

CARBOCHIM S.A.

SEPARATE FINANCIAL STATEMENTS

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DECEMBER 31, 2020**

**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, 2019</u>	<u>December 31, 2020</u>
Income	17	33,681,721	30,367,196
Other income	17	1,786,418	2,531,399
Changes in inventories of finished goods and production in progress		<u>(387,460)</u>	<u>(35,649)</u>
		<u>35,080,679</u>	<u>32,862,946</u>
Raw materials, goods and consumables		(10,731,288)	(10,090,442)
Employees benefit expenses	18	(16,049,481)	(14,602,527)
Depreciation and impairment expenses		(2,587,157)	(2,161,198)
Other operating expenses	19	<u>(5,325,684)</u>	<u>(4,249,967)</u>
		<u>(34,693,610)</u>	<u>(31,104,134)</u>
Operating income		387,069	1,758,812
Financial income	20	5	9
Financing costs	20	<u>(297,382)</u>	<u>(175,426)</u>
Financial net result		<u>(297,377)</u>	<u>(175,417)</u>
Profit before tax		89,692	1,583,395
Income tax expense	21	(21,104)	(211,954)
Net profit for the year		<u>68,588</u>	<u>1,371,441</u>
Basic earnings and diluted earnings per share (RON per share)	23	<u>0.01</u>	<u>0.28</u>

STATEMENT OF COMPREHENSIVE INCOME

(All amounts are expressed in RON unless otherwise stated)

	<u>Note</u>	<u>December 31, 2019</u>	<u>December 31, 2020</u>
Other comprehensive income			
Profit for the year		68,588	1,371,441
Other comprehensive income:			
Gains / (losses) on revaluation of assets		-	-
Change of deferred tax recognized in the revaluation reserve		<u>120,173</u>	<u>(143,660)</u>
Other comprehensive income for the year, excluding taxes		<u>120,173</u>	<u>(143,660)</u>
Total comprehensive income of the year		<u>188,761</u>	<u>1,227,781</u>

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

	<u>Note</u>	<u>December 31, 2019</u>	<u>December 31, 2020</u>
ASSETS			
Non-current assets			
Investment property	8	7,124,302	7,124,301
Other intangible assets	7	1,249	0
Property, Plant and Equipment	6	64,520,850	65,211,879
Investments in owners' equity		38,000	38,000
Total non-current assets		<u>71,684,401</u>	<u>72,374,180</u>
Current assets			
Inventories	10	14,702,179	14,416,412
Trade receivables	11	7,035,076	5,357,088
Other current assets	11	283,021	305,119
Current income tax to be recovered	11.21	0	0
Cash and cash equivalents	12	<u>1,024,860</u>	<u>979,149</u>
Total current assets		<u>23,045,136</u>	<u>21,057,768</u>
TOTAL ASSETS		<u>94,729,537</u>	<u>93,431,948</u>
OWNERS' EQUITY AND LIABILITIES			
Owners' equity			
Share capital	13	12,325,438	12,325,438
Adjustments in owners' equity	13	0	0
Other components of owners' equity		57,563,025	57,387,745
Retained earnings		<u>7,937,638</u>	<u>9,301,233</u>
Total owners' equity		<u>77,826,101</u>	<u>79,014,416</u>
Long-term liabilities			
Long-term loans	14	61,111	1,432,510
Finance lease liabilities	15	29,689	115
Long-term provisions	5	264,526	274,014
Deferred tax liability	21	<u>6,797,489</u>	<u>6,901,859</u>
Total long-term liabilities		<u>7,152,815</u>	<u>8,608,498</u>

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

	<u>Note</u>	<u>December 31, 2019</u>	<u>December 31, 2020</u>
Current liabilities			
Current share of long-term loans			
	14	6,235,396	2,278,043
Current share of finance lease liabilities	15	98,976	32,123
Trade payables and of other nature	16	3,415,012	3,468,237
Current income tax	16.21	<u>1,237</u>	<u>30,631</u>
Total current liabilities		<u>9,750,621</u>	<u>5,809,034</u>
TOTAL LIABILITIES		<u>16,903,436</u>	<u>14,417,532</u>
TOTAL OWNERS' EQUITY AND LIABILITIES		<u>94,729,537</u>	<u>93,431,948</u>

The Financial Statements were authorized for issue by the Board of Directors on March 20, 2021 and were signed on its behalf.

Popoviciu Viorel-Dorin

Barabula Mihaela-Maria

Director

Chief Financial Officer

STATEMENT OF CASH FLOWS

(All amounts are expressed in RON unless otherwise stated)

	<u>Note</u>	<u>December 31, 2019</u>	<u>December 31, 2020</u>
Cash flows from operating activities			
Receipts from customers and other debtors		41,789,087	40,678,743
Payments to suppliers, employees and other creditors		(26,171,853)	(23,721,019)
Interest paid		(255,556)	(136,250)
Income taxes, social contributions, other levies and taxes paid		(12,474,713)	(11,502,609)
Net cash from operating activities		2,886,965	5,318,865
		-	-
Cash flows from operating investing activity			
Payments for acquisition of shares		-	-
Payments to acquire property plant and equipment		(170,257)	(2,723,706)
Proceeds from sale of property plant and equipment		104	82,300
Interest received		5	9
Dividends received		-	-
Net cash from financing activities		(170,148)	(2,641,397)
Cash flows from financing activities			
Proceeds from issue of shares		0	0
Proceeds from loans		65,596,356	17,993,725
Payment of debts related to financial liabilities		(254,693)	(124,770)
Dividends paid		(1,144,508)	(12,456)
Repayments of amounts borrowed		(66,768,413)	(20,579,678)
Net cash from financing activities		(2,571,258)	(2,723,179)
Cash flows - total		<u>145,559</u>	<u>(45,711)</u>
Cash at the beginning of period		879,301	1,024,860
Cash at the end of period	12	1,024,860	979,149

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 of January 1, 2019		<u>12,325,438</u>	<u>-</u>	<u>57,440,201</u>	<u>9,350,754</u>	<u>79,116,393</u>
Profit for 2019		-	-	-	68,588	68,588
<u>Other comprehensive income for the period</u>						
Distribution of profit or loss in legal reserve		-	-	4,484	(4,484)	-
Movements in revaluation reserve		-	-	-	-	-
Distribution of profit the previous year in other reserves		-	-	-	-	-
Achievements of revaluation reserve		-	-	(1,833)	1,833	-
Deferred income tax related to revaluation and legal reserve		-	-	(718)	-	(718)
Deferred income tax resulted from reevaluation carried forward		-	-	120,891	-	120,891
<u>Transactions with shareholders</u>						
Dividends paid to shareholders		-	-	-	(1,479,053)	(1,479,053)
Share capital increase		-	-	-	-	-
Total comprehensive profit		<u>12,325,438</u>	<u>-</u>	<u>57,563,025</u>	<u>7,937,638</u>	<u>77,826,101</u>
Balance as of December 31, 2019		<u>12,325,438</u>	<u>-</u>	<u>57,563,025</u>	<u>7,937,638</u>	<u>77,826,101</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 of January 1, 2020		<u>12,325,438</u>	<u>-</u>	<u>57,563,025</u>	<u>7,937,638</u>	<u>77,826,101</u>
Profit for 2020		-	-	-	1,371,441	1,371,441
<u>Other comprehensive income for the period</u>						
Distribution of profit or loss in legal reserve		-	-	79,170	(79,170)	-
Movements in revaluation reserve		-	-	-	-	-
Distribution of profit the previous year in other reserves		-	-	-	-	-
Achievements of revaluation reserve		-	-	(71,324)	71,324	-
Deferred income tax related to revaluation and legal reserve		-	-	(143,660)	-	(143,660)
Deferred income tax resulted from reevaluation carried forward		-	-	-	-	-
<u>Transactions with shareholders</u>						
Dividends paid to shareholders		-	-	-	-	-
Share capital increase		-	-	-	-	-
Own shares held		-	(39,466)	-	-	(39,466)
Total comprehensive profit		<u>12,325,438</u>	<u>(39,466)</u>	<u>57,427,211</u>	<u>9,301,233</u>	<u>79,014,416</u>
Balance as of December 31, 2020		<u>12,325,438</u>	<u>(39,466)</u>	<u>57,427,211</u>	<u>9,301,233</u>	<u>79,014,416</u>

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

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 initially in 1949, for the production of coal, 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, cloth - paper combined, and volcano fiber. Moreover, the activity includes internal and external trade activities, services on maintenance and repair of machinery, as well as manufacturing and office space rental.

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

As of December 31, 2020, the structure of financial instruments holders holding at least 10% of the share capital of Carbochim S.A. is as follows:

	No. of Shares	Percentage of Ownership (%)
SC CARBO EUROPE SRL	3,736,743	75,7933
Legal persons	669,002	13,5695
Individuals	524,430	10,6372
TOTAL	<u>4,930,175</u>	<u>100</u>

CARBOCHIM SA holds 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 to the establishment of Equipment Manufacturers and Importers Association for Wood Industry in Romania (A.P.I.E.L. - Romania), its contribution to the initial assets of the association being of 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 of these Financial Statements are set out below. These Policies have been consistently applied to all Financial Years disclosed, unless otherwise stated.

