
Net book value	<u>11,123,790</u>	<u>7,384,330</u>	<u>46,146</u>	<u>11,583,213</u>	<u>30,137,479</u>

The sales contract was concluded with the reservation of ownership right no. 966/March 24, 2022, through which the land with constructions located in Cluj-Napoca, P-ta 1 Mai nr. 3 is sold, according to the resolution of the Extraordinary General Meeting of Shareholders No. 1/January 5, 2022. As of December 31, 2022, land and buildings amounting to RON 54,641,972 were transferred to assets held for sale, as follows:

- land transferred to available-for-sale assets: RON 38,899,911
- constructions transferred to available-for-sale assets in the category of property, plant and equipment: RON 8,411,925
- constructions transferred to available-for-sale assets in the category of property investments: RON 7,062,101
- land transferred to available-for-sale assets in the category of property investments: RON 268,035

The Sales and Purchase Agreement no. 1070/April 4, 2022 was entered into, through which the land with constructions located in Cluj-Napoca, B-dul Muncii nr. 18 is sold, according to the

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

Resolution of the Extraordinary General Meeting of Shareholders No. 1/January 5, 2022, in order to relocate the activity of the Company.

7. INTANGIBLE FIXED ASSETS

Trademarks and Licenses**As at January 1, 2021**

Cost or valuation	242,489
Accumulated depreciation	<u>(242,489)</u>
Net book value	<u>0</u>

For the year ended December 31, 2021

Initial net book value	0
Inflows	276
Amortization charge	<u>(207)</u>
Final net book value – intangible assets	<u>69</u>

As at December 31, 2021**As of January 1, 2022**

Cost or valuation	242,765
Accumulated depreciation	<u>(242,696)</u>
Net book value	<u>0</u>

For the year ended December 31, 2022

Initial net book value	69
Inflows	12,175
Amortization charge	<u>(3,451)</u>

Final net book value – intangible assets **8,793**

As at December 31, 2022

Intangible assets in progress - initial	0
Inflows	0
Outflows	0
Book value – intangible assets in progress	<u>0</u>

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

8. INVESTMENT PROPERTY

As at January 1, 2021	<u>Buildings + Land</u>
Cost or measurement	7,124,302
Net book value	7,124,302
Inflows	-
Earnings / (loss) from measurement at fair value	-
Outflows	-
Net final book value	7,124,302
As at December 31, 2021	
Cost or measurement	7,124,302
Net book value	7,124,302
For the year ended December 31, 2022	<u>Buildings + Land</u>
Inflows (transfer from property, plant and equipment)	3,970,954
Earnings / (loss) from measurement at fair value	-
Outflows (transfer to held-for-sale assets)	7,330,136
Net final book value	3,765,120
As at December 31, 2022	
Cost or measurement	3,765,120
Net book value	3,765,120

9. FINANCIAL INSTRUMENTS

	<u>December 31, 2021</u>	<u>December 31, 2022</u>
Assets		
Receivables and other receivables	7,253,240	7,193,204
Cash and cash equivalents	<u>900,973</u>	<u>1,066,282</u>
Total monetary financial assets	<u>8,154,213</u>	<u>8,259,486</u>
Liabilities		
Loans	4,177,658	5,197,511

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

Trade payables and of other nature	4,096,970	23,885,514
Current income tax	<u>14,173</u>	<u>0</u>
Total Monetary Financial Liabilities	<u>8,288,801</u>	<u>29,083,025</u>

Accounting classifications and fair values:

December 31, 2022 (IFRS 9) total	Note	Amortized cost (IAS 39)	Total carrying	Fair value
Financial assets (RON)				
Cash and cash equivalents	12	1,066,282	1,066,282	1,066,282
Receivables and other receivables	11	7,193,204	7,193,204	
Total Financial Assets		8,259,486	8,259,486	8,259,486
Financial liabilities (RON)				
Loans	14	5,197,511	5,197,511	5,197,511
Trade payables and of other nature	16	23,885,514	23,885,514	23,885,514
Current income tax	0	0	0	0
Total Financial Liabilities		29,083,025	29,083,025	29,083,025

