# ANNUAL REPORT OF DIRECTORS

***Drawn up according to Regulation no.1/2006 of the National Securities Commission***

for the 2017 financial year

## CARBOCHIM S.A.
## CLUJ-NAPOCA



| | |
|---|---|
| ***Registered Office:*** | ***Cluj-Napoca*** |
| | ***Piata 1 Mai Nr.3*** |
| ***Phone No.:*** | ***00 40 264 437005*** |
| ***Fax:*** | ***00 40 264 437026*** |
| ***Tax Registration Number:*** | ***RO 201535*** |
| ***Registration Number with the Trade Register:*** | ***J 12/123/1991*** |
| ***Subscribed and paid-up share capital:*** | ***RON 12,325,437.50*** |
| ***Email:*** | Sales@carbochim.ro |
| ***Website:*** | www.carbochim.ro |



***Report Date: 19 March 2018***

***Regulated market where the issued securities are traded:***

*Carbochim S.A. shares are traded on the 2nd category of the Stock Exchange Bucharest, CBC symbol.*

***Main characteristics of the securities issued by the Company:***

*As of 31 December 2017, the situation was as follows:*

*-Number of shares: 4,930,175*
*- Nominal value: RON 2,5 / share*
*- Share capital: RON 12,325,437.50*
*-Nominal shares, issued in book-entry form, registered in the independent registry Depozitarul Central S.A., according to contract no. 42757 dated 16 September 2008*

## ***1. Analysis of the Company's activity***

### **1.1. *a) Description of Company's main activity*.**

*Carbochim SA operates as a joint stock company under Law 31/1990 republished, as subsequently amended and supplemented, with the core activity "Production and trade of abrasive products" .According to NACE Classification - code NACE 2391.*

### ***b) Year of establishment of the Company:***

*CARBOCHIM S.A. is organised as a joint stock company since 1991, through the transformation of the former I.I.S. CARBOCHIM and has its headquarters 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 profile 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.*

### ***c) Description of any significant merger or reorganisation of the Company, its subsidiaries or controlled companies during the financial year.***

*N/A. In the course of the 2017 financial under reporting, the Company did not carry out any significant merger or reorganisation.*

### ***d) Description of asset acquisitions and / or alienations.***

| | |
|---|---|
| ***Acquisitions of fixed assets:*** | ***RON 597,695*** |
| *- RON* | |
| *- Land* | |
| *- Building (upgrading):* | *RON 7.889* |
| *- Technological equipment:* | *RON 22,980* |
| *- Means of transport* | *RON 549,833* |
| *- Measuring devices and installations* | *RON 4,957* |
| *- Devices, office supplies, protection equip.* | *RON 3,677* |
| *- Intangible assets* | *RON 8,359* |

| | |
|---|---|
| ***Asset scrapping*** | ***RON 261,125*** |

***e) Description of the main results of the evaluation of the Company's business*** .

*During 2017 there was an increase in the sales of abrasive products by approx. 5% over the previous year, which has led to a positive influence on the results of our Company's activity.*

**1.2. *Overall assessment elements:***

| INDICATOR | 2017 / RON |
|---|---|
| *Net profit* | **978,970** |
| *Turnover* | **32,931,796** |
| *Intra-community export or deliveries* | **1,489,610** |
| *Operating revenue* | **32,974,290** |
| *Operating expenses* | **31,667,159** |
| *% of the market held (in Romania)* | **25%** |
| *Liquidity (cash and cash equivalents on 31 December 2017)* | **635,776** |

**1.3. *Company's assessment of the technical level.***

**Description of the main products and / or services provided, stating:**

*Carbochim SA produces a wide range of abrasive products such as:*
- *abrasive grinding wheels with binders: ceramic, organic, mineral and elastic;*
- *cutting and deburring wheels;*
- *coated abrasive paper, canvas in the form of: endless belts, rolls, sheets, flat wheels, lamellar wheels and others.*

*The Company has also concluded different collaboration agreements with other manufacturers to complete the assortment range.*

***a) Main outlets for each product or service and distribution methods.***

*The main product outlet is the domestic one and the distribution of products is achieved both directly by the Company and through authorised representatives or dealers.*
*On the foreign market, the sale is achieved directly by the Company. The most important exports are in Poland, Belgium, Switzerland, Hungary, Germany and the Czech Republic.*

***b) The weight of each category of products or services in the revenues and in the total turnover of the Company for the last three years.***

| PRODUCTS CARBOCHIM | 2015 | | 2016 | | 2017 | |
|---|---|---|---|---|---|---|
| | %Revenue | %Turnover | %Revenue | %Turnover | %Revenue | %Turnover |
| Abrasive grinding wheels | 58.54 | 55.41 | 57.96 | 54.52 | 59.50 | 56.27 |
| Abrasive on wheel | 38.68 | 36.61 | 39.78 | 37.42 | 38.64 | 36.55 |

***c) the new products envisaged for which a substantial volume of assets will be assigned in the next financial year and the stage of development of these products.***

*In view of the strong competition on the retail market, the Company has focused on the development of abrasive products that are used in the automotive industry, bearings, metallurgy and others. For these industries, special high-tech products with state-of-the-art abrasives have been assimilated.*

**1.4. Assessment of the technical-material supply activity (domestic sources, import sources). Specification of information on the security of supply sources, raw material prices and the stock sizes of raw materials and materials.**

*The main utilities, electricity and gas are procured from the domestic market.*
*Part of the basic raw materials are purchased from the European and Asian market (Germany, Italy, Hungary, Austria, Poland, Slovenia, France, China, Korea). In general, there are at least two suppliers for each raw material.*
*Stocks of raw materials are generally within the normal range except for those supplied from the Asian market or those with a long manufacturing cycle where a feedstock is created to avoid closing down of production due to long delivery times.*

**1.5. Evaluation of selling activity.**

**a) Description of the sequential sales evolution on the domestic and / or external market and the prospects for medium and long-term sales.**

*Objectives for 2018:*
- *increasing sales of finished products by approx. 3% as compared to 2017;*
- *increasing sales on the foreign market by at least 3%.*
- *orientation towards the performance of its own distribution system by efficiently using the resources of the territorial places of business - Ploiesti; Braila; Bucharest.*

*In 2017, the Company's activity was carried out in a difficult economic macro environment, which implied the permanent adjustment of the short-term strategies to achieve the proposed objectives.*

***b) Description of the competitive situation in the Company's field of activity, of the market share of the Company's products or services and of the main competitors.***

*Carbochim SA carries out its activity in a variable competitive environment in which changes occur regarding the "pricing policy" component promoted by the business competitors. In this context, we estimate that the 2018 situation will have the same competitive profile as the previous years, and the changes that may occur will not constitute a threat to the marketing policy adopted.*

**c) Description of any significant dependence of the Company to a single client or group of clients, the loss of which would have a negative impact on the Company's income.**

*Given the Company's wide range of products and the large customer base, there is no customer that could materially affect the Company's business. There is a wide range of trading partners on the domestic market, which contributes to the sales achieved by the Company. However, none of them has the potential to have a significant negative impact on the Company's results, the client / product portfolio being in a steady state.*