2.1 Basis of preparation

The financial statements of Carbochim S.A. as of December 31, 2020 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 compliant with the International Financial Reporting Standards.

In this respect, the statement of financial position, a component of the Annual Financial Statements ended December 31, 2020, includes information corresponding to the end of the reporting year and the end of the Financial Year prior to the reporting year. Moreover, the statement of comprehensive income includes information corresponding 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 the application of complex judgments by the Management in the process of applying the Company's Accounting Policies. The areas involving a higher degree of complexity and application of these reasons, or where assumptions and estimates have a significant impact on the Financial Statements, are presented 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 in force for the current period and have been adopted in the Separate Financial Statements. The impact of these new and revised standards was reflected in the financial statements and estimated as non-material, except for the disclosures made.

- The Conceptual Framework of the International Financial Reporting Standards

The International Accounting Standards Board ('IASB') issued the revised Conceptual Framework for Financial Reporting on March 29, 2018. The Conceptual Framework sets out a comprehensive set of concepts on financial reporting, setting standards, guiding for those who prepare the financial reporting, developing accounting policies, and assisting others in their efforts to understand and construe Standards. The IASB also issued a document accompanying the Conceptual Framework, Amendments to the Conceptual Framework references in the IFRS, which sets out amendments to the amended Standards in order to update the references to the revised Conceptual Framework. Its objective is to support the transition to the revised Concept Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies for a particular transaction. For those who develop accounting policies using the Conceptual Framework, this is valid for annual periods beginning on or after January 2020.

- IFRS 3 Business Combinations (Amendments)

IASB issued changes to the definition of a business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. Amendments apply to business combinations for which the acquisition date is in the first annual reporting period beginning on or after January 2020 and to asset purchases occurring on or after that period, the early application being allowed. Amendments have not yet been adopted by the EU.

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of what is considered material (Amendments)

Amendments enter into force for annual periods beginning on or after January 2020 and early application is allowed. Amendments clarify the definition of what is material and how it should be applied. The new definition states that information is material if the omission, inaccurate statement, or concealment could influence the decisions taken by the primary users of the Financial Statements on the basis of these Financial Statements, which provide final disclosures about a reporting entity. In addition, the explanations accompanying the definition have been improved. Amendments also ensure that the material definition is consistent across all IFRS Standards. These amendments have not yet been adopted by the EU.

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

- Interest Rate Benchmark Reform: IFRS 9, IAS 39 and IFRS 7 (Amendments)

The amendments enter into force for annual periods beginning on or after January 2020 and must be applied retroactively. Early application is allowed. In September 2019, the IASB published amendments to IFRS 9, IAS 39 and IFRS 7, which conclude the first stage of its activity to respond to the effects of the reform of Interbank Offered Interest Rates (IBOR) on financial reporting. Stage two will focus on aspects that could affect financial reporting when an existing interest rate benchmark is replaced by a risk-free interest rate (RFR). Published amendments address issues affecting financial reporting in the period prior to replacing an existing interest rate reference value with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require prospective analysis. The amendments provide for temporary exemptions applicable to all hedge relationships that are directly affected by the interest rate benchmark reform, which allow hedge accounting to continue in the uncertainty period before replacing an existing interest rate benchmark with an almost risk-free alternative interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures on additional certainty information resulting from the interest rate benchmark reform.

- (b) *New standards, amendments and interpretations issued but not applicable for the financial year from 1 January 2020, therefore not adopted:*

- Amendment to IFRS 10. Consolidated Financial Statements and IAS 28. Investments in associates and joint ventures: sale or contribution of assets between an investor and its associate or joint venture. Changes refer 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 of Current or Non-Current (Amendments)

The amendments shall enter into force for annual periods beginning on or after January 1, 2023 and early application is permitted. The amendments aim at promoting consistency in the application of requirements, helping companies to determine whether, within the statement of financial position, liabilities and other debts with an uncertain settlement date should be classified as current or non-current. Amendments affect the presentation of liabilities within the statement of

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

financial position and do not modify the existing requirements regarding the evaluation or recognition of any asset, liability, income or expenses, nor the information that entities publish regarding these items. Moreover, the amendments clarify the classification requirements for liabilities that can be settled by the company issuing own equity instruments. These amendments have not yet been adopted by the EU.

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

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 its use. Instead, a company will recognize these 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

These amendments have not yet been adopted by the EU.

IFRS 16 Leases –Covid 19 Rent-Related Concessions (Amendments)

The amendment applies retrospectively to annual periods beginning on or after June 1, 2020. Previous application is permitted, including in unauthorized financial statements as of May 28, 2020. The IASB has amended the standard to provide an exemption of lessees from the application of IFRS 16 by providing guidance on changing the accounting treatment for lease concessions resulting as a direct consequence of the Covid-19 pandemic. The amendment provides a convenient and practical means for the lessee to take into account any change in the lease payments resulting from the deferral of rental payments determined by Covid-19, just as the modification would be accounted for under IFRS 16, if this was not a change in the lease agreement, only if the following conditions are met:

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(All amounts are expressed in RON unless otherwise stated)

- Changes in lease payments result in a revised consideration for the lease that is substantially the same as or less than the equivalent value of the lease immediately preceding the change
- Any reduction in lease payments only affects payments initially due on or before June 30, 2021
- There are no substantive changes to the other terms and conditions of the lease agreement

These amendments have not yet been adopted by the EU.

- Interest Rate Benchmark Reform - Phase 2- IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)

In August 2020, the IASB published Interest Rate Benchmark Reform - Phase Two, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its activity in response to the IBOR reform. The amendments provide for temporary exemptions that address the effects of financial reporting when an interbank offered rate (IBOR) is replaced by an alternative near-risk-free interest rate (RFR).

In particular, the amendments provide a practical instrument when considering the changes in the basis for determining the contractual cash flows of financial assets and liabilities, in order to request the adjustment of the effective interest rate, equivalent to a movement of the interest rate on the market.

Moreover, the amendments introduce exemptions regarding the interruption of hedging relationships, including a temporary exemption from fulfilling the separate requirement when an RFR instrument is designated to hedge a risk component. In addition, the amendments to IFRS 4 are designed to allow insurers that still apply IAS 39 to obtain the same exemptions as those provided by the amendments to IFRS 9. There are also amendments to IFRS 7 Financial Instruments: Detailed disclosures to allow users of financial statements to understand the effect of the interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are applicable for annual periods beginning on or after January 1, 2021, with early application permitted.

While the application is retrospective, an entity is not bound to restate prior periods.

2.2 Segment reporting

A business segment is a distinctive component of the Company:

- a) Business activities that may earn revenues or incur expenses,

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(All amounts are expressed in RON unless otherwise stated)

b) The results of which from activities are examined periodically by the Company's chief operating decision maker in order to take decisions about resource allocation and assessment of segment performance, and

c) For which discrete financial information is available.

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 on products and services and geographic 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 stipulated by the Standard.

Considering the quantitative thresholds and aggregation criteria set by the Standard in terms of business segments, the Company does not identify distinctive components in terms of the related risks and benefits.

Presentation of geographical areas in which the Company operates:

Outlet market	Share (%) 2019	Amount of revenue December 31, 2019	Share (%) 2020	Amount of revenue December 31, 2020
Externally (Poland, Hungary, Germany, Belgium, Ireland, England, Austria, Switzerland, The Netherlands, Egypt, Canada, Turkey)	7	2,512,857	5	1,649,305
Internally (Romania)	93	32,567,822	95	31,213,641
Total operating income	100	35,080,679	100	32,862,946

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

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

Product or service	Share (%) 2019	Amount of revenue December 31, 2019	Share (%) 2020	Amount of revenue December 31, 2020
Grinding wheels	60.10	21,083,087	57.27	18,823,337
Coated abrasives	34.29	12,027,982	34.09	11,203,595
Other products	0.26	92,441	0.27	89,676
Rental income	4.36	1,529,398	3.41	1,120,812
Revenue from sale of goods	1.08	377,128	0.80	263,987
Subsidy income for staff payments	-	-	4.36	1,432,829
Other income, including changes in stocks of finished goods and work in progress	-0.09	(29,357)	-0.20	(68,290)
Total operating income	100.00	35,080,679	100.00	32,862,946

2.3 Foreign currency translation

(a) Functional and disclosure currency

Items included in the Financial Statements are measured in 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 of December 31, 2020 and December 31, 2019 are as follows:

	2020	2019
EUR	4.8694	4.7793
USD	3.9660	4.2608

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate on the date of the transactions or valuation for items that are revalued. Gains and losses on exchange differences arising from these transactions and from the translation at the rate of year-end monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, unless they are recorded in other items of the comprehensive income as financial instruments that are designated as hedging instruments for cash flow hedge, as

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(All amounts are expressed in RON unless otherwise stated)

well as financial instruments that are designated as hedging instruments of net investment.

Gains and losses on exchange rate, which refer to loans and leases, are presented in the income statement under 'income or financial costs'.

All other gains and losses on exchange are presented in the income statement under 'other (losses) / gains – net'.