10. INVENTORY

	<u>December 31, 2021</u>	<u>December 31, 2022</u>
Materials	4,924,710	4,607,977
Inventory items	89,738	58,250
Finished Products	10,105,763	11,974,289
Goods	351,517	310,355
Provisions on impairment of inventories	<u>(230,638)</u>	<u>(193,041)</u>
Total inventories	<u>15,241,090</u>	<u>15,241,090</u>

	<u>December 31, 2021</u>	<u>December 31, 2022</u>
As at January 1	<u>152,928</u>	<u>230,638</u>
Impairment adjustments during the year (Note 15)	92,051	21,109
Reversed	<u>(14,341)</u>	<u>(58,706)</u>

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

As at December 31	<u>230,638</u>	<u>193,041</u>
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11. TRADE RECEIVABLES AND OTHER RECEIVABLES

	<u>December 31, 2021</u>	<u>December 31, 2022</u>
Trade receivables	6,696,735	6,466,417
Adjustments on impairment of receivables on customers	<u>(437,613)</u>	<u>(415,012)</u>
Trade receivables and other receivables	<u>6,259,122</u>	<u>6,051,405</u>
Prepayments	47,376	494,362
Other receivables	965,764	432,850
Other non-current receivables (over 3 months)	438	103,907
Adjustments on impairment of other receivables	(19,460)	0
Current income tax to be recovered	<u>0</u>	<u>110,680</u>
Total	<u>994,118</u>	<u>1,141,799</u>
Total Receivables after provisions set aside	<u>7,253,240</u>	<u>7,193,204</u>

Trade receivables and other receivables are denominated in the following currencies:

	<u>December 31, 2021</u>	<u>December 31, 2022</u>
RON	7,111,240	7,030,373
EUR	142,000	162,831
Other currencies (USD)	-	-
Total Receivables	<u>7,253,240</u>	<u>7,193,204</u>

The analysis of receivables by maturity is shown in the table below:

<u>December 31, 2021</u>	<u>December 31, 2022</u>
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NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

During the maturity period	5,802,765	5,786,706
Maturity period exceeded but without the risk of impairment	1,450,475	1,406,498
Total	<u>7,253,240</u>	<u>7,193,204</u>

The analysis on the seniority of outstanding receivables is as follows:

	<u>December 31, 2021</u>	<u>December 31, 2022</u>
Up to 3 months	1,341,626	1,330,706
Between 3 and 6 months	132,838	108,342
More than 6 months	<u>433,084</u>	<u>382,462</u>
Adjustments for impairment of receivables	<u>(457,073)</u>	<u>(415,012)</u>
Total	<u>1,450,475</u>	<u>1,406,498</u>

Within the outstanding receivables, an amount of RON 138,109 represents amounts paid to employees for sick leave and indemnities and which are recovered from the Budget of the Single National Health Insurance Fund according to Article 38 of Government Emergency Ordinance 158/2005 and which have not been transferred to us by December 31, 2022, and the reimbursement requests were submitted at least 30 days before the end of the Financial Year.

The breakdown by seniority ranges of these amounts is shown below:

- The amount of RON 77,363 with maturity exceeded up to 3 months, represents the amount corresponding to reimbursement applications submitted in September, October and November 2022 and not collected until December 31, 2022
- The amount of RON 47,351 with maturity exceeded between 3 and 6 months, represents the amount corresponding to reimbursement applications submitted between June - August 2022 and not collected until December 31, 2022.
- The amount of RON 13,395 with maturity exceeded over 6 months ,represents the amount corresponding to a reimbursement application submitted in May 2022 and not collected until December 31, 2022.

The Company recorded adjustments for impairment of receivables at the amount of expected credit losses, calculated based on the expected loss rates.