**1.6.Assessing aspects related to the Company's human resources.**

**a) Specifying the number and level of training of the Company's employees, and the degree of labor union unionizing.**

*The average number of staff in 2017 was 217 employees.*
*Over 45% of employees have been working in the Company for more than 2-3 decades, which provides the Company with a vast and modest experience in the production and marketing of abrasive products.*
*The level of education of the employees is the following: 29% higher education, 65% secondary education (high school, foreman school, vocational school, apprenticeship) and 6% general level studies.*
*It is increasingly difficult to find skilled personnel for marketing and sales as well as for the production activity. Following the discussion with Cluj School Inspectorate, it was attempted to create a professional school grade for abrasive products operator but this was unsuccessful.*

*The degree of unionisation of the workforce within the Company is 66%.*

**b) Description the relationship between the management and employees as well as any conflicting elements that characterise these relationships.**

*Relationships between the Company management and employees took place in 2017 on professional and non-conflicting basis. A collective bargaining is concluded within the Company, which is renegotiated on an annual basis.*

**1.7. Assessing issues related to the impact of the issuer's core business on the environment.**

*The Company holds all the environmental permits and approvals required for the activity performed. There is no pending action or anticipated legal action for breach of environmental legislation. The Company is certified according to ISO 9001: 2015 and ISO 14001: 2004, having an integrated quality system - environment.*

**1.8. Assessment of research and development activity.**

*The research and development activity is oriented towards:*

*- designing and approving new products, especially those required in the industry;*

*-technological improvement and development imposed by the quality and technical requirements of specific products;*

*- technological optimisation by assimilating state-of-the-art raw materials in the fields which we operate, taking into account the main objectives of the Company, namely to reduce costs, to increase the quality of the products and to satisfy the customers' requirements.*

**1.9. Evaluation of commercial activity on risk management.**

*Like any player in a competitive market, the Company is always exposed both to price changes in raw materials, gas and electricity, as well as to local or global developments in finished product prices as well as exchange rate developments.*
*In 2017, the Company's activity was exposed to the following types of risks:*

***-Foreign currency risk.*** *The Company is exposed to foreign currency risk by exposures to various currencies, especially USD and EUR. Currency risk is associated with recognised assets and liabilities, especially loans.*
*The Company does not undertake formal currency mitigation actions related to its operations, so the Company does not apply the hedge accounting.*
*The impact of this type of risk on the profit and loss account in 2017 was of - RON 46,384.*
*The impact on the profit and loss account under the assumption of EUR currency increase by 10%, applied at the balance sheet date, with all other variables remaining constant, would be RON -466,448.*
*The strong RON depreciation against the USD, which rose in 2015 and continued in 2016 and the first half of 2017, diminished towards the end of 2017, but influenced the 2017 profit and loss account, considering that an important part of the raw materials are supplied from the Asian market.Furthermore, in the second half of 2017 there was a strong depreciation trend of RON against the EUR, a trend that seems to continue in 2018 and which influenced the 2017 profit and loss account, since an important part of the raw materials are supplied from the European Union and the fact that the debts related to the financial leasing are calculated according to the EUR exchange rate and a part of the financing was committed in EUR.*

*-**Interest rate risk**. The Company is exposed to interest rate risk through its long and short-term loans, most of which have variable rates linked to the ROBOR index for RON loans and EURIBOR for EUR loans. The Company has signed interest-bearing loan agreements with Unicredit Bank, Banca Comerciala Romana and Raiffeisen Bank. On 31 December 2017, a possible increase in the 1% interest rate would have an effect on income and expenditure of RON -623.*

*-**Price risk**, which represents the risk that the value of a financial instrument will fluctuate as a result of market price changes. In the second half of 2017 there were large increases in utilities prices due to rising electricity prices on the Stock Exchange and a slight increase in prices to other raw materials and materials mainly due to fluctuations in the EUR / RON / USD exchange rate.*

***-Credit risk*** *is related in particular to cash and cash equivalents and trade receivables. The Company has developed a number of policies that ensure that sales of products and services take place to the right customers. The net book value of receivables, net of provisions for doubtful debts, represents the maximum exposure to credit risk.*

*The credit risk of trade receivables that are not provisioned or not due can be assessed through internal analyses, given that there is no external information on risk indicators for clients.*

***-Liquidity risk,***

*The prudent management of liquidity risk implies maintaining sufficient cash and availability of funds through an appropriate amount of committed credit facilities.*

*Cash flow forecasts are conducted by the Company's financial department, which monitors the Company's liquidity needs forecast to ensure that there is sufficient cash to meet the operational requirements, while maintaining a sufficient margin on the borrowing facilities undertaken and unused, so that the Company does not violate loan limits or loan agreements for all loan facilities.*

### 1.10. Prospective elements regarding the Company's business activity.

*In 2018, the main uncertainty factor that may affect the Company's liquidity a compared to 2017 could be the increased payment terms of our customers due to the lack of liquidity on the market, as well as the influence of the EUR-RON and EUR-USD exchange rates, as well as energy and gas price increase if the current growth trend continues in the coming year.*

### 1.11. Statement of Corporate Governance Code.

*Carbochim SA has shares listed on Bucharest Stock Exchange. As a result, the Company applies all the legal provisions in force: Law 31/1990 updated, Order of the Minister of Public Finance 2844/2016 for the approval of the Accounting Regulations according to the International Financial Reporting Standards, the CVNVM Regulation no.1/2006 on reporting, Law 297/2004 on the capital market, BSE regulations and others. All these documents are public.*

*Until the date of this report, the Company did not adhere to the Corporate Governance Code issued by the Bucharest Stock Exchange in 2015.The Company has started the necessary steps to join this Code.The Board of Directors will review and decide on the conditions and influences in the Company's corporate governance adherence strategy.*

*The state of compliance with the Corporate Governance Code of the BVB was presented by the Company in its Current Report dated 22 January 2016, a report found on the website www.carbochim.ro , in the section About us / Shareholders / Year 2016 / Miscellaneous.*

*The Company manages the accounting in accordance with the legislation in force and owns an integrated IT system.*

*The financial statements are prepared in accordance with the statutory accounting policies adopted by the Company and the legislation in force, which are verified and approved by the Chief Financial Officer, the Chief Executive Office and, where appropriate, by the Board of Directors.*

*At Carbochim SA, an internal control system for the core activities has been implemented and working procedures have been established.*

*The tasks exercised by the internal control within the Company, but not limited to these, are:*

*- review of the legality, regularity and compliance of operations;*

*- identifying errors, wastage, maladministration and proposing, on these bases, measures and solutions for the recovery of damages and sanctioning the people responsible, as the case may be;*

*- supervising the functioning of systems for substantiating planning decisions, programming, organising, coordinating, monitoring and controlling the implementation of decisions;*

*- assessment of the efficiency and effectiveness with which the existing management and implementation systems within the Company use the financial, human and material resources to achieve the objectives and fulfil the results.*

*The structure and the operation of the executive, management and supervisory bodies are in accordance with the legislation in force and the Company articles of incorporation. The General Meeting of Shareholders is the governing body of the Company, which decides on its activity and establishes the economic and commercial policy. The General Meetings are ordinary and extraordinary, and the tasks are established by the articles of incorporation. The Company is managed by a Board of Directors composed of 5 directors, who can also have the capacity of shareholders, elected by the General Meeting of the Shareholders for a period of 4 years, with the possibility to be re-elected for new terms of 4 years.At the first meeting, the Board of Directors shall elect a chairman from among its members.The Chairman of the Board of Directors is the General Manager based on the agency relationship. The Executive Directors are appointed by the General Manager and operating within the remit thereof. The composition of the management and administration bodies of the Company is presented in section 4 of this Report.Within the Board of Directors, an Audit Committee consisting of two members was established in 2017.*