2.4 Accounting of the hyperinflation effect

Romanian economy has recorded high levels of inflation in the past and was considered to be hyperinflationary as defined in IAS 29 'Financial Reporting in Hyperinflationary Economies'.

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 values reported in terms of purchasing power as of December 31, 2003 are treated as the basis for the accounting amounts of these Financial Statements.

The restatement was calculated at the first application of IFRS using the developments in the consumer price index ('CPI') published by the National Statistics Institute ('NIS').

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 presented as of December 31, 2020 at fair value. For buildings and equipment, the revalued amount as of December 31, 2018 is used minus the losses of the impairment for 2019 and 2020. The revalued amount as of December 31, 2015 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 amortization 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 related to that 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 recorded in the income statement in the financial period in which they are incurred.

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(All amounts are expressed in RON unless otherwise stated)

The impairment method used is the straight-line method.

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:

Building	25-40 years
Machinery	10-15 years
Vehicles	3-5 years
Furniture, facilities 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 reduced immediately to its recoverable amount if the asset carrying amount is higher than its estimated recoverable amount.

Gains and losses on disposal 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 a limited useful life and are carried at cost minus 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.

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

2.7 Real estate investment

Investment properties are real estate (land, buildings or parts of buildings) held by the Company 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 its purchase price plus any directly attributable expenditure (professional fees for legal services, the property transfer taxes and other transaction costs).

Company's accounting policy on further valuation of real estate investments is based on the fair value model. This policy is applied uniformly to all investment property held.

Measuring the fair value of investment properties is performed by evaluators members of the National Association of Assessors of Romania (ANEVAR).

Thus, the amortization charge is no longer recognized, and the investment property is subject to revaluation with sufficient regularity in recognizing at fair value. Gains or losses resulting from the change in fair value of investment property are recognized in profit or loss in the period in which they occur.

As of December 31, 2018, real estate revaluations were carried out by a licensed assessor.

28. 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 percentages held do not give us control or any significant influence on the Company's activity or association. CarboREF 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.

NOTES TO FINANCIAL STATEMENTS

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

2.10 Financial assets

2.10.1. Classification

In accordance with IFRS 9, an entity should classify financial assets as subsequently measured either at amortized cost or fair value through other comprehensive income, or at fair value through profit or loss based on the two 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 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
- The contractual terms of the financial asset give rise to cash flows that represent only principal payments and interest on the principal remaining 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 remaining 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-derivatives that are either designated in this category or not classified in the first category presented. They are included in

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

current assets unless the investment matures or the management intends to dispose of within twelve months after the end of the reporting period.

(c) Greenhouse gas emission certificate

Starting January 1, 2013, the Company's plant is no longer subject to the greenhouse gas emission trading scheme under Directive 2009/29/EC so that it has not received EUAs since 2013.

In 2014, the Company alienated all the 2,196 certificates in the 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. Financial assets available for sale are subsequently carried at fair value. Loans and receivables are carried at amortized cost based on 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 by 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 represents the estimated selling price in the ordinary course of business, minus applicable variable selling expenses.

Where necessary, provisions for obsolete inventories and slow turning are recorded. Obsolete inventories identified individually are provisioned at integrated value or derecognized. For slow moving inventories, estimation of the age is performed by each major category, based on inventory turnover.

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(All amounts are expressed in RON unless otherwise stated)

2.12 Trade receivables

Trade receivables are amounts due from customers for stocks sold or services provided in the normal 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 recognized initially at fair value and subsequently for claims with a credit period of more than 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 investments with high liquidity and original maturity periods of up to three months and bank overdrafts.

2.14 Share capital

Ordinary shares are classified as owner's equity.

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 that were acquired in the ordinary course of business from suppliers. Accounts suppliers 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. Subsequently, loans are stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value being recognized in the income statement over the period of loans, based on the effective interest method.

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

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 corresponding tax is recognized in other comprehensive income or directly in owner's equity.

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

Deferred income tax is recognized, based on the balance sheet obligation method, on temporary differences occurring 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.

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 imposed by the same tax authority or the same taxable entity, or 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 funds. 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

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(All amounts are expressed in RON unless otherwise stated)

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*

According to the Collective Bargaining, in the case 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*

The Company grants to employees, in addition to wages, additional bonuses resulted from the salary, bonuses of payroll, vouchers and holiday bonuses. Employees can benefit from employee participation in profits fund, up to 10% share 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 will be required in settlement of the liability; the amount has been reliably estimated.

If there are several similar obligations, the likelihood that an outflow will be required to settle the obligation is determined taking into account the whole class of obligations. A provision is recognized even if the likelihood of an outflow for an individual element is reduced.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

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 income 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 acquires 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 original application recognized in the original balance of the retained earnings in the year of the initial application. 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 did not identify transactions in which the Company acts as an agent. An agent recognizes revenue for its commission for the due fee in exchange for facilitating the transfer of goods or services.

Initial application of IFRS 15 has 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 produces the full range of grinding wheels products, except super grinding wheels.

The main outlet market is the internal one, only max. 5% of deliveries being made in the foreign market.

NOTES TO FINANCIAL STATEMENTS

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

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

The Company manages a store for the sale of grinding wheel products. Sales of products is 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 specified 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 funding elements, as sales are made with a credit period of maximum 60-90 days in accordance with the normal market practice.

(b) Income from royalties

Income from royalties is recognized on an accrual basis, according to the relevant contractual provisions.

The Company has leased real estate investments in order to obtain income.

2.21 Interest income

Interest income is recognized using the effective interest method.

2.22 Dividend income

Dividend income is recognized when establishing the entitlement to receive those amounts.

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 lesser 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. Obligations related to rent, net of finance charges, are included in other long-term 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 obligation

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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 include the majority of leases into the Balance Sheet in a single model, removing the distinction between operating and financial 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 for the duration of the lease, and the debt 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 generate 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 financial leases shall be maintained.

In addition, the Company considered the following aspects related to contracts that fall under IFRS 16:

- Did not recognize any assets related to the right of use and no lease liabilities related to contracts that expire within 12 months or less from the date of application;
- Did not recognize any assets related to the right of use and no lease liabilities related to low value contracts (below USD 5,000);

The initial application of IFRS 16 did not result in the recognition of assets related to the right of use, nor of lease liabilities as of January 1, 2019 nor 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 Shareholders.

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3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

By the nature of the activities performed, 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 effects on the financial performance of the Company. 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 different currencies, especially USD and EUR. Currency risk is associated to assets and liabilities recognized, in particular loans.

In April 2018, the Company concluded a framework contract for derivative financial transactions for FORWARD foreign exchange operations to partially cover foreign exchange risk for USD, therefore the Company started to apply the hedge accounting. As of December 31, 2020, the Company did not have any derivative financial transactions in progress.

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

As of December 31, 2019				As of December 31, 2020		
	Monetary	Monetary	Net amount on	Monetary	Monetary	Net amount on
	Financial Assets	Financial Liabilities	Statement of Financial Position	Financial Assets	Financial Liabilities	Statement of Financial Position
RON	8,038,620	8,346,058	(307,438)	6,392,021	5,947,469	444,552
EUR	302,869	1,495,363	(1,192,494)	247,840	1,294,190	(1,046,350)
USD	1,468	0	1,468	1,495	0	1,495
Total	<u>8,342,957</u>	<u>9,841,421</u>	<u>(1,498,464)</u>	<u>6,641,356</u>	<u>7,241,659</u>	<u>(600,303)</u>

The above analysis includes only monetary assets and liabilities items.

The following table shows the manner in which the items in the income and equity ranges based on 10% change in exchange rates applied by the National Bank of Romania at the Balance Sheet in relation to the functional currency of the Company, with all other variables constant, as follows:

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(All amounts are expressed in RON unless otherwise stated)

	<u>2020</u>	<u>2019</u>
EUR	5.3563	5.2572
USD	4.3626	4.6869

Impact on profit or loss account:

	<u>2020</u>
EUR increasing by 10%	(104,635)
	<u>2019</u>
EUR increasing by 10%	(119,249)

(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, related 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:

- As of December 31, 2019

<u>Financial institution</u>	<u>Currency</u>	<u>Interest rate</u>	<u>Threshold</u>	<u>Loan balance as of December 31, 2019 (RON)</u>
Unicredit Bank	RON	Negotiated	800,000	215,070
Banca Comerciala Romana	RON/ EUR	Negotiated	2,000,000	1,853,647
Raiffeisen Bank	RON/ EUR	Negotiated	4,350,000	2,428,488
Raiffeisen Bank - long term	RON	Negotiated	2,200,000	1,004,858
				794,444
Total				6,266,507

- As of December 31, 2020

<u>Financial institution</u>	<u>Currency</u>	<u>Interest rate</u>	<u>Threshold</u>	<u>Loan balance as of December 31, 2020 (RON)</u>
Unicredit Bank	RON	Negotiated	800,000	70,720
Banca Comerciala Romana	RON/ EUR	Negotiated	3,000,000	333,484
Raiffeisen Bank	RON/ EUR	Negotiated	4,350,000	779,058
Raiffeisen Bank - long term	RON	Negotiated	4,435,000	624,382
				1,902,909
Total				3,710,553

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On 31 December 2020, a possible increase in the interest rate of 1% would have an effect on the income statement of RON 1,298.