For the amounts to be collected from the Budget of the Single National Health Insurance Fund, we have not recorded adjustments for impairment of receivables, because although they are collected with an increasing delay, we consider it a certainty to collect these amounts until the end of 2023.

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

The analysis of adjustment movement for the impairment of receivables:

	<u>December 31, 2021</u>	<u>December 31, 2022</u>
As at January 1	390,830	457,073
Receivable impairment adjustment during the year	83,187	83,187
Reversed impairment adjustments	<u>(16,944)</u>	<u>(16,944)</u>
As at December 31	<u>457,073</u>	<u>415,012</u>

12. CASH AND CASH EQUIVALENTS

	<u>December 31, 2021</u>	<u>December 31, 2022</u>
Cash in hand and in bank	40,620	188,947
Performance bonds under 3 months	-	-
Cash collateral at the bank – (letters of credit, securities)	-	575
Other cash equivalents	13,853	21,987
Short-term deposits	<u>846,500</u>	<u>854,773</u>
Total	<u>900,973</u>	<u>1,066,282</u>

	<u>December 31, 2021</u>	<u>December 31, 2022</u>
Cash in hand and in bank in RON	38,976	31,771
Cash in hand and in bank in USD	1,504	43,046
Cash in hand and in bank in EUR	140	114,130
Short-term deposits in RON	846,500	855,348
Short-term deposits in EUR	-	-
Funds to be collected RON	<u>13,853</u>	<u>21,987</u>
Total	<u>900,973</u>	<u>1,066,282</u>

<u>Bank</u>	<u>December 31, 2021</u>	<u>December 31, 2022</u>
Raiffeisen Bank	2,031	3,389
BRD	5,159	7,825
Treasury	2,744	9,537
BCR	1,644	157,176
Unicredit Ţiriac Bank	17,792	0
Eximbank	0	425
Cash in hand and other	25,103	32,582

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

cash equivalents		
Short-term deposits - EXIMBANK - collateral deposit for securities	0	575
Short-term deposits - BCR – manager securities	81,136	89,409
Short-term deposits – CEC BANK - dividends recorded	765,364	765,364
Short-term deposits – CEC BANK - securities	-	-
	<u>900,973</u>	<u>1,066,282</u>

In 2016, the amount of RON 416,440 representing dividends to the Shareholders: SCOP LINE SA (RON 213,645), BENJAMIN UNITED SRL (RON 342), ALFA LINE SA (RON 90,422) and MATTERA COM SA (RON 112,031) was recorded with CEC BANK SA.

In 2018, the amount of RON 158,602 representing dividends to the Shareholders: SCOP LINE SA (RON 81,367), BENJAMIN UNITED SRL (RON 214), ALFA LINE SA (RON 34,437) and MATTERA COM SA (RON 42,584) was recorded with CEC BANK SA.

In 2019, the amount of RON 190,322 representing dividends to the Shareholders: SCOP LINE SA (RON 97,641), BENJAMIN UNITED SRL (RON 256), ALFA LINE SA (RON 41,325) and MATTERA COM SA (RON 51,100) was recorded with CEC BANK SA.

The amounts were recorded on the basis of an Ordinance issued on September 25, 2015 by the Directorate for the Investigation of Organized Crime and Terrorism in File Case No. 394/D/P/2007.

	<u>December 31, 2021</u>	<u>December 31, 2022</u>
Cash and cash equivalent	900,973	1,066,282
Total current share of loans	<u>3,011,953</u>	<u>2,183,952</u>
	<u>3,912,926</u>	<u>3,250,234</u>

13. OWNERS' EQUITY

	<u>December 31, 2021</u>	<u>December 31, 2022</u>
Share capital	12,313,405	12,313,405
Adjustments in Share Capital	<u>=====</u>	<u>=====</u>

	<u>Value</u>	<u>No. of Shares</u>	<u>Value share (RON)</u>	<u>Percentage of Ownership (%)</u>
S.C. CARBO EUROPE S.R.L.	9,564,757.50	3,825,903	2.5	77.6776

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

Legal entities	1,660,885.00	664,354	2.5	13.4884
Individuals	1,087,762.50	435,105	2.5	8.8340
Total	<u>12,313,405.00</u>	<u>4,925,362</u>		<u>100</u>

At the date of transition to IFRS, the Company calculated and recognized the hyperinflationary economy effect by applying IAS 29.