*The internal audit activity is outsourced, with a contract signed with Delta Consult SRL, Cluj-Napoca.*
*The internal audit is directly subordinated to the Board of Directors of the Company.*

*The Company has concluded a contract with an authorised financial auditor, according to the legal requirements, which verifies the financial statements in accordance with the legal provisions in force.*

*The General Meeting has the duties stipulated by Law 31/1990 with the related amendments, and by the articles of incorporation of the Company in force at the date of the General Meeting convening.*

*The manner of holding the General Meeting of Shareholders and its key attributions are in line with the legislation in force and with the articles of association of the Company.*

*Shareholders' rights and how they can be exercised are provided in the applicable law.*

## 2. ***Tangible assets of the Company.***

### 2.1. Specification of the location and characteristics of the main production capacities owned by the Company.

*The production capacities held by the Company are located entirely in Cluj- Napoca,*
*P-ta 1 Mai, nr. 3.*

*The two production capacities of Carbochim S.A. are:*
*Grinding wheels department with a capacity of 75 3,000 t/year.*
*Grinding wheels stand department with a capacity of 4,000 thousand sq m / year.*

**2.2. Description and analysis the degree of wear and tear of the Company's properties.**

*An average degree of wear can be deemed at approx. 39%, taking into account that there are assets from 1965-1970, as well as assets from 2000-2017.*
*What is important to remember is that much of the property (construction) dates back from 1973-1979 and it is in a very good condition. Moreover, all machines and installations are in good working condition and allow production to be achieved at a higher quality level.*

**2.3. Specifying potential issues related to ownership of the Company's tangible assets.**

*N/A.*

**3. Securities market issued by the Company.**

**3.1. Specification of the markets in Romania and other countries where the securities issued by the Company are negotiated.**

*The Company is the issuer of nominative shares, traded on the second category of the Bucharest Stock Exchange, CBC symbol.*

**3.2. Description of the Company's business policy on dividends. Specification of the dividends due / paid / accumulated in the last 3 years and, if applicable, the reasons for the possible diminishing of dividends over the last 3 years.**

*Over the recent years, the Company's policy has been to distribute dividends to shareholders, to the extent that the results have allowed this distribution.*

*The statement of dividends distributed and paid in the last 3 years is the following:*

*- in 2015, dividends were distributed in the amount of RON 936,733.25 (gross dividend RON 0.19 / share), of the 2014 net profit, according to the Decision of the Ordinary General Meeting of Shareholders no.1 / 28 April 2015.*
*During 2015, the shareholders were appropriated dividends in the amount of RON 828,191.50 and the withholding tax on dividends in the amount of RON 130,445 was paid to the State Budget.*

*- in 2016, dividends were distributed in the amount of RON 1,972,070 (gross dividend RON 0.40 / share), of the 2015 net profit, according to the Decision of the Ordinary General Meeting of Shareholders no.1 / 27 April 2016.*
*During 2016, the shareholders were appropriated dividends in the amount of RON 1,505,643 and the withholding tax on dividends in the amount of RON 86,746 was paid to the State Budget.*

*- in 2017 no dividends were distributed, but net dividends were paid to shareholders worth RON 182,664 of the dividends distributed in previous years.*

**3.3. Description of any activities of the Company to acquire its own shares.**

*N/A. In 2017, the Company did not acquire its own shares*.3.4. If the Company has subsidiaries, the indication of the number and the nominal value of the shares issued by the mother company owned by the subsidiaries.

*N/A. The Company has no subsidiaries, but has three places of business in Bucharest, Ploiesti and Braila.*

**3.5. If the company has issued bonds and / or other debt securities, the disclosure of how the Company fulfils its obligations against such securities.**

*N/A. The Company has not issued bonds or other debt securities.*

***4. Company Management.***

**4.1. Presentation of the list of the Company's directors and the following information for each director.**

*During 2017, the Company was managed by a Board of Directors consisting of 5 members, elected for the period 2016-2020 in accordance with the Decision of the Ordinary General Meeting of Shareholders no.2 / 29 November 2016.*

*The shareholder Electroarges SA filed an action for the annulment of the Decision of the Ordinary General Meeting of Shareholders Decision no.2 / 29 November 2016 adopted by CARBOCHIM SA. By Civil Decision no.604/2017 of 24 October 2017, Cluj Court of Appeal upheld the appeal filed by Electroarges SA and consequently ascertained the absolute nullity of the Decision of the CARBOCHIM SA Ordinary General Meeting of Shareholders dated 29 November 2016.File 1146/1285/2016 - Cluj Court of Appeal). The decision is final and enforceable and the Company therefore convened a new Ordinary General Meeting of Shareholders on 26 February 2018 for the election of a new Board of Directors.*

*a) Resume (name and surname, age, qualification, professional experience, position and seniority).*
*b) Any agreement, covenant or family relationship between the respective director and another person thanks to whom that person has been appointed director;*
*c) Participation of the director in the equity of the Company;*
*d) List of persons affiliated to the Company.*

***4.1.1. POPOVICIU VIOREL DORIN member of the Board of Directors and the Chairman of the Board of Directors for the period 01 January 2017 - 31 December 2017.*** *He is 64 years old and has the profession of engineer.*
*a) All the functions held within the Company are: trainee engineer, engineer, chief engineer, director, manager, general manager, with a seniority of 39 years.*
*b) N/A.*
*c) He held 643,177 shares as at 31 December 2017.*
*d) They are presented in Note 22 to the Financial Statements and in the Appendix to this Report.*

***4.1.2. POPA GHEORGHE TITUS DAN****, member of the Board of Directors for the period 01 January 2017 - 31 January 2017. He is 63 years old and has the profession of engineer.*
*a) He did not hold and does not holds any other positions within the Company.*
*b) N/A.*
*c) He held 617,796 shares as at 31 December 2017.*
*d) They are presented in Note 22 to the Financial Statements and in the Appendix to this Report.*

***4.1.3. CRISAN VIOREL VASILE** , member of the Board of Directors for the period 01 January 2017 - 31 December 2017. He is 68 years old and has the profession of economist.*
*a) He does not hold any other functions within the Company.*
*b) N/A.*
*c) He held 7,609 shares as at 31 December 2017.*
*d) N/A.*

***4.1.4. IONESCU MIRCEA-PIETRO**, member of the Board of Directors for the period 01 January 2017 - 31 December 2017. He is 61 years old and has the profession of engineer.*
*a) He did not hold and does not holds any other positions within the Company.*
*b) N/A.*
c)*He held 1,238,396 shares as at 31 December 2017.*
*d) N/A.*

***4.1.5. TURCU IACOB OVIDIU** , director and member of the Board of Directors for the period 01 January 2017 - 31 December 2017. He is 67 years old and has the profession of engineer.*
*a) He did not hold and does not holds any other positions within the Company.*
*b) N/A.*
*c) He held 164 shares as at 31 December 2017.*
*d) They are presented in Note 22 to the Financial Statements and in the Appendix to this Report.*