(b) Credit risk

Credit risk is mainly related to cash and cash equivalents and trade receivables. The Company has developed several policies the application of which ensures that the sales of products and services takes place 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 impaired, but not outstanding, can be assessed through internal analysis since there is no information about external risk indicators for customers.

	<u>December 31, 2019</u>	<u>December 31, 2020</u>
Customers for which the recovery of receivables is under 30 days	2,201,241	2,171,509
Customers for which the recovery of receivables is between 30 and 90 days	2,580,975	2,246,792
Customers for which the recovery of receivables is between 90 and 180 days	639,548	50,386
Total	<u>5,421,764</u>	<u>4,468,687</u>

Although the collection of receivables could be influenced by economic factors, Management believes that there is not a significant risk of loss exceeding the provisions already established.

Cash is placed with financial institutions which, at the time of lodging the deposit, were considered to present a minimal risk of default.

Bank's financial indicator	Bank	<u>December 31, 2019</u>	<u>December 31, 2020</u>
Baa3	Raiffeisen Bank	2,334	2,766
Baa3	BRD	14,945	6,820
n/a	Treasury	5,182	4,581
Baa1	BCR	138,292	95,364
n/a	Unicredit Tiriac Bank	0	0
n/a	CEC Bank	765,382	765,382
Total		<u>926,135</u>	<u>874,913</u>

Where:

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Financial institutions scored with indicator D show a modest financial power, with a possible need for external support, and the financial institutions scored with indicator E show a very modest financial strength with a high probability of external support needed periodically.

(c) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

Forecasts of cash flows are prepared by the Company's finance department, which monitors forecasts 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 violate the limits of loans or arrangements relating to loans for all credit facilities.

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

	Up to <u>1 year</u>	Between <u>1 and 2</u> <u>years</u>	Between <u>2 and 5</u> <u>years</u>	Over <u>5 years</u>
As of December 31, 2019				
Loans (Note 14)	6,235,396	61,111	-	-
Financial lease (Note 15)	98,976	29,689	-	-
Trade payables and of other nature (Note 16)	3,415,012	-	-	-
Current income tax	1,237			
Total	<u>9,750,621</u>	<u>90,800</u>	<u>-</u>	<u>-</u>
As of December 31, 2020				
Loans (Note 14)	2,278,043	409,289	1,023,221	-
Financial lease (Note 15)	32,123	115	-	-
Trade payables and of other nature (Note 16)	3,468,237	-	-	-
Current income tax	30,631			
Total	<u>5,809,034</u>	<u>409,404</u>	<u>1,023,221</u>	<u>-</u>

3.2 Capital management

Company's capital management objectives aim at protecting the ability of the Company to continue its work in the future, so as to bring profit to Shareholders and benefits to other stakeholders and maintain an optimal capital structure to reduce the cost of capital.

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(All amounts are expressed in RON unless otherwise stated)

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 2020, the Company's strategy, as opposed to 2019, consisted in reducing the debt-to-equity ratio, mainly through repayments to credit lines, but also to the investment loan.

Debt-to-equity ratio indicators as of December 31, 2020 and 2019 were as follows:

	<u>2019</u>	<u>2020</u>
Total loans	6,425,172	3,742,791
Minus: cash and cash equivalents	1,024,860	979,149
Net liability	5,400,312	2,763,642
Total owner's equity	77,826,101	79,014,416
Total owners' equity and net liabilities	<u>83,226,413</u>	<u>81,778,058</u>
Debt-to-equity ratio	6%	3%

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 measurement techniques.

It is considered that the carrying value minus the adjustment for impairment of trade receivables and payables approximates their fair values. The fair value of financial liabilities with a settlement period of more than 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 performed taking into account 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

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Presentation at the fair value of financial assets and financial liabilities as of December 31, 2020:

	Level 1	Level 2	Level 3
Financial assets:			
Cash and cash equivalents	979,149	-	-
Receivables and other receivables		-	5,662,207
-			
Financial liabilities:			
Loans	-	3,742,791	-
Trade payables and of other nature	-	3,468,237	-
Current income tax	-	30,631	-

Presentation at the fair value of financial assets and financial liabilities as of December 31, 2019:

	Level 1	Level 2	Level 3
Financial assets:			
Cash and cash equivalents	1,024,860	-	-
Receivables and other receivables	-	7,318,097	-
Financial liabilities:			
Loans	-	6,425,172	-
Trade payables and of other nature	-	3,415,012	-
Current income tax	-	1,237	-

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

Estimates and judgments are measured on a continuous basis 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*

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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 anticipated 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 impact 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 changes in these assumptions will impact the carrying amount of pension obligations. The Company uses the National Bank of Romania benchmark interest rate as the discount rate for pension obligation at the end of each year.

5. FIRST-TIME APPLICATION OF IFRS

As of December 31, 2012 the Company prepared the first Financial Statements under IFRS. In preparing the statement of financial position according to IFRS as of January 1, 2011 and December 31, 2011, the Company adjusted amounts reported previously 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 expenses of property, plant and equipment under conservation in previous periods. When adopting IFRS, property, plant and equipment under conservation continue to be amortized for the duration they have not been used. In order to present them at the fair value, the Company land have undergone revaluation. 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 properly reflected in the Financial Statements.

b) Investment property

On adoption of IFRS, the Company applies the fair value method of presentation of buildings listed 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. Revaluation result is recognized in the income statement.

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c) Provision for leave days not taken

The Company estimates for the days of leaves not taken related to the Financial Year ended, a provision for recording the salary expenditure in the corresponding period.

d) Provision for pensions

According to the Collective Bargaining, each employee receives compensation equal to a salary upon retirement. In recognition of this expenditure, the Company recorded a provision for the entire period in which the employee works for the Company. The value of this provision is up to date using the reference rate of interest according to the National Bank of Romania.

e) Recognition of an asset or deferred tax liabilities (IAS 12)

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

6. PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment are as follows:

	<u>Land and building</u>	<u>Equipment and vehicles</u>	<u>Furniture, facilities and equipment</u>	<u>Fixed assets in progress</u>	<u>Total</u>
As of January 1, 2019					
Cost or valuation	70,579,812	34,945,912	227,838	1,029,111	106,782,673
Accumulated amortization	<u>(14,222,656)</u>	<u>(25,428,552)</u>	<u>(153,913)</u>	<u>-</u>	<u>(39,805,121)</u>
Net book value	<u>56,357,156</u>	<u>9,517,360</u>	<u>73,925</u>	<u>1,029,111</u>	<u>66,977,552</u>

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

For the year ended December 31, 2019

	<u>Land and building</u>	<u>Equipment and vehicles</u>	<u>Furniture, facilities and equipment</u>	<u>Fixed assets in progress</u>	<u>Total</u>
Book value					
net initial	56,357,156	9,517,360	73,925	1,029,111	66,977,552
Inflow	-	25,293	822	106,445	132,560
Transfers	-	379,976	-	(379,976)	-
Gain on revaluation	-	-	-	-	-
Loss on revaluation	-	-	-	-	-
Outflow, net	-	(3)	(275)	(8,158)	(8,436)
Transfers to investment property	-	-	-	-	-
Expense on amortization	(832,037)	(1,661,113)	(10,590)	-	(2,503,740)
Amortization of fixed means under conservation	<u>(77,086)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(77,086)</u>
Book value net final	<u>55,448,033</u>	<u>8,261,513</u>	<u>63,882</u>	<u>747,422</u>	<u>64,520,850</u>

As of December 31, 2019	<u>Land and building</u>	<u>Equipment and vehicles</u>	<u>Furniture, facilities and equipment</u>	<u>Fixed assets in progress</u>	<u>Total</u>
Cost or valuation	70,579,812	35,347,600	217,648	747,422	106,892,482
Accumulated amortization	<u>(15,131,779)</u>	<u>(27,086,087)</u>	<u>(153,766)</u>	<u>-</u>	<u>(42,371,632)</u>
Net book value	<u>55,448,033</u>	<u>8,261,513</u>	<u>63,882</u>	<u>747,422</u>	<u>64,520,850</u>

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

For the year ended December 31, 2020

	<u>Land and building</u>	<u>Equipment and vehicles</u>	<u>Furniture, facilities and equipment</u>	<u>Fixed assets in progress and advances</u>	<u>Total</u>
Book value					
net initial	55,448,033	8,261,513	63,882	747,422	64,520,850
Inflow	-	61,269	22,533	3,491,826	3,575,628
Transfers	-	32,567	-	(32,567)	-
Gain on revaluation	-	-	-	-	-
Loss on revaluation	-	-	-	-	-
Outflow, net	(93,297)	(66,149)	-	(565,205)	(724,651)
Transfers to investment property	-	-	-	-	-
Expense on amortization	(791,697)	(1,280,540)	(10,633)	-	(2,082,870)
Amortization of fixed means under conservation	<u>(77,078)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(77,078)</u>
Book value net final	<u>54,485,961</u>	<u>7,008,660</u>	<u>75,782</u>	<u>3,641,476</u>	<u>65,211,879</u>

	<u>Land and building</u>	<u>Equipment and vehicles</u>	<u>Furniture, facilities and equipment</u>	<u>Fixed assets in progress and advances</u>	<u>Total</u>
As of December 31, 2020					
Cost or valuation	70,388,380	35,261,029	240,181	3,641,476	109,531,066
Accumulated amortization	<u>(15,902,419)</u>	<u>(28,252,369)</u>	<u>(164,399)</u>	<u>-</u>	<u>(44,319,187)</u>
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>

Fair value of tangible fixed assets

An independent measurement of land, buildings and other categories of property and equipment was conducted by an independent auditor to determine the fair value of tangible fixed assets as of December 31, 2018. The net revaluation surplus was recorded in other comprehensive income and is presented in 'other reserves' in owners' equity.