The restatement was calculated using the evolution of the Consumer Price Index ("CPI") published by the National Institute of Statistics ("NIS"). The indices used, calculated on the basis of the corresponding prices for December 1990 (1990 = 100) for 13 years and conversion factors were the following:

<u>Month, Year</u>	<u>Movements in consumer price indices</u>	<u>Index</u>	<u>Conversion Factor</u>
February 1991	7.0%	123	1,363
March 1996	1.7%	8,291	20.19
February 2001	2.3%	101,419	1.65
August 2003	0.28%	157,446	1.06

DIVIDENDS

During 2022, the Company did not appropriate any dividends to owners.

14. LOANS

	<u>December 31, 2021</u>	<u>December 31, 2022</u>
Loans from banks	4,177,658	2,898,417
Loans from Shareholders	-	-
Total loans	<u>4,177,658</u>	<u>2,898,417</u>
Current share of loans	3,011,953	2,183,952
Long-term share – loans from banks	1,165,705	714,465
	<u>4,177,658</u>	<u>2,898,417</u>

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

In July 2020, the Company signed with RAIFFEISEN BANK S.A. a term credit facility agreement amounting to RON 2,235,000 for a period of 5 years, to finance 80% of the investment representing the purchase of new equipment. As at December 31, 2022, the balance of this loan was RON 1,165,705, with maturity on June 2025.

The collaterals for this facility are: the mortgage on current accounts opened at the bank, the mortgage on the equipment subject to the investment.

	<u>December 31, 2021</u>	<u>December 31, 2022</u>
RON	3,636,583	2,467,602
EUR	<u>541,075</u>	<u>430,815</u>
	<u>4,177,658</u>	<u>2,898,417</u>

The effective average annual interest rate on bank loans for the financial year 2022 was of 3.32% (for the year 2021 was 2.17%).

15. FINANCIAL LEASE

	<u>December 31, 2021</u>	<u>December 31, 2022</u>
Up to one year	0	514,990
Between 1 year and 5 years	<u>0</u>	<u>1,721,902</u>
Current value of financial lease	<u>0</u>	<u>2,236,892</u>

	<u>December 31, 2021</u>	<u>December 31, 2022</u>
Up to one year	0	536,344
Between 1 year and 5 years	0	1,752,830
Future financing costs	<u>0</u>	<u>(52,282)</u>
Current value of financial lease	<u>0</u>	<u>2,236,892</u>

The effective average annual interest rate of the finance lease for the year 2022 was of 1.25% (for the financial year 2021 was 0%).

The Rental Contract no.1135/April 29, 2022 was entered into, through which a facility located in Cluj-Napoca, str. Orastiei nr.10 was rented, in order to relocate a production section. The contract was treated and presented as a financial lease according to IFRS 16.

16. SUPPLIERS AND OTHER CREDITORS

	<u>December 31, 2021</u>	<u>December 31, 2022</u>
Suppliers	1,598,587	1,937,934
Payables regarding personnel	540,030	522,686
Interest payable	1,895	924
Dividends payable	924,593	924,041

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

VAT payable	388,294	35,144
Other payables to the State	492,656	497,306
Deferred income	0	0
Creditor customers and sundry creditors	140,648	19,962,827
Excess inventory such as non-current assets and investment grants	10,267	4,652
Total	4,096,970	23,885,514
	<u>December 31, 2021</u>	<u>December 31, 2022</u>
EUR	259,381	63,028
USD	-	-
RON	3,798,541	23,822,486
	<u>4,096,970</u>	<u>23,885,514</u>