**4.2. Presentation of the list of members of the executive management of the Company. The presentation for each of them of the following information:**
*Executive management is provided by a Chief Executive Officer who performs his/her duties on the basis of the agency relationship concluded with the Board of Directors and a team of 3 executive directors.*
*a) The term for which the person is a member of the executive management;*
*b) Any agreement, covenant or family relationship between the respective person and another person thanks to whom that person has been appointed a member of the executive management;*
*c) participation of the respective person in the equity of the Company.*

***4.2.1. POPOVICIU VIOREL-DORIN,** Chief Executive Officer.*
*a) Agency relationship for the period 2016-2020;*
*b) N/A.*
*c) He held 643,177 shares as at 31 December 2017.*

***4.2.2. BARABULA MIHAELA-MARIA**, Chief Financial Officer;*
*a) Employee under an employment agreement for an indefinite period;*
*b) N/A.*
*c) None.*

***4.2.3. GIURGIU LIANA,** Sales Director;*
*a) Employee under an employment agreement for an indefinite period;*
*b) N/A.*
*c) None.*

***4.2.4. CAREAN NASTASIA,** Technical-Production Director;*
*a) Employee under an employment agreement for an indefinite period;*
*b) N/A.*
*c) None.*

**4.3. For all the persons listed in 4.1 and 4.2, state the possible litigation or administrative procedures in which they have been involved in the last 5 years regarding their activity within the issuer, as well as those regarding the person's ability to perform his/her duties within the issuer.**

The members of the Board of Directors are part of the file 7513/2/2016 lodged with the Bucharest Court of Appeal, appealing against the Financial Supervisory Authority decisions no.973-977 / 25 April 2016, for sanctioning them with a fine with amounts ranging between RON 5,000 and RON 7,500.
In the first instance, the members of the Board of Directors had a caseload and the fines were canceled.

## ***5. Financial and accounting standing .***

**Presentation of the economic and financial situation, comparative for the last 3 years, with reference to**:

**(a) balance sheet items: assets representing at least 10% of total assets; cash and other liquid availability; reinvested profits, total assets, total liabilities.**

***The total assets situation is as follows:***

| | | 2015 | 2016 | 2017 |
|---|---|---|---|---|
| *Total assets* | *RON* | 79,228,952 | 77,189,235 | 81,073,485 |
| *Inventories* | *RON* | 11,959,107 | 12,062,446 | 12,222,234 |
| *Inventories* | *%* | 15.09 | 15.63 | 15.07 |
| *Trade receivables* | *RON* | 6,883,973 | 6,845,623 | 8,205,506 |
| *Trade receivables* | *%* | 8.69 | 8.87 | 10.12 |
| *Other assets* | *RON* | 131,480 | 75,704 | 170,541 |
| *Other assets* | *%* | 0.17 | 0.10 | 0.21 |
| *Current corporate tax receivable* | *RON* | 27,080 | 0 | 0 |
| *Cash and cash equivalents* | *RON* | 1,867,879 | 576,164 | 635,776 |
| *Cash and cash equivalents* | *%* | 2.36 | 0.75 | 0.78 |
| *Investment properties* | *RON* | 5,779,239 | 6,605,581 | 6,605,581 |
| *Investment properties* | *%* | 7.29 | 8.56 | 8.15 |
| *Intangible assets* | *RON* | 29,281 | 20,857 | 11,121 |
| *Tangible assets* | *RON* | 52,512,913 | 50,964,860 | 53,184,726 |
| *Tangible assets* | *%* | 66.28 | 66.03 | 65.60 |
| *Investments in equity instruments* | *RON* | 38,000 | 38,000 | 38,000 |

***Total liabilities are as follows:***

| | | 2015 | 2016 | 2017 |
|---|---|---|---|---|
| ***Total liabilities*** | ***RON*** | **79,228,952** | **77,189,235** | **81,073,485** |
| ***Share capital*** | ***RON*** | **12,325,438** | **12,325,438** | **12,325,438** |
| ***Share capital adjustments*** | ***RON*** | **-** | **-** | **-** |
| ***Other shareholders' equity items*** | ***RON*** | **45,785,213** | **45,979,015** | **45,873,142** |
| ***Profit or loss carried forward*** | ***RON*** | **7,896,305** | **6,831,926** | **7,837,601** |
| ***Long-term loans*** | ***RON*** | ***412,758*** | ***206,926*** | **202,015** |
| ***Long-term provisions*** | ***RON*** | **172,490** | **172,490** | **196,045** |
| ***Deferred tax debt*** | ***RON*** | **4,909,676** | **4,770,997** | **4,801,484** |
| ***The current part of the long-term loans*** | ***RON*** | **2,929,608** | **2,912,874** | **3,346,581** |
| ***Trade and other liabilities*** | ***RON*** | **4,797,464** | **3,870,455** | **6,440,457** |
| ***Current corporate tax*** | ***RON*** | **-** | **119,114** | **50,722** |

*For the 2017 financial year, the individual annual Financial Statements have been drawn up in accordance with The International Financial Reporting Standards adopted by the European Union, in accordance with the provisions Order of the Minister of Public Finance no. 2844/2016 for the approval of the Accounting Regulations in compliance with the International Financial Reporting Standards.*

**b) Profit, Net Sales, Gross Income, Cost and Expense Items with at least 20% weight in net sales or gross income, risk provisions and various expenses, refer to any sale or discontinuation of a segment activity performed in the last year or to be carried out in the following year; dividends declared and paid.**

**Evolution of profit and loss account**

| | | 2015 | 2016 | 2017 |
|---|---|---|---|---|
| ***Total income*** | ***RON*** | ***34,508,024*** | ***32,625,379*** | **32,974,296** |
| ***Total expenditure*** | ***RON*** | ***-31,211,400*** | ***-31,390,893*** | **-31,788,141** |
| ***Gross profit*** | ***RON*** | **3,296,624** | **1,234,486** | **1,186,155** |
| ***Corporate tax (current and deferred)*** | ***RON*** | **-568,059** | **-266,521** | **-207,185** |
| ***Net profit*** | **RON** | **2,728,565** | **967,965** | **978,970** |

| Cost elements accounting for more than 20% of total revenue | | | | |
|---|---|---|---|---|
| | | **2015** | **2016** | **2017** |
| ***- raw materials, merchandise and usable supplies expenses*** | ***%*** | ***33.62*** | ***34.37*** | ***34.18*** |
| ***- payments of employee benefits*** | ***%*** | ***38.49*** | ***40.17*** | ***41.67*** |
| ***- Amortisation and depreciation expenses*** | ***RON*** | ***-1,577,397*** | ***-2,400,810*** | **-2,222,562** |
| ***- other operating expenses*** | | ***-4,550,084*** | ***-4,613,609*** | **-4,431,681** |
| ***-dividends distributed at the end of the period*** | ***RON*** | **1,972,070** | **0** | **1,232,544*** |
| ***- dividends paid during the year (including related tax)*** | ***RON*** | **958,637** | **1,592,389** | **182,664** |

** BA's proposal to appropriate the amount of* 887,431.50 for the dividends *of the net profit for 2017 and the amount of* 345,112.25 of the net profit for 2015 remained not appropriated, *in the Ordinary General Meetting of Shareholders in April 2018.*