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

Presentation of the fair value of tangible fixed assets as of December 31, 2020:

	Level 1	Level 2	Level 3
Land	-	43,602,422	-
Buildings and special constructions	-	10,883,539	-
Total land and buildings	-	54,485,961	-
Equipment and vehicles	-	7,008,660	-
Furniture, equipment and supplies	-	75,782	-

Presentation of the fair value of tangible fixed assets as of December 31, 2019:

	Level 1	Level 2	Level 3
Land	-	43,602,422	-
Buildings and special constructions	-	11,845,611	-
Total land and buildings	-	55,448,033	-
Equipment and vehicles	-	8,261,513	-
Furniture, equipment and supplies	-	63,882	-

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

	<u>2019</u>	<u>2020</u>
Cost	642,571	197,320
Accumulated amortization	275,094	90,284
Net book value	<u>367,478</u>	<u>107,036</u>

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

Buildings

	<u>2019</u>	<u>2020</u>
Cost	11,838,113	11,838,113
Accumulated amortization	<u>4,476,581</u>	<u>4,819,530</u>
Net book value	<u>7,361,533</u>	<u>7,018,583</u>

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

Related land:

	2019	2020
Cost	8,579,958	8,579,958

- As of December 31, 2020, the following property, plant and equipment (land and buildings), current assets and available bank accounts are mortgaged under the loan agreements the Company has concluded 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 with building located in P-ta 1 Mai nr. 3 registered in Cluj-Napoca Land Registry 309072	RON 2,000,000 + related interest and fees	BANCA COMERCIALA ROMANA	I
1.2	Land with building located in P-ta 1 Mai nr. 33 included in Cluj-Napoca Land Registry 305138 and Land Registry 305138-C1-U1	RON 2,000,000 + related interest and fees	RAIFFEISEN BANK	I
2.1	Mortgage or pledge on the inventory of finished products	RON 800,000 + related interest and fees	UNICREDIT BANK	-
2.2	Mortgage or pledge on the inventory of raw materials	RON 3,000,000 + related interest and fees	BANCA COMERCIALA ROMANA	-
2.3	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	-
2.4	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 3,000,000 + related interest and fees	BANCA COMERCIALA ROMANA	-

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

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 4,350,000 + related interest and fees	RAIFFEISEN BANK	-
2.5	Pledge or mortgage on current bank accounts, mortgage on the purchased equipment, financial collateral granted by the EIF in the amount of 60% of the value of the facility	RON 2,200,000 + related interest and fees	RAIFFEISEN BANK	-
2.6	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 recorded under the cost model is shown in the table below. This cost represents the cost at the date of transition to IFRSs.

<u>Description</u>	<u>Land and buildings</u>	<u>Equipment and vehicles</u>	<u>Furniture, facilities and equipment</u>	<u>Fixed assets in progress and advances</u>	<u>Total</u>
<u>Year ended as of</u>					
<u>December 31, 2019</u>					
Cost	50,368,714	27,108,366	217,647	747,422	78,442,149
Accumulated amortization	<u>13,025,499</u>	<u>19,947,627</u>	<u>153,766</u>	<u>0</u>	<u>33,126,892</u>
Net book value	<u>37,343,215</u>	<u>7,160,739</u>	<u>63,881</u>	<u>747,422</u>	<u>45,315,257</u>
<u>Year ended as of</u>					
<u>December 31, 2020</u>					
Cost	50,151,055	27,021,795	240,181	3,641,476	81,054,507
Accumulated amortization	<u>13,461,597</u>	<u>20,982,755</u>	<u>164,399</u>	<u>0</u>	<u>34,608,751</u>
Net book value	<u>36,689,458</u>	<u>6,039,040</u>	<u>75,782</u>	<u>3,641,476</u>	<u>46,445,756</u>

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

7. INTANGIBLE ASSETS

Trademarks and Licenses**As of January 1, 2019**

Cost or valuation	241,465
Accumulated amortization	<u>(234,908)</u>
Net book value	<u>6,557</u>

For the year ended December 31, 2019

Initial net book value	6,557
Inflow	1,023
Amortization charge	<u>(6,331)</u>
Final net book value – intangible assets	<u>1,249</u>

As of December 31, 2019**As of January 1, 2020**

Cost or valuation	242,489
Accumulated amortization	<u>(241,238)</u>
Net book value	<u>1,249</u>

For the year ended December 31, 2020

Initial net book value	1,249
Inflow	0
Amortization charge	<u>(1,249)</u>
Final net book value – intangible assets	<u>0</u>

As of December 31, 2020

Intangible assets in progress - initial	<u>0</u>
Inflow	<u>0</u>
Outflow	<u>0</u>
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 of January 1, 2019	<u>Buildings + Land</u>
Cost or measurement	7,124,302
Net book value	7,124,302
Inflow	-
Earnings / (loss) from measurement at fair value	-
Outflow	-
Net final book value	7,124,302
As of December 31, 2019	
Cost or measurement	7,124,302
Net book value	7,124,302
For the year ended December 31, 2020	<u>Buildings + Land</u>
Inflow	-
Earnings / (loss) from measurement at fair value	-
Outflow	-
Net final book value	7,124,302
As of December 31, 2020	
Cost or measurement	7,124,302
Net book value	7,124,302

9. FINANCIAL INSTRUMENTS

	<u>December 31, 2019</u>	<u>December 31, 2020</u>
Assets		
Receivables and other receivables	7,318,097	5,662,207
Cash and cash equivalents	<u>1,024,860</u>	<u>979,149</u>
Total monetary financial assets	<u>8,342,957</u>	<u>6,641,356</u>
Payables		
Loans	6,334,372	3,742,791
Trade payables and of other nature	3,415,012	3,468,237
Current income tax	<u>1,237</u>	<u>30,631</u>
Total Monetary Financial Liabilities	<u>9,750,621</u>	<u>7,241,659</u>

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

Accounting classifications and fair values:

December 31, 2020	Note	Amortized cost (IFRS 9)	Total carrying total	Fair value (IAS 39)
Financial assets (RON)				
Cash and cash equivalents	12	979,149	979,149	979,149
Receivables and other receivables	11	5,662,207	5,662,207	5,662,207
Total Financial Assets		6,641,356	6,641,356	6,641,356
Financial liabilities (RON)				
Loans	14	3,742,791	3,742,791	3,742,791
Trade payables and of other nature	16	3,468,237	3,468,237	3,468,237
Current income tax		30,631	30,631	30,631
Total Financial Liabilities		7,241,659	7,241,659	7,241,659

10. INVENTORY

	<u>December 31, 2019</u>	<u>December 31, 2020</u>
Materials	4,761,759	4,559,318
Inventory items	91,693	93,561
Finished Products	9,646,842	9,621,083
Goods	358,881	295,378
Provisions on impairment of inventories	<u>(156,996)</u>	<u>(152,928)</u>
Total inventories	<u>14,702,179</u>	<u>14,416,412</u>
	<u>December 31, 2019</u>	<u>December 31, 2020</u>
As of January 1	185,772	156,996
Impairment adjustments during the year (Note 15)	0	0
Reversed	<u>(28,776)</u>	<u>(4,068)</u>
As of December 31	<u>156,996</u>	<u>152,928</u>

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

11. TRADE RECEIVABLES AND OTHER RECEIVABLES

	<u>December 31, 2019</u>	<u>December 31, 2020</u>
Customer Receivables	7,408,640	5,747,918
Adjustments on impairment of receivables on customers	<u>(373,564)</u>	<u>(390,830)</u>
Trade receivables and other receivables	<u>7,035,076</u>	<u>5,357,088</u>
Prepayments	139,118	45,306
Other receivables	143,465	259,375
Other non-current receivables (over 3 months)	438	438
Provisions on impairment of other receivables	0	0
Current income tax to be recovered	<u>0</u>	<u>0</u>
Total	<u>283,021</u>	<u>305,119</u>
Total Receivables after provisions set aside	<u>7,318,097</u>	<u>5,662,207</u>

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

	<u>December 31, 2019</u>	<u>December 31, 2020</u>
RON	7,079,498	5,431,183
EUR	238,599	231,024
Other currencies (USD, GBP)	-	-
Total Receivables	<u>7,318,097</u>	<u>5,662,207</u>

The analysis of receivables by maturity is presented in the following table:

	<u>December 31, 2019</u>	<u>December 31, 2020</u>
During the maturity period	5,421,764	4,468,687
Maturity period exceeded but without the risk of impairment	1,896,333	1,193,520
Total	<u>7,318,097</u>	<u>5,662,207</u>

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

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

	<u>December 31, 2019</u>	<u>December 31, 2020</u>
Up to 3 months	1,621,170	1,028,225
Between 3 and 6 months	376,386	141,352
More than 6 months	<u>272,341</u>	<u>414,773</u>
Adjustments for impairment of receivables	(373,564)	<u>(390,830)</u>
Total	<u>1,896,333</u>	<u>1,193,520</u>

Within the outstanding receivables, an amount of RON 83,049 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 GEO 158/2005 and which have not been transferred to us by December 31, 2020, 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 presented below:

- The amount of RON 65,648 with maturity exceeded up to 3 months, represents the amount corresponding to reimbursement applications submitted in September, October and November 2020 and not collected until December 31, 2020
- The amount of RON 17,401 with maturity exceeded between 3 and 6 months, represents the amount corresponding to a reimbursement application submitted in August 2020 and not collected until December 31, 2020.