17. ANALYSIS OF REVENUE BY CATEGORY

	<u>December 31, 2021</u>	<u>December 31, 2022</u>
Revenue from sale of finished goods	32,333,963	32,600,510
Revenue from sale of goods	283,437	382,080
Income from services provided	128,081	173,600
Total	<u>32,745,481</u>	<u>33,156,190</u>

Other operating income

	<u>December 31, 2021</u>	<u>December 31, 2022</u>
Gain / (loss) from sale of fixed assets	130,444	(69,585)
Other income	20,992	7,310
Gain on revaluation of property, plant and equipment	0	0
Gain on revaluation of property investment at fair value	0	0
Rental income	1,233,442	1,255,086
Total	<u>1,384,878</u>	<u>1,192,811</u>

In 2022, no subsidies were collected.

18. WAGES AND OTHER RELATED COSTS

	<u>December 31, 2021</u>	<u>December 31, 2022</u>
Salary expenses	14,344,596	17,020,716

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

Expenditure on salary contributions	439,250	512,222
Expenditure on meal vouchers	<u>724,980</u>	<u>635,860</u>
Total	<u>15,508,826</u>	<u>18,168,798</u>

	December 31, 2021	December 31, 2022
Average number of employees	171	161
Number of employees	176	164
Salary of administrative staff (managers, including related social security contributions)	1,453,871	1,412,393
Board of Directors (including related social security contributions)	517,565	2,835,057

19. OTHER OPERATING EXPENSES

	<u>December 31, 2021</u>	<u>December 31, 2022</u>
Other expenditure on services provided by third parties	824,713	1,017,562
Expenditure on royalties and rents	24,821	0
Utilities expenses	2,487,131	3,465,826
Expenditure on maintenance and repairs	40,493	6,536
Insurance expenses	104,159	107,653
Expenditure on damages and penalties	387	101
Other provisions expense / (reversal)	16,577	(14,188)
Net provision for receivables expense / (reversal)	66,243	(42,062)
Postage charges and other fees	37,936	46,443
Expenses on commissions and fees	903	0
Entertainment, advertising and publicity expenses	16,053	10,338
Net (gain) / loss from exchange differences from operating activities	2,794	55,812
Net provision for slow moving inventories or impaired expense / (reversal)	77,710	(37,596)

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

Banking and similar charges	31,720	31,736
Travel expenses	63,608	97,414
Other operating expenses	866,045	998,186
Shipping costs	<u>148,337</u>	<u>153,639</u>
Total	<u>4,809,630</u>	<u>5,897,400</u>

In 2022, an audit fee of EUR 6,000 was paid to the financial auditor for auditing the Financial Statements as at December 31, 2021

20. FINANCIAL RESULT

	<u>December 31, 2021</u>	<u>December 31, 2022</u>
Interest expense		
- Loans	85,737	117,444
- Financial lease	0	0
Net result from exchange rate differences	<u>19,821</u>	<u>(38,195)</u>
Financial costs	<u>105,558</u>	<u>79,249</u>
Interest income	3	96,836
Other financial income	<u>0</u>	<u>0</u>
Financial revenues	<u>9</u>	<u>9</u>
Net financial result	<u>(105,555)</u>	<u>17,587</u>

21. CORPORATE INCOME TAX

Description	<u>December 31, 2021</u>	<u>December 31, 2022</u>
Gross result	1,441,211	26,067
Tax rate according to national regulations	16%	16%
Items similar to income	831,891	797,506
Items similar to expenses	(20,160)	(19,940)
Deductions	(2,625,797)	(2,686,417)
Non-taxable income	(106,584)	(193,344)
Non-deductible expenses	2,624,627	2,450,107
Total	2,145,188	373,979
Tax expense	(343,230)	(59,837)
Sponsorship / patronage amounts	<u>68,646</u>	<u>11,967</u>
Total	<u>(274,584)</u>	<u>(47,870)</u>
Bonus according to Government Emergency Ordinance 33/2020	-	-