***In 2017, there was no sale or stop of any segment of activity, and in 2018 we do not think that will be the case.***

**c) Cash flow: all changes in cash in the core business, investment and financial activity, cash at the beginning and end of the period.**

| | **2015** | **2016** | **2017** |
|---|---|---|---|
| ***Net cash from operating activities*** | ***2,307,915*** | ***2,441,647*** | **1,916,025** |
| ***Net cash from investing activities*** | ***-1,237,127*** | ***-1,570,356*** | **-1,561,298** |
| ***Net cash from financing activities*** | ***614,431*** | ***-2,163,007*** | **-295,115** |
| ***Cash flows - total*** | ***1,685,219*** | ***-1,291,715*** | **59,612** |
| ***Cash as at the beginning of the period*** | ***182,660*** | ***1,867,879*** | **576,164** |
| ***Cash as at the end of the period*** | **1,867,879** | **576,164** | **635,776** |

*In 2015, the investment expenditure amounted to RON 3,534,906 and investments worth RON 3,430,568 were completed.*
*In 2016, the investment expenditure amounted to a total of RON 2,182,900 and investments worth RON 2,079,565 were completed.*
*In 2017, the investment expenditure amounted to a total of RON 3,827,903 and investments worth RON 597,695 were completed.*

## ***6. Signatures***

***Popoviciu Viorel-Dorin, Engineer***
*Chairman of the Board of Directors*

***Barabula Mihaela-Maria, Economist***
*Chief Financial Officer*

**Annexes.**

a) *Company's articles of association, if they were amended in the reported year.*

*N/A.*

***b)****Significant contracts entered into by the Company in the reported year.*

*N/A.*

***c)****The resignation / dismissal documents, if there were such situations among the members of the administration, the executive management, the independent financial auditor.*

*N/A.*

***d)*** *The list of the Company's subsidiaries and the companies controlled by it.*

*N/A.*

***e)*** *List of persons affiliated to the Company with whom the Company carried out transactions in 2017:*

| | |
|---|---|
| *- CARBOREF SA* | *Cluj-Napoca* |
| *-EURO-CLUB SRL* | *Timisoara* |
| *-AUTOEUROPA SRL* | *Timisoara* |
| *-SERVICE AUTOMOBILE 2 SRL* | *Cluj-Napoca* |
| *-DACIA SERVICE FELEAC SRL* | *Cluj-Napoca* |
| *-ELECTROARGES SA* | *Curtea de Arges* |

*The value of transactions with the aforementioned companies is presented in the notes to the Financial Statements for 2017.*

# CARBOCHIM S.A.

## SEPARATE FINANCIAL STATEMENTS
## 31 DECEMBER 2017

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

**CARBOCHIM S.A.**

**SEPARATE FINANCIAL STATEMENTS**

## TABLE OF CONTENTS

**CARBOCHIM S.A.**

**STATEMENT OF REVENUE AND EXPENDITURE**

**(All amounts are expressed in RON unless otherwise stated)**

| | Note | 31 December 2016 | 31 December 2017 |
|---|---|---|---|
| Income | 17 | 30,021,923 | 31,423,479 |
| Other income | 17 | 2,585,453 | 1,467,863 |
| Changes in inventories of finished goods and production in progress | | 16,382 | 82,948 |
| | | 32,623,758 | 32,974,290 |
| Raw materials, goods and supplies used | | (11,213,016) | (11,272,424) |
| Employees benefits expenses | 18 | (13,105,288) | (13,740,492) |
| Depreciation and amortization expenses | | (2,400,810) | (2,222,562) |
| Other operating expenses | 19 | (4,613,609) | (4,431,681) |
| | | (31,332,723) | (31,667,159) |
| Operating income | | 1.291.035 | 1.307.131 |
| Financial income | 20 | 1,621 | 6 |
| Financial costs | 20 | (58,170) | (120,982) |
| Financial net result | | (56,549) | (120,976) |
| Profit before tax | | 1,234,486 | 1,186,155 |
| Income tax expense | 21 | (266,521) | (207,185) |
| Net profit for the year | | 967,965 | 978,970 |
| Basic earnings and diluted earnings per action (RON per share) | 23 | 0,20 | 0,20 |

**STATEMENT OF COMPREHENSIVE INCOME**

**(All amounts are expressed in RON unless otherwise stated)**

| | Note | 31 December 2016 | 31 December 2017 |
|---|---|---|---|
| **Other comprehensive income** | | | |
| Profit for the year | | 967,965 | 978,970 |
| **Other comprehensive income:** | | | |
| Gains / (losses) on revaluation of assets | | 0 | 0 |
| Change of deferred tax recognized in the revaluation reserve | | 133,528 | (79,168) |
| **Other comprehensive income for the year, excluding taxes** | | 133,528 | (79,168) |
| **Total comprehensive income of the year** | | 1,101,493 | 899,802 |

**STATEMENT OF FINANCIAL POSITION**

**(All amounts are expressed in RON unless otherwise stated)**

| | Note | 31 December 2016 | 31 December 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investment property | 8 | 6,605,581 | 6,605,581 |
| Other intangible assets | 7 | 20,857 | 11,121 |
| Tangible assets | 6 | 50,964,860 | 53,184,726 |
| Investments in equity instruments | | 38,000 | 38,000 |
| **Total non-current assets** | | 57,629,298 | 59,839,428 |
| **Current assets** | | | |
| Stocks | 10 | 12,062,446 | 12,222,234 |
| Trade receivables | 11 | 6,845,623 | 8,205,506 |
| Other current assets | 11 | 75,704 | 170,541 |
| Current income tax recoverable | 11,21 | 0 | 0 |
| Cash and cash equivalents | 12 | 576,164 | 635,776 |
| **Total current assets** | | 19,559,937 | 21,234,057 |
| **TOTAL ASSETS** | | 77,189,235 | 81,073,485 |
| **EQUITY AND LIABILITIES** | | | |
| **Share capital** | | | |
| Share capital | 13 | 12,325,438 | 12,325,438 |
| Adjustments in equity | 13 | - | 0 |
| Other components of equity | | 45,979,015 | 45,873,142 |
| Retained earnings | | 6,831,926 | 7,837,601 |
| **Total equity** | | 65,136,379 | 66,036,181 |
| **Long-term liabilities** | | | |
| Long-term loans | 14 | - | - |
| Finance lease liabilities | 15 | 206,926 | 202,015 |
| Long-term provisions | 5 | 172,490 | 196,045 |
| Deferred tax liability | 21 | 4,770,997 | 4,801,484 |
| **Total long-term liabilities** | | 5,150,413 | 5,199,544 |

CARBOCHIM S.A.