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 2021.

The analysis of adjustment movement for the impairment of receivables:

	<u>December 31, 2019</u>	<u>December 31, 2020</u>
As of January 1	215,337	373,564
Receivable impairment adjustment during the year	176,864	26,925
Reversed impairment adjustments	<u>(18,637)</u>	<u>(9,659)</u>
As of December 31	<u>373,564</u>	<u>390,830</u>

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

12. CASH AND CASH EQUIVALENTS

	<u>December 31, 2019</u>	<u>December 31, 2020</u>
Cash in hand and in bank	93,143	39,370
Performance bonds under 3 months	-	-
Collateral cash at the bank - letters of credit	-	-
Other cash equivalents	93,781	97,344
Short-term deposits	<u>837,936</u>	<u>842,435</u>
Total	<u>1,024,860</u>	<u>979,149</u>

	<u>December 31, 2019</u>	<u>December 31, 2020</u>
Cash in hand and in bank in RON	27,406	21,059
Cash in hand and in bank in USD	1,468	1,495
Cash in hand and in bank in EUR	64,269	16,816
Short-term deposits in RON	837,936	842,435
Short-term deposits in EUR	-	-
Funds to be collected RON	<u>93,781</u>	<u>97,344</u>
Total	<u>1,024,860</u>	<u>979,149</u>

<u>Bank</u>	<u>December 31, 2019</u>	<u>December 31, 2020</u>
Raiffeisen Bank	2,334	2,766
BRD	14,945	6,820
Treasury	5,182	4,581
BCR	65,738	18,311
Unicredit Ţiriac Bank	0	0
Cash in hand and other cash equivalents	98,725	104,236
Short-term deposits - BRD	0	0
Short-term deposits - BCR – manager securities	72,554	77,053
Short-term deposits – CEC BANK - dividends recorded	765,364	765,364
Short-term deposits – CEC BANK - securities	18	18
	<u>1,024,860</u>	<u>979,149</u>

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

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, 2019</u>	<u>December 31, 2020</u>
Cash and cash equivalent	1,024,860	979,149
Total current share of loans	<u>6,235,396</u>	<u>2,278,043</u>
	<u>7,260,256</u>	<u>3,257,192</u>

13. OWNERS' EQUITY

	<u>December 31, 2019</u>	<u>December 31, 2020</u>
Share capital	12,325,438	12,325,438
Adjustments in Share Capital	<u> -</u>	<u> -</u>

	<u>Value</u>	<u>No. of Shares</u>	<u>Value of share (RON)</u>	<u>Percentage of Ownership (%)</u>
S.C. CARBO EUROPE S.R.L.	9,341,858	3,736,743	2.5	75,7933
Legal persons	1,672,505	669,002	2.5	13,5695
Individuals	1,311,075	524,430	2.5	10,6372
Total	<u>12,325,438</u>	<u>4,930,175</u>		<u>100</u>

As of December 31, 2020 the Company holds a number of 4,813 own shares registered during 2020 at a market value of RON 39,466.60 according to the documents that underpinned the transfer of ownership. At the par value of RON 2.5 per share, these shares represent RON 12,032.50.

NOTES TO FINANCIAL STATEMENTS**(All amounts are expressed in RON unless otherwise stated)**

After obtaining the enforceable title in the case file no. 3986/1285/2011, the issuer started enforcement actions by seizing shares held by the debtor, with the direct transfer of ownership from SCOPE LINE S.A. assets to CARBOCHIM S.A. assets on the basis of the award certificate dated January 30, 2013 issued by 'Adam, Oszoczki, Sortan si Asociatii Executori Judecatoresti'. The direct transfer was approved by ASF by Decision No. 953/July 24, 2019 following the final settlement at the High Court of Cassation and Justice of the file no. 7903/2/2016. In the Ledge of Shareholders the transfer was operated on March 24, 2020 as we were informed by the Central Depository by means of notice no. 11720/April 15, 2020.

At the time 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, determined on 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 2020, the Company did not appropriate any dividends to owners.

14. LOANS

	<u>December 31, 2019</u>	<u>December 31, 2020</u>
Loans from banks	6,266,507	3,710,553
Loans from Shareholders	-	-
Total loans	<u>6,266,507</u>	<u>3,710,553</u>
Current share of loans	6,235,396	2,278,043
Long-term share – loans from banks	61,111	1,432,510
	<u>6,296,507</u>	<u>3,710,553</u>

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

In November 2017, the Company signed with RAIFFEISEN BANK S.A. a term 'Invest SME Initiative' loan agreement amounting to RON 2,500,000 for a period of 3 years, to finance 80% of the investment representing the acquisition of new equipment. As of December 31, 2020, the balance of this loan was RON 61,111, with maturity in January 2021.

The collaterals for this facility are: the mortgage on current accounts opened at the bank, the mortgage on the equipment subject to the investment, and a 60% financial collateral granted by EIF.

The credit facility provided under this Contract is supported by the European Union support through the SME Initiative Program, funded by the European Union through the ERDF and Horizon 2020 and by the European Investment Fund and the European Investment Bank.

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 of December 31, 2020, the balance of this loan was Ron 1,841,798, with maturity in 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, 2019</u>	<u>December 31, 2020</u>
RON	5,291,649	3,086,171
EUR	<u>1,004,858</u>	<u>624,382</u>
	<u>6,296,507</u>	<u>3,710,553</u>

The effective average annual interest rate on bank loans for the financial year 2020 was of 2.59% (for the year 2019 was of 3.72%).

15. FINANCE LEASE

	<u>December 31, 2019</u>	<u>December 31, 2020</u>
Up to one year	98,976	32,123
Between 1 year and 5 years	<u>29,689</u>	<u>115</u>
Current value of finance lease	<u>128,665</u>	<u>32,238</u>
	<u>December 31, 2019</u>	<u>December 31, 2020</u>
Up to one year	99,156	32,123
Between 1 year and 5 years	29,689	115
Future financing costs	<u>(180)</u>	<u>0</u>
Current value of finance lease	<u>128,665</u>	<u>32,238</u>

The effective average annual interest rate of the finance lease for the year 2020 was of 0.12% (for the financial year 2019 was of 0.71%).

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

16. SUPPLIERS AND OTHER CREDITORS

	<u>December 31, 2019</u>	<u>December 31, 2020</u>
Suppliers	1,095,070	1,299,992
Payables regarding personnel	522,655	504,836
Interest payable	7,377	957
Dividends payable	938,059	925,603
VAT payable	247,499	200,048
Other payables to the State	486,339	460,410
Deferred income	0	0
Creditor customers and sundry creditors	93,111	58,824
Excess inventory such as non-current assets and investment grants	<u>24,902</u>	<u>17,567</u>
Total	<u>3,415,012</u>	<u>3,468,237</u>

	<u>December 31, 2019</u>	<u>December 31, 2020</u>
EUR	320,100	637,570
USD	-	-
RON	<u>3,094,912</u>	<u>2,830,667</u>
	<u>3,415,012</u>	<u>3,468,237</u>

17. ANALYSIS OF REVENUE BY CATEGORY

	<u>December 31, 2019</u>	<u>December 31, 2020</u>
Revenue from sale of finished goods	33,203,510	30,016,768
Revenue from sale of goods	377,129	263,988
Revenue from services rendered	<u>101,082</u>	<u>86,440</u>
Total	<u>33,681,721</u>	<u>30,367,196</u>

Other operating income

	<u>December 31, 2019</u>	<u>December 31, 2020</u>
Gain / (loss) from sale of fixed assets	(278)	(90,286)
Other income	257,298	68,044
Gain on revaluation of tangible assets	0	0
Gain on revaluation of property investment at fair value	0	0
Rental income	<u>1,529,398</u>	<u>1,120,812</u>
Subsidy income for staff payments	<u>0</u>	1,432,829
Total	<u>1,786,418</u>	<u>2,531,399</u>

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

Other operating income as of December 31, 2019 recorded revenues of RON 232,986 representing dividends distributed in 2014, 2015, 2016 outstanding until December 20, 2019 and for which the right of the Shareholders to ask for their payment is barred by limitation. Without recording these revenues, the operating result of 2019 would have been RON 154,083.