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

Bonus according to Government Emergency Ordinance 153/2020	21,967	5,266
Total corporate income tax after application of the bonus	<u>(252,617)</u>	<u>(42,604)</u>
(Expense) / revenue with deferred tax	75,041	8,518
(Expense) / revenue with income tax	<u>(177,576)</u>	<u>(34,086)</u>

21. CORPORATE INCOME TAX (CONTINUED)

	<u>January 1, 2021</u>	<u>Movement in deferred tax</u>	<u>December 31, 2021</u>	<u>Movement in deferred tax</u>	<u>December 31, 2022</u>
Deferred tax assets	15,727	22,112	37,839	(29,929)	7,910
Deferred tax liabilities	<u>(6,917,586)</u>	<u>117,011</u>	<u>(6,800,575)</u>	<u>122,739</u>	<u>(6,677,836)</u>
Asset / (liability) from deferred tax - net	<u>(6,901,859)</u>	<u>139,123</u>	<u>(6,762,736)</u>	<u>92,810</u>	<u>(6,669,926)</u>

<u>Deferred tax liabilities</u>	<u>Property, plant and equipment</u>	<u>Provisions</u>	<u>Total</u>
As at January 1, 2021	<u>(6,917,502)</u>	<u>(84)</u>	<u>(6,917,586)</u>
Movement in deferred tax	<u>116,927</u>	<u>84</u>	<u>117,011</u>
As at December 31, 2021	<u>(6,800,575)</u>	<u>0</u>	<u>(6,800,575)</u>

<u>Deferred tax assets</u>	<u>Property, plant and equipment</u>	<u>Provisions</u>	<u>Total</u>
As at January 1, 2021	<u>12,332</u>	<u>3,395</u>	<u>15,727</u>
Movement in deferred tax	<u>(2,948)</u>	<u>25,060</u>	<u>22,112</u>
As at December 31, 2021	<u>9,384</u>	<u>28,455</u>	<u>37,839</u>
<u>Asset / (liability) from deferred tax - net</u>	<u>(6,791,191)</u>	<u>28,455</u>	<u>(6,762,736)</u>

<u>Deferred tax liabilities</u>	<u>Property, plant and equipment</u>	<u>Provisions</u>	<u>Total</u>
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NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

<u>and legal reserve</u>			
As at January 1, 2022	<u>(6,800,575)</u>	<u>(0)</u>	<u>(6,800,575)</u>
Movement in deferred tax	<u>136,579</u>	<u>(13,840)</u>	<u>122,739</u>
As at December 31, 2022	<u>(6,663,996)</u>	<u>(13,840)</u>	<u>(6,677,836)</u>
<u>Deferred tax assets</u>	<u>Property, plant and equipment</u>	<u>Provisions</u>	<u>Total</u>
As at January 1, 2022	<u>9,384</u>	<u>28,455</u>	<u>37,839</u>
Movement in deferred tax	<u>(1,474)</u>	<u>(28,455)</u>	<u>(29,929)</u>
As at December 31, 2022	<u>7,910</u>	<u>0</u>	<u>7,910</u>
<u>Asset / (liability) from deferred tax - net</u>	<u>(6,656,086)</u>	<u>(13,840)</u>	<u>(6,669,926)</u>

22. AFFILIATED PARTIES

The list of parties affiliated to the Company is as follows:

Affiliated company	Explanations
CARBOREF SRL Cluj-Napoca	CARBOCHIM SA holds 25% of the share capital of CARBOREF SRL. Mr Popoviciu Viorel was member of both the Board of Directors of CARBOCHIM SA (Board composed of 5 persons), and of CARBOREF SA (Board composed of 3 persons) until March 2015, when the company became CARBOREF SRL and a single director remained (Mr Ioan Mihut, who holds 70% of the shares). Deliveries represent the rent and utilities according to contract 2249/December 13, 2012 and occasional sales of abrasive products through the retail store.
CARBO EUROPE SRL Bucharest	CARBO EUROPE SRL holds 77.6776% of the share capital of CARBOCHIM SA. There were no transactions with this company in 2022.
IULIUS HOLDING SRL Iasi	Mr Iulian-Adrian Dascalu owns 100% of the Iulius Holding SRL but also Carbo EUROPE SRL both through direct ownership (71.43%) and through the IULIUS HOLDING SRL (28.57%).