STATEMENT OF FINANCIAL POSITION

(All amounts are expressed in RON unless otherwise stated)

| | Note | 31 December 2016 | 31 December 2017 |
|---|---|---|---|
| **Current liabilities** | | | |
| Current portion of long term loans | 14 | 2,599,141 | 3,040,747 |
| Current portion of finance lease liabilities | 15 | 313,733 | 305,834 |
| Trade payables and of other nature | 16 | 3,870,455 | 6,440,457 |
| Current income tax | 16, 21 | 119,114 | 50,722 |
| **Total current liabilities** | | 6,902,443 | 9,837,760 |
| **TOTAL LIABILITIES** | | 12,052,856 | 15,037,304 |
| **TOTAL EQUITY AND LIABILITIES** | | 77,189,235 | 81,073,485 |

The financial statements were authorized for issue by the Board of Directors on 19 March 2018 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)**

| | Note | 31 December 2016 | 31 December 2017 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers and other debtors | | 37,958,036 | 37,421,469 |
| Payments to suppliers, employees and other creditors | | (24,839,094) | (24,459,120) |
| Interest paid | | (33,862) | (61,500) |
| Income taxes, social contributions, other taxes paid | | (10,643,433) | (10,984,824) |
| **Net cash from operating activities** | | 2,441,647 | 1,916,025 |
| | | - | - |
| **Cash flows from investing activities** | | | |
| Payments for acquisition of shares | | - | - |
| Payments to acquire property plant and equipment | | (1,818,449) | (1,561,304) |
| Proceeds from sale of property plant and equipment | | 246,472 | - |
| Interest received | | 1,621 | 6 |
| Dividends received | | - | - |
| **Net cash from investing activities** | | (1,570,356) | (1,561,298) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | 0 | 0 |
| Proceeds from loans | | 16,660,081 | 37,488,602 |
| Payment of debts related to financial leasing | | (1,014,819) | (554,057) |
| Dividends paid | | (1,597,751) | (182,664) |
| Repayments of amounts borrowed | | (16,210,518) | (37,046,996) |
| **Net cash from financing activities** | | (2,163,007) | (295,115) |
| **Cash flows - total** | | (1,291,715) | 59,612 |
| **Cash at the beginning of period** | | 1,867,879 | 576,164 |
| **Cash at the end of period** | 12 | 576,164 | 635,776 |

(All amounts are expressed in RON unless otherwise stated)

| | Notes | Share capital | Adjustments to the share capital | Other reserves | Profit or loss brought forward and not distributed | Total equity |
|---|---|---|---|---|---|---|
| **Balance on 1 January 2016** | | 12,325,438 | - | 45,785,212 | 7,896,306 | 66,006,956 |
| Profit for 2016 | | - | - | - | 967,965 | 967,965 |
| **Other comprehensive income for the period** | | | | | | |
| Distribution of profit or loss in legal reserve | | - | - | 61,725 | (61,725) | - |
| Movements in revaluation reserve | | - | - | - | - | - |
| Distribution of profit the previous year in other reserves | | - | - | - | - | - |
| Achievements of revaluation reserve | | - | - | (1,450) | 1,450 | - |
| Deferred income tax resulted from reevaluation | | - | - | - | - | - |
| Income tax resulted from reevaluation carried forward | | - | | 133,528 | | 133,528 |
| **Transactions with shareholders** | | | | | | |
| Dividends paid to shareholders | | - | - | - | (1,972,070) | (1,972,070) |
| Share capital increase | | - | - | - | - | - |
| **Total comprehensive profit** | | 12,325,438 | - | 45,979,015 | 6,831,926 | 65,136,379 |
| **Balance on 31 December 2016** | | 12,325,438 | - | 45,979,015 | 6,831,926 | 65,136,379 |

**STATEMENT OF CHANGES IN EQUITY**

**(All amounts are expressed in RON unless otherwise stated)**

| | Notes | Share capital | Adjustments to the share capital | Other reserves | Result reported | Total equity |
|---|---|---|---|---|---|---|
| **Balance on 1 January 2017** | | 12,325,438 | - | 45,979,015 | 6,831,926 | 65,136,379 |
| Profit for 2017 | | - | - | - | 978,970 | 978,970 |
| **Other comprehensive income for the period** | | | | | | |
| Distribution of profit or loss in legal reserve | | - | - | 59,308 | (59,308) | - |
| Movements in revaluation reserve | | - | - | - | - | - |
| Distribution of the previous year profit in other reserves | | - | - | - | - | - |
| Achievements of revaluation reserve | | - | - | (86,013) | 86,013 | - |
| Deferred income tax acc. revaluation and legal reserve | | - | - | (199,100) | - | (199,100) |
| Income tax resulted from reevaluation carried forward | | - | - | 119,932 | - | 119,932 |
| **Transactions with shareholders** | | | | | | |
| Dividends paid to shareholders | | - | - | - | - | - |
| Share capital increase | | - | - | -- | - | - |
| **Total comprehensive profit** | | 12,325,438 | - | 45,873,142 | 7,837,601 | 66,036,181 |
| **Balance on 31 December 2017** | | 12,325,438 | - | 45,873,142 | 7,837,601 | 66,036,181 |

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

(All amounts are expressed in RON unless otherwise stated)

## 1. GENERAL INFORMATION

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

The Company was founded initially in 1949, for the production of coal, and the activity profile 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 2nd category, **CBC** symbol.

On 31 December 2017, the structure of financial instruments holders holding at least 10% of the share capital of Carbochim S.A. is as follows:

| | **Number of shares** | **Percentage of ownership (%)** |
|---|---:|---:|
| IONESCU MIRCEA-PIETRO | 1.238.396 | 25.1187 |
| POPOVICIU VIOREL-DORIN | 643.170 | 13.0456 |
| POPA GHEORGHE TITUS DAN | 617.796 | 12.5309 |
| S.C. ELECTROARGEŞ S.A. | 611.133 | 12.3958 |
| Individuals | 1.150.206 | 23.3299 |
| Legal entities | 669.474 | 13.5791 |
| **TOTAL** | 4,930,175 | 100 |

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

In 2005, CARBOCHIM SA participates 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.

## 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 presented, unless otherwise stated.

### 2.1 Basis of preparation

The financial statements of Carbochim S.A. on 31 December 2017 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 closed on 31 December 2017, 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 in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the application of complex judgments by 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 presentation of information

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

The accounting policies adopted are consistent with those used in the previous exercise.
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 presentations made.

**IAS 7: Information Presentation Initiative (Amendment)**
The objective of these changes is to provide information to allow users of financial statements to evaluate changes in debt arising from financing activities, including changes occurring both in cash flows and non-monetary items. The amendments specify that a way to meet the presentation requirements is to provide a tabular reconciliation between the initial and final balances in the position of the financial position in the case of the debts resulting from financing activities, including changes in the cash flows related to the financing activity, changes resulting from obtaining or losing control over subsidiaries or other segments, the effect of changes in exchange rates, changes in fair value or other types of changes.

**IAS 12. Recognition of deferred tax liabilities for unrealized losses (changes)**
The objective of these amendments is to clarify the requirements for deferred tax assets related to unrealized losses in order to address the diversity in practice regarding the application of IAS 12 Income Tax. The specific problem of the fact that there is diversity in practice is refers to the existence of a temporary deductible difference in the decrease of a fair value, the recovery of an asset at a value greater than its carrying amount, probable future taxable profits and the combined valuation as compared to the separate valuation.

**The IASB issued the IFRS Annual Improvements - 2014-2016 Cycle**, which is a collection of amendments to IFRSs.

**IFRS 12 "Presentation of interests in other entities":**
The amendment clarifies that disclosure requirements in IFRS 12 other than those in summary financial information for subsidiaries, joint ventures and associates apply to the interests of an entity in a subsidiary, joint venture and associate that are classified as held for sale, held for distribution or discontinued operation in accordance with IFRS 5.