Considering the Covid-19 pandemic, during 2020, AJOFM [*County Agency for Employment*] received subsidies for the payment of personnel in the amount of RON 1,432,829, representing:

- Furlough allowance under GEO no. 30/2020 for the period April-May 2020 in the amount of RON 600,010
- Settlement of 41.50% of the gross basic salary for the employees who had their employment contract suspended for a period of at least 15 days during the state of emergency or alert, according to Article III paragraph (2) of GEO no. 92/2020, in the amount of RON 832,819.

Without recording these revenues, the operating result of 2020 would have been RON 325,983.

18. WAGES AND OTHER RELATED COSTS

	<u>December 31, 2019</u>	<u>December 31, 2020</u>
Salary expenses	14,880,253	13,623,345
Salary contribution expenses	535,058	467,427
Meal vouchers expenses	<u>634,170</u>	<u>511,755</u>
Total	<u>16,049,481</u>	<u>14,602,527</u>

	December 31, 2019	December 31, 2020
Average number of employees	200	164
Number of employees	201	185
Salary of administrative staff (managers, including related social contributions)	1,690,411	1,377,117
Board of Directors (including related social security contributions)	839,759	839,759

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

19. OTHER OPERATING EXPENSES

	<u>December 31, 2019</u>	<u>December 31, 2020</u>
Other third-party service expenses	687,479	804,959
Royalties and rental expenses	36,244	28,474
Utilities expenses	2,139,447	1,905,094
Maintenance and repair expenses	309,835	36,478
Insurance expenses	113,634	102,857
Damages and penalties expenses	121	23,208
Other provisions expense / (reversal)	17,000	9,488
Net provision for receivables expense / (reversal)	158,227	17,266
Postage and other fees	43,496	42,628
Expenses on commissions and fees	302,428	198,106
Entertainment, advertising and publicity expenses	113,909	26,821
Net (gain) / loss from exchange differences from operating activities	6,603	(34,882)
Net provision for slow moving inventories or impaired expense / (reversal)	(28,775)	(4,068)
Banking and related expenses	39,038	43,026
Travel expenses	171,158	66,131
Other operating expenses	918,573	823,129
Shipping costs	<u>297,267</u>	<u>161,252</u>
Total	<u>5,325,684</u>	<u>4,249,967</u>

In 2020, an audit fee of EUR 8,000 was paid to the auditor for auditing the Financial Statements as of December 31, 2019

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

20. FINANCIAL RESULT

	<u>December 31, 2019</u>	<u>December 31, 2020</u>
Interest expense		
- Loans	255,958	129,830
- Financial lease	1,600	96
Net result from exchange rate differences	<u>39,824</u>	<u>45,500</u>
Financial costs	<u>297,382</u>	<u>175,426</u>
Interest income	5	9
Other financial income	<u>0</u>	<u>0</u>
Financial income	<u>5</u>	<u>9</u>
Net financial result	<u>(297,377)</u>	<u>(175,417)</u>

21. INCOME TAXES

Description	<u>December 31, 2019</u>	<u>December 31, 2020</u>
Gross income	68,588	1,371,441
Tax rate according to national regulations	16%	16%
Items similar to income	1,461,487	935,164
Items similar to expenses	(26,056)	(20,976)
Deductions	(3,382,467)	(2,651,768)
Non-taxable income	(164,441)	(74,685)
Non-deductible expenses	3,115,416	2,595,090
Total	1,072,527	2,154,266
Tax expense	(171,604)	(344,683)
Sponsorship / patronage amounts	<u>34,321</u>	<u>68,937</u>
Total	<u>(137,283)</u>	<u>(275,746)</u>
Bonus according to GEO 33/2020	0	24,502
Total corporate income tax after application of the bonus	<u>(137,283)</u>	<u>(251,244)</u>
(Expense) / revenue with deferred tax	116,179	39,290
(Expense) / revenue with income tax	(21,104)	(211,954)

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

21. INCOME TAXES (CONTINUED)

	<u>January 1, 2019</u>	<u>Movement in deferred tax</u>	<u>December 31, 2019</u>	<u>Movement in deferred tax</u>	<u>December 31, 2020</u>
Deferred tax assets	22,720	17,214	39,934	(24,207)	15,727
Deferred tax liabilities	<u>(7,056,560)</u>	<u>219,137</u>	<u>(6,837,423)</u>	<u>(80,163)</u>	<u>(6,917,586)</u>
Asset / (liability) from deferred tax - net	<u>(7,033,840)</u>	<u>236,351</u>	<u>6,797,489</u>	<u>(104,370)</u>	<u>(6,901,859)</u>

<u>Deferred tax liabilities</u>	<u>Property, Plant and Equipment</u>	<u>Provisions</u>	<u>Total</u>
As of January 1, 2019	(7,055,640)	(920)	(7,056,560)
Movement in deferred tax	<u>228,954</u>	<u>(9,817)</u>	<u>219,137</u>
As of December 31, 2019	<u>(6,826,686)</u>	<u>(10,737)</u>	<u>(6,837,423)</u>

<u>Deferred tax assets</u>	<u>Property, Plant and Equipment</u>	<u>Provisions</u>	<u>Total</u>
As of January 1, 2019	12,345	10,375	22,720
Movement in deferred tax	<u>(11)</u>	<u>17,225</u>	<u>17,214</u>
As of December 31, 2019	<u>12,334</u>	<u>27,600</u>	<u>39,934</u>
<u>Asset / (liability) from deferred tax - net</u>	<u>(6,814,352)</u>	<u>16,863</u>	<u>(6,797,489)</u>

<u>Deferred tax liabilities</u>	<u>Property, Plant and Equipment and legal reserve</u>	<u>Provisions</u>	<u>Total</u>
As of January 1, 2020	(6,826,686)	(10,737)	(6,837,423)
Movement in deferred tax	<u>(90,816)</u>	<u>(10,653)</u>	<u>(80,163)</u>
As of December 31, 2020	<u>(6,917,502)</u>	<u>(84)</u>	<u>(6,917,586)</u>

<u>Deferred tax assets</u>	<u>Property, Plant and Equipment</u>	<u>Provisions</u>	<u>Total</u>
As of January 1, 2020	12,334	27,600	39,934
Movement in deferred tax	<u>(2)</u>	<u>(24,205)</u>	<u>(24,207)</u>
As of December 31, 2020	<u>12,332</u>	<u>3,395</u>	<u>15,727</u>
<u>Asset / (liability) from deferred tax - net</u>	<u>(6,905,170)</u>	<u>3,311</u>	<u>(6,901,859)</u>

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

22. RELATED PARTIES

The list of Company related parties is as follows:

Related party	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 social shares). Deliveries represent the equivalent rent and utilities under contract 2249 / December 13, 2012.
AUTO EUROPA SRL Timișoara	Mr Popa Dan – Director of CARBOCHIM SA holds 50% of AUTOEUROPA SRL and is the Director of AUTOEUROPA SRL together with another person. There were no transactions with this company in 2020.

Analysis of balances and transactions with related parties (Amounts in RON and VAT included):

Balances as of January 1, 2019	<u>Receivables</u>	<u>Other receivables</u>	<u>Payables</u>
CARBOREF SA	852	-	-
AUTO EUROPA SRL	-	-	-
Total	<u>=</u>	<u>=</u>	<u>=</u>
Transactions carried out during 2019:	Sales	Expenses	Loans
CARBOREF SA	10,588	-	-
AUTO EUROPA SRL	-	409	-
Total	<u>10,588</u>	<u>409</u>	<u>=</u>
Balances as of December 31, 2019	Receivables	Other receivables	Payables
CARBOREF SA	1,036	-	-
AUTO EUROPA SRL	-	-	-
Total	<u>=</u>	<u>=</u>	<u>=</u>
Transactions carried out during 2020:	Sales	Expenses	Loans
CARBOREF SA	12,299	-	-
AUTOEUROPA SRL	-	-	-
Total	<u>12,299</u>	<u>=</u>	<u>=</u>
Balances as of December 31, 2020	Receivables	Other receivables	Payables
CARBOREF SA	1,029	-	-
AUTOEUROPA SRL	-	-	-
Total	<u>-</u>	<u>-</u>	<u>-</u>

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

As of December 31, 2020, the Board of Directors of the Company has the following structure:

- Popoviciu Viorel Dorin, Member of the Board of Directors and Chairman of the Board. Holds 234,670 shares.
- Popa Gheorghe Titus Dan, Member of the Board of Directors. Does not hold shares.
- Ionescu Mircea Pietro, Member of the Board of Directors. Does not hold shares.
- Stoicescu Daniel-Silviu, Member of the Board of Directors. Holds 15 shares.
- Crisan Viorel Vasile, Member of the Board of Directors. Does not hold shares.

The executive management of the Company is:

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

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.