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

There were no transactions with this company in 2022.

RIVUS INVESTMENTS SRL, Iasi IULIUS HOLDING SRL owns 50% of RIVUS INVESTMENTS SRL, together with ATTERBURY ROMANIA B.V. from the Netherlands which owns 50% of this company.

Analysis of balances and transactions with affiliated parties (Amounts in RON):

Balances as of January 1, 2021	<u>Receivables</u>	<u>Other receivables</u>	<u>Payables</u>
CARBOREF SA	1,029	-	-
Total	<u>1,029</u>	<u>=</u>	<u>=</u>
Transactions carried out during 2021:	Sales	Expenses	Loans
CARBOREF SA	13,126	-	-
Total	<u>13,126</u>	<u>=</u>	<u>=</u>
Balances as at December 31, 2021	Receivables	Other receivables	Payables
CARBOREF SA	1,328	-	-
RIVUS INVESTMENTS SRL	-	-	-
Total	<u>1,328</u>	<u>=</u>	<u>=</u>
Transactions carried out during 2022:	Sales	Expenses	Loans
CARBOREF SA	12,497	-	-
RIVUS INVESTMENTS SRL	-	-	-
Total	<u>12,497</u>	<u>=</u>	<u>=</u>
Balances as at December 31, 2022	Receivables	Other receivables	Payables
CARBOREF SA	-	-	-
RIVUS INVESTMENTS SRL	=	=	<u>19,777,800</u>
Total	<u>-</u>	<u>=</u>	<u>19,777,800</u>

As at December 31, 2022, the Board of Directors of the Company has the following structure:

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

- Popoviciu Viorel Dorin, Member of the Board of Directors and Chairman of the Board. Holds 145,670 shares.
- Turbatu Ioan, Member of the Board of Directors. Does not hold shares.
- Giurgiu Adrian, Member of the Board of Directors. Does not hold shares.
- Ungurean Tudor, Member of the Board of Directors. Does not hold shares.
- Stoicescu Daniel-Silviu, Member of the Board of Directors. Holds 15 shares.

The executive management of the Company is:

- Popoviciu Viorel Dorin, Chief Executive Officer
- Barabula Mihaela Maria, Economic Director
- Giurgiu Liana, Sales Manager
- Carean Nastasia, Technical – Production Manager

23. EARNINGS PER SHARE

Company shares are listed on the second category of the Bucharest Stock Exchange, CBC symbol.

Basic earnings per share is calculated by dividing the profit attributable to the Company's equity holders of the average number of ordinary shares existing during the year. The diluted earnings per share coincides with the basic earnings per share.

	Year ended <u>December 31, 2021</u>	Year ended <u>December 31, 2022</u>
Profit attributable to equity holders of the Company	1,441,211	26,067
Weighted average of number of shares	4,927,768	4,927,768
Basic earnings and diluted earnings per share (RON per share)	0.29	0.01

24. CONTINGENCIES

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

24.1. Litigation

The Company is subject to a number of legal actions, most of which are insolvency proceedings of doubtful customers. The Company's Management believes that these actions will not have a material adverse effect on the economic performance and financial position of the Company.

24.2. Taxation

The taxation system in Romania has undergone many changes in recent years and is under a phase of adaptation to the jurisprudence of the European Union. As a result, there are still different interpretations of tax law. In some cases, the tax authorities may have different approaches to certain issues, the calculation of additional taxes and interest and penalties for late payment (in 2022, the late payment fee is of 0.01% per day of delay, plus default interest at the rate of 0.02% per day of delay). In Romania, the tax year remains open for tax inspection for 5 years. The Company's Management believes that tax liabilities included in these Financial Statements are appropriate.