(b) *New standards, amendments and interpretations issued but not applicable for the financial year from 1 January 2017, therefore not adopted:*

**- IAS 19: Modification, Reduction or Reversal of Employee Benefits Plan (Amendments)**
The amendments enter into force for annual periods beginning on or after 1 January 2019 and early application is permitted. Changes require entities to use updated actuarial assumptions to determine the cost of current services and net interest for the remainder of the reporting period after changes, reductions or disbursements of the plan have occurred. Changes also clarify how accounting for

the change, reduction or settlement of a plan affects the application of the asset ceiling requirements. Changes have not yet been adopted by the EU.

**- IFRS 9 Financial Instruments: refers to the classification, measurement and recognition of financial assets and liabilities.**
The Standard enters into force for annual periods beginning on or after 1 January 2018 and early application is permitted. The final version of IFRS 9 reflects all phases of the financial instruments project and replaces IAS 39. Financial Instruments: Recognition and Measurement and Earlier Versions of IFRS 9. The Standard introduces new requirements for classification and measurement, depreciation and hedge accounting.

**- IFRS 15 Revenue from Client Contracts:** The Standard becomes operative for periods beginning on or after January 1, 2018. IFRS 15 establishes a new five-step model that will apply for the recognition of revenue arising from a contract concluded with a client (with limited exceptions), irrespective of the type of transaction or industry. Moreover, the requirements of the Standard will apply to the recognition and measurement of gains and losses on the sale of certain non-operating assets other than those that are not the result of the entity's ordinary activities (e.g., sale of tangible and intangible assets). An extensive disclosure will be provided, including disaggregation of total income, information on execution obligations, changes in the contractual balances of asset and liability accounts between periods and key judgments and estimates.

**- IFRS 15 Revenue from contracts with customers: (clarifications)**
Clarifications shall be applied for annual periods beginning on or after 1 January 2018 and early application is permitted. The purpose of the clarifications is to specify the intentions of the IASB when it elaborated the requirements of IFRS 15, in particular the accounting of performance obligations, modifying the formulation of the principle of "identifiable" assets, the considerations regarding the assignor and the assignee, including assessing whether an entity acts as a trustee or agent, as well as the application of the control and licensing principle, providing additional guidance on intellectual property accounting and royalties. Clarifications provide for additional practical solutions applicable to entities that either apply IFRS 15 retrospectively or choose to apply the modified retrospective approach.

**- 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 changes 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, the IASB postponed indefinitely the date of entry into force of this amendment. Changes have not yet been adopted by the EU.

- **IFRS 16 Leases**: The Standard will enter into force for annual periods beginning on or after January 1, 2019. The Standard establishes the principles for the recognition, measurement, disclosure and disclosure of information about the leases of the two parties to a contract, and namely, the client (lessee) and the supplier (lessor). The new standard requires lessees to recognize the majority of lease contracts in their financial statements. Lessees will have a single accounting model for all contracts, with some exceptions. Lessor's account remains significantly unchanged.

- **IFRS 2: Classification and measurement of share-based payment transactions (amendments)**. Changes are effective for annual periods beginning on or after 1 January 2018 and early application is permitted.
The amendments provide for requirements to account for the effects of the conditions required to vest and the effects of the vesting rights on the valuation of cash-settled share-based payment transactions, share-based payment transactions with the net settlement feature of the source taxation as well as for changes to the terms and conditions applicable to a share-based payment that changes the transaction classification from a cash settlement transaction in a settlement transaction through equity. Changes have not yet been adopted by the EU.

- **IFRS 4: Application of IFRS 9 Financial Instruments in Accordance with IFRS 4 Insurance Contracts (amendment)**
Amendments enter into force for annual periods beginning on or after January 1, 2018. The amendments relate to the concerns raised by the implementation of the new IFRS 9 before the implementation of the new standard on insurance contracts that the Council develops to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from the application of IFRS 9 and an overlapping approach that would allow entities that issue IFRS 4 contracts to reclassify from the income statement in other items of comprehensive income some of the income and expenses generated by financial assets designated.

- **IAS 40: Transfers to Investment Property (amendment)**
The amendments enter into force for annual periods beginning on or after 1 January 2018 and early application is permitted.

Changes clarify when an entity needs to transfer real estate, including real estate under construction or development, into or out of real estate investment. The change foresees that a change in use takes place when the real estate meets or no longer meets the definition of real estate investments and there is evidence of change in use. A simple change of management's intention to use a building does not provide evidence of a change in use. Changes have not yet been adopted by the EU.

**- IFRS 9: Advances with negative compensation (amendment)**
The change shall become effective for annual periods beginning on or after 1 January 2019 and early application is permitted. The change allows for financial assets with prepayment characteristics that allow or require a party to a contract to either pay or receive reasonable compensation for early termination of the contract (so that from the perspective of the asset holder it is possible to exist "negative compensation") are measured at amortized cost or fair value through other comprehensive income. Changes have not yet been adopted by the EU.

**- IAS 28: Long-Term Interests in Associates and Joint Ventures (Amendments)**
The amendments enter into force for annual periods beginning on or after 1 January 2019 and early application is permitted. Changes refer to whether the valuation, and in particular the short-term interest depreciation in associates and joint ventures that are, in substance, part of the net investment in that associate or joint venture, should be governed by IFRS 9, IAS 28 or a combination of these two standards. The amendments clarify that an entity applies IFRS 9 Financial Instruments before applying IAS 28 to those long-term interests to which the equity method does not apply. In applying IFRS 9, the entity does not take into account the adjustments in the carrying amount of long-term interests that are generated by the application of IAS 28. Changes have not yet been adopted by the EU.

**- IFRIC 22 Interpretation: Foreign currency transactions and prepayments**.
The interpretation becomes effective for annual periods beginning on or after 1 January 2018 and early application is permitted.
Interpretation clarifies how transactions are recorded that include the receipt or payment of foreign currency advance payments. Interpretation covers transactions in foreign currency for which the entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of an advance amount before the entity recognizes the asset, the expense or the related income. The interpretation provides that, in order to determine the exchange rate, the transaction date is the date of initial recognition of the non-monetary asset paid in

advance or of the deferred income debt. If there are several payments or advance payments, the entity must determine a transaction date for each payment or cashing of the amount in advance.
This interpretation has not yet been adopted by the EU.

- **IASB issued Annual Improvements to IFRS - The 2014-2016 Cycle**, which is a collection of amendments to IFRSs.
The amendments enter into force for annual periods beginning on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been adopted by the EU.

• **IFRS 1 First-time Adoption of International Financial Reporting Standards:** This improvement removes short-term exemptions from the disclosures of financial instruments, employee benefits and investment entities applicable to companies that first adopt International Standards Financial Reporting.

• **IAS 28 Investments in Associates and Joint Ventures:** The amendment clarifies that the option to measure at fair value through profit or loss an investment in an associate or in a joint venture that is held by an entity which represents a joint venture or another qualifying entity, is available for each investment investment in an associate or in a joint venture for each individual investment at initial recognition.

## 2.2 Segment Reporting

A business segment is a distinctive component of the Company:

a) that engages in business activities from which it can get revenues from which can incur expenditure,

b) whose results 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. The activity segments* should apply to the separate financial statements of the Company as its own equity instruments are traded in a public market (BSE).

The presentation of information on products and services and geographic areas in which the Company carries out is activity is mandatory, even for those entities that identify a single reportable segment, considering the quantitative thresholds and aggregation criteria stipulated by the standard.