	<u>Year ended as of December 31, 2019</u>	<u>Year ended as of December 31, 2020</u>
Profit attributable to equity holders of the Company	68,588	1,371,441
Weighted average of number of shares	4,930,175	4,930,175
Basic earnings and diluted earnings per share (RON per share)	0.01	0.28

24. CONTINGENCIES

24.1. Litigation

The Company is subject to a number of lawsuits, most of them representing 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 2020, 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 existing at the time of preparation of financial statements for companies reporting under the International Financial Standards is in 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 maintains 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 according to the Order of the Minister of Public Finance 3055/2009.

24.3. Financial crisis

Recent volatility in international and Romanian financial markets:

The latest global liquidity crisis that began in mid-2007 resulted in, among other things, a low level of capital market funding, lower liquidity levels in the financial sector and, occasionally, higher interbank lending rates and volatility very high stock exchanges. Moreover, the RON exchange rate volatility and the main currencies used in international trade was very high.

Management is unable to reliably estimate the effects on the financial position of the Company to a potential decrease in liquidity of financial markets, an increase in the volatility of the exchange rate of the national currency and the continuation of the recession to come. The Management believes that it has taken all the necessary measures 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 financial markets which resulted from restricting access to credit for companies and individuals during the financial crisis in 2007-2009. Therefore, the accounting value of tangible assets at fair value has been updated 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 be modified 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 is in one of the worst economic crises since the Great Depression (1929-1933), according to the forecasts by economy specialists, due to the Covid-19 pandemic that has made its presence felt in Romania since March 2020.

The European Union's reaction has been swifter and more concerted than ever on both strategic axes: fighting the Covid-19 pandemic and its economic effects.

The Government of Romania has taken several measures to support the economic agents, including being 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.

Currently, the global crisis caused by the coronavirus pandemic is expected to send the European Union and the Euro Area into a recession, the full impact of this crisis is still impossible to predict and prevent in its entirety.

In view of the current overall 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**, as follows:

The following **significant uncertainties that the Company may face** and the impact of these uncertainties on the Company's economic activity and on the Company's ability to continue as a going concern have been identified as follows:

1. Company access to **government aid** in 2021

According to the 2020 legislation, the Company had access to government aid.

During the state of emergency, the Company suspended the employment contracts of some employees, requesting from AJOFM the amounts necessary for the payment of the allowance provided for in Article XI paragraph (1) of GEO 30/2020.

Due to the decrease in demand in the context of the COVID-19 pandemic, as well as due to the fact that many companies had their activity interrupted during the state of emergency, the revenues

NOTES TO FINANCIAL STATEMENTS

(All amounts are expressed in RON unless otherwise stated)

from the sale of finished products in 2020 were at the level of RON 30,016,768 compared to RON 33,203,510 recorded in 2019, recording a decrease of approx. 9.60%.

At the same time, the operational expenses of the Company in 2020 amounted to RON 31,04,134 compared to RON 34,693,610 in 2019, decreasing by approx. 10.35%.

In light of the foregoing, as well as the recording of revenues from subsidies for the payment of personnel for the period of suspension of employment contracts during the state of emergency, the operating result of 2020 is profit in the amount of RON 1,758,812 compared to RON 387,069 in 2019.

Considering the Covid-19 pandemic, during 2020, subsidies for the payment of personnel amounting to RON 1,432,829 lei were received from AJOFM, representing:

- Furlough allowance under GEO no. 30/2020 for the period April-May 2020 in the amount of RON 600,010

- Settlement of 41.50% of the gross basic salary for the employees who had their employment contract suspended for a period of at least 15 days during the state of emergency or alert, according to Article II paragraph (2) of the GEO no. 92/2020, in the amount of RON 832,819.

Without recording these revenues, the operating result of 2020 would have been RON 325,983.

From the analysis of the Income and Expenditure Budget for 2020, data achieved/forecast for each balance sheet item and from the analysis of the Cash Flow Statement for 2020 it resulted a balanced situation, the Company managing its cash flows so as to meet all obligations towards suppliers, employees and other creditors. Please note that the Company has paid monthly all outstanding obligations to the State budget and the social security budget, without applying the possibility offered by the legislation in force to defer payments to the State budget for the period of 2020.

According to the current legislation (March 2021), the Company does not fall into the category of companies eligible for government aid because the Company can carry out its activity as usual without restrictions imposed by legal provisions.

2. The economic situation of **customers**, the restrictions faced by the customers as well as the way in which the customers of the Company will be affected by the economic crisis and/or the restrictions imposed.

During 2020, the Company did not face any customer loss situations.

Furthermore, an analysis of the accounting data does not indicate that customers have deferred payments to a greater extent than in previous years.

The Company has a large number of customers operating in different business sectors, as follows: construction, manufacturing industry (machinery and equipment, metallurgy, wood processing, furniture, processing of non-metallic mineral products, processing of rubber and plastics, textiles, footwear) and retail.

The Company does not depend on a small number of customers. Moreover, the Company's customers are not part of the business sectors that have been deeply affected in 2020 and so far.

In order to ensure the collection of the value of the products in the case of new and occasional customers, we have worked with the collection based on proforma invoices and the delivery after collection.

3. Economic situation of **suppliers**, affecting supply chains

Regarding the supply, we were not affected by the COVID-19 pandemic as we had stockpiles of basic raw materials big enough to ensure our production for several months. This is because the

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sourcing of a large part of the basic raw materials is from Chinese suppliers, which requires an important period of time from the order to the arrival of the raw material, taking into account the shipping of the raw material which takes at least 30 days. Of course, there are also alternative sources of supply, generally there are at least two suppliers for each raw material.

Assuming that the raw materials become more expensive, we have drawn up a variant of Income and Expenditure Budget from the analysis of which it results that the Company will succeed in maintaining itself on the market even under the conditions of a substantial reduction in the net profit because the Company has undistributed reserves from previous years.

4. Access to **financing of the activity** through bank loans

Cash flows from operating activities increased by RON 2,431,900, from RON 2,886,965 in 2019 to RON 5,318,865 in 2020, so that the Company managed to decrease its working capital credit line commitments by RON 3,694,418 in 2020.

Please note that during 2020, the working capital credit lines were extended to the existing level from 2019 and in July 2020 an investment loan amounting to RON 2,235,000 was committed for a period of 5 years to finance 80% of the investment representing the purchase of new equipment.

Therefore, in view of the current situation, we do not consider that there is a question of limiting access to financing through bank loans.

5. **Human resources** availability

The Company has sufficient and appropriately qualified human resources. The field of activity in which the Company operates does not require the existence of staff requiring special qualifications. The Company may proceed with the emergency qualification of personnel in a relatively short time.

The Company has taken a number of measures to carry out its activities in the context of preventing and fighting the SARS-Cov-2 infection, among which the most important are: shifting the working hours of the employees, training the employees on keeping the recommended distance and wearing protective masks, daily monitoring of the temperature of the personnel at the shift entry, providing the employees with protective masks and disinfectants, isolating the employees with respiratory symptoms or fever and testing them through the occupational medicine practice.

6. Increasing **exchange rate** volatility

The Company is exposed to currency risk through exposure to different currencies, namely USD and EUR. Currency risk is associated to assets and liabilities recognized, in particular payables towards external suppliers of raw material and material, as well as loans and leases.

In April 2018, the Company concluded a framework contract for derivative financial transactions for FORWARD foreign exchange operations to partially cover foreign exchange risk for USD, therefore the Company started to apply the hedge accounting.

Other matters:

We conducted an insolvency risk analysis by analyzing **the Z-score function - the Altman model**. This analysis shows that there is no risk of bankruptcy in the medium term.

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During 2020, the Company's business model was not affected, the sale and delivery of the products took place under the same conditions, the only changes were related to electronic and telephone communication to a much greater extent than in the previous year, the delegates' trips to customers were reduced to the minimum possible, especially during the state of emergency, and the deliveries were made to a much greater extent through the courier and transport companies.

There are no potential legal or contractual problems, arising from the entity's potential lack of ability to meet its obligations.

The entity's revenues and cash flows were affected by the impact of the pandemic on consumers and customers during the state of emergency, in which the Company partially suspended its activity.

The entity's cash flows and working capital were not materially affected.

In the event that new restrictions will be imposed, if the government aid program does not cover the new period, the management of the entity shall consider the possibility of reducing the working hours of the employees according to the legal regulations in force, as well as the use of teleworking for the employees in the areas that allow working from home (sales, marketing, IT, accounting, human resources, etc.), in order to reduce the costs in proportion to the reduction of the revenues.

Conclusions:

The Company has prepared several versions of Income and Expenditure Budget and Cash Flow Statement in which the above uncertainties are taken into account in a worst-case scenario. It follows from the analysis of these versions that the Company will be able to overcome the period of economic crisis within a limited, medium-term time horizon.

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.

25. SUBSEQUENT EVENTS

In the Current Report issued on March 20, 2021 to publish the agenda of the Ordinary General Meeting of Shareholders of April 28, 2021, convened for approval of the Financial Situations of 2020, the following shall be submitted for approval:

- Appropriation of the net profit of 2020 in the amount of RON 1,371,441.48 as follows: to the legal reserves the amount of RON 79,169.77 and retained earnings (profit not distributed) the difference of RON 1,292,271.71.