Tax legislation in place at the date of preparation of Financial Statements for companies reporting under the International Financial Standards is in was at an early stage of development. As a result, it is possible that the tax authorities have different interpretations from those included in these Financial Statements. Since the Company continues to use the revaluation method for property, plant and equipment, and also in order to reduce the tax related risk, the Company decided to keep the balance of the account 105 "Revaluation reserves" at the date of transition to IFRS, the existing amounts in this account as of December 31, 2010 in the Financial Statements prepared in accordance with the Order of the Minister of Public Finance 3055/2009.

24.3. Financial crisis

Recent volatility in international and Romanian financial markets:

The most recent global liquidity crisis that began in mid-2007 resulted in, among other things, low levels of capital market funding, reduced liquidity levels in the financial sector and, at times, higher interbank lending rates and very high stock market volatility. In addition, the RON exchange rate volatility and the main currencies used in international trade was very high.

The recent bankruptcy of Silicon Valley Bank could trigger a new crisis in the US banking system, a crisis that could also affect the European banking system.

Management is unable to make a reliable estimate of the impact on the Company's financial position of a potential reduction in the liquidity of the financial markets, an increase in the volatility of the exchange rate of the national currency and the continuation of the coming recession. The Management believes that it has taken all the necessary steps to ensure the continuity of the Company under current conditions.

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

Revaluation of properties held at fair value

The real estate market in Romania has been severely affected by the volatility in the financial markets resulting from the restriction of access to credit for companies and individuals during the financial crisis in 2007-2009. Therefore, the carrying amount of property, plant and equipment at fair value has been adjusted to reflect the market conditions at the Balance Sheet date. Due to the volatility of the real estate market in Romania, it is possible that the fair values of the Company's assets relating to property undergo changes in the future.

24.4. Analysis of the impact of the SARS Cov2 pandemic on the economic activity of CARBOCHIM SA. Assessment of the Company's ability to continue as a going concern

The world economy has gone through one of the worst economic crises since the Great Depression (1929-1933), due to the Covid-19 pandemic that made its presence felt in Romania since March 2020.

The European Union's response has been swifter and more concerted than ever on both strategic fronts: the fight against the Covid-19 pandemic and its economic consequences.

The Government of Romania has taken several measures to support the economic agents, including covering part of the amounts owed by the economic agents for the payment of personnel in the periods of 2020 when the activity was suspended or reduced during the periods of restrictions imposed in order to limit or reduce the spread of SARS-COV-2 virus.

At present, the global crisis caused by the coronavirus pandemic is expected to be overcome but the full impact of this crisis is still impossible to predict and prevent in its entirety.

In view of the current global economic situation, the Company's management conducted a one-off analysis to assess the impact of the SARS Cov2 pandemic on the Company's economic activity, namely on the **entity's ability to continue as a going concern in the future**, and has reached the following conclusion: The industry sector in which we operate is not currently subject to any restrictions, and our customers operate in multiple sectors, which mitigates the risk of being affected by restricting the activity of some customers.

24.5 War in Ukraine and energy crisis

A major factor of uncertainty that could seriously affect the Company's activity is the crisis at European level caused by the war in Ukraine which led to the triggering of the energy crisis at European level. **It is still impossible to predict the full impact of this crisis and to prevent it in its entirety.** Economic signals show that Europe has overcome the energy crisis but electricity and natural gas prices are very high.

25 SUBSEQUENT EVENTS

In the Current Report issued on March 21, 2023 to publish the agenda of the Ordinary General Meeting of Shareholders of April 26, 2023, convened to approve the Financial Statements of 2022, the distribution of the net profit of 2022 amounting to RON 26,067.16 is submitted for approval as follows: to legal reserves the amount of RON 3,007.66 and the retained result (undistributed profit) the difference of Ron 23,059.50.