(All amounts are expressed in RON unless otherwise stated)

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 (%) | Amount of revenue |
|---|---|---|
| External<br>Poland, Hungary, Germany, Belgium, Slovakia, Czech Republic) | 3 | 1,032,457 |
| Internal (Romania) | 97 | 31,591,301 |
| Total operating income | 100 | 32,623,758 |

Disclosure of information on the Company's products and services

| Product or service | Share (%) 2016 | Income Value 31 December 2016 | Share (%) 2017 | Income Value 31 December 2017 |
|---|---|---|---|---|
| Grinding wheels | 52.57 | 17,151,511 | 56.20 | 18,531,802 |
| Coated abrasives | 36.09 | 11,771,650 | 36.50 | 12,037,216 |
| Other products | 0.72 | 235,509 | 0.42 | 138,430 |
| Rental income | 4.30 | 1,403,067 | 4.49 | 1,478,799 |
| Revenue from sale of goods | 2.01 | 654,499 | 1.59 | 523,659 |
| Other income, including changes in stocks of finished goods and work in progress | 4.31 | 1,407,522 | 0.80 | 264,384 |
| Total operating income | 100.00 | 32,623,758 | 100.00 | 32,974,290 |

## 2.3 Foreign currency translation

*(a) Functional and presentation 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 presentation currency of the Company.

Exchange rates on 31 December 2017 and 31 December 2016 are as follows:

| | **2017** | **2016** |
|---|---|---|
| **EUR** | 4.6597 | 4.5411 |
| **USD** | 3.8915 | 4.3033 |

*(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 registered in other items of the comprehensive income as financial instruments that are designated as hedging instruments for cash flow hedge, as 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 at 31 December 2003. Therefore, the values reported in terms of purchasing power at 31 December 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 Tangible assets

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

All classes of property, are presented at 31 December 2017 at fair value, determined by independent evaluators.
For buildings and equipment, we used the revalued amount at 31 December 2015 minus the depreciation losses for the years 2016 and 2017. The revaluated value at 31 December 2015 is used for land.

On 31 December 2017, no revaluation of assets was performed due to the fact that a market analysis made by a licensed assessor concluded that it is not necessary to re-evaluate only 24 months from the previous one and considering the industrial sector in which the Company operates.

Revaluations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation at the date of revaluation is restated proportionately 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's 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 derecognised. All other repairs and maintenance expenses are recorded in the income statement in the financial period in which they are incurred.

The depreciation 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 life time 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's carrying amount is greater 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 depreciation.

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

## 2.7 Investment properties

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 for:
- 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 evaluation 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).
The depreciation expense 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.

On 31.12.2015, real estate revaluations were carried out by a licensed assessor.
On 31 December 2017, no revaluation of investment properties was performed due to the fact that a market analysis carried out by a licensed assessor concluded that it is not necessary to re-evaluate only 24 months from the previous one and considering the industrial sector in which the Company operates.

### 2.8 Investments in equity elements

Investments in equity elements include participating interests in CARBOREF SA from Cluj-Napoca in a proportion of 25% of the share capital and a contribution to the initial assets of the association A.P.I.E.L. Romania, 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 BSE, so the investment is valued at cost. The Company did not recognize adjustments for their impairment.

### 2.9 Impairment of non-financial assets

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

For the purpose of impairment 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

*(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)* *Financial assets available for sale*

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

*(c)* *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 of the 2,196 certificates in the account at the beginning of the year, otherwise risking to lose them.

### 2.10.2. Recognition and assessment

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). Loan 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, are recorded provisions for obsolete inventories and slow turning. Obsolete inventories identified individually are provisioned at integrated value or derecognised. For slow moving stocks, estimation of the age is performed by each major category, based on stock rotation.

### 2.12 Trade receivables

Trade receivables are amounts due from customers for stocks sold or services provided in the normal course of business. If you 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, it will be presented as current assets.

Trade receivables are recognized initially at fair value and subsequently for claims with a credit period of more than six months, the assessment is made at amortized cost using the effective interest method less provision 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 overdrafts from banks.

### 2.14 Share capital

Ordinary shares are classified as 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, it will be presented as current liabilities. are recognized commercial lung. 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.

### 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 equity. In this case, the corresponding tax is recognized in other comprehensive income or directly in 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 constitutes provisions, where applicable, based on estimated amounts due to tax authorities.

Deferred income tax is recognized, based on the liability 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 affects neither the accounting profit nor 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 plan, which is a fixed contribution plan. These costs are recognized in the income statement together with the salary expenses.

*(a) Obligations relating to pensions*

According to the collective bargaining agreement, 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 supports the personnel costs of providing benefits such as medical services. These amounts primarily include implicit costs of annual medical checks.

*(c) Termination of employment benefits*

According to the collective bargaining agreement, 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 awards 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 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

Revenue comprises the fair value of the consideration received or receivable from the sale of goods and services in the normal course of business of the Company. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Company.

The Company recognizes revenue when their value can be estimated reliably, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the activities of the Company, as shown below. The Company bases its estimates on historical results, taking into account the type of customer, the type of transaction and the specifics of each engagement.

*(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. 2% of deliveries being made in the foreign market.

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 Company has delivered products to customers.

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 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 estimated based on anticipated annual purchases. It is considered that there are no funding elements, as sales are made with a credit period of 60 days in accordance with the normal market practice.

*(b) Income from royalties*

Income from royalties are 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 determining the entitlement to receive those amounts.

### 2.23 Leases

Leases for tangible assets 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 finance 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 for each period. Property, plant and equipment acquired under finance leases are depreciated over the useful life of the asset.

Leases in which a significant portion of the risks and benefits of ownership is held by the lessor are classified as operating leases. Payments made under operating leases are recognized as an expense in the income statement on a straight line basis over the period of the lease.

### 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.

## 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)* Foreign exchange risk

The Company is exposed to currency risk through exposure to different currencies, especially the USD and EUR. Currency risk is associated to assets and liabilities recognized, in particular loans.

The Company does not undertake formal action to minimize currency risk related to its operations; therefore, the Company does not apply hedge accounting against risk.

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

(All amounts are expressed in RON unless otherwise stated)

| | **On 31 December 2016** | | | **On 31 December 2017** | | |
|---|---|---|---|---|---|---|
| | Monetary financial assets | Monetary Financial liabilities | Net amount statement of financial position | Monetary financial assets | Monetary financial liabilities | Net amount statement of financial position |
| RON | 7,292,042 | 5,892,937 | 1,399,105 | 8,725,304 | 5,092,294 | 3,633,010 |
| EUR | 202,168 | 1,216,432 | (1,014,264) | 283,002 | 4,947,481 | (4,664,479) |
| USD | 3,282 | 0 | 3.282 | 3,516 | 0 | 3.516 |
| Total | 7,497,492 | 7,109,369 | 388,123 | 9,011,822 | 10,039,775 | (1.027,953) |

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 a 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:

| | **2017** | **2016** |
|---|---|---|
| EUR | 5.1256 | 4.9953 |
| USD | 4.2806 | 4.7337 |

*Impact on profit or loss account:*

| | **2017** |
|---|---|
| EUR increased by 10% | (466,448) |

| | **2016** |
|---|---|
| EUR increased by 10% | (101,426) |

(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 or EURLIBOR for loans in EUR.

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

The status of committed loans was the following

(All amounts are expressed in RON unless otherwise stated)

- On 31 December 2016

| Financial institution | Currency | Interest rate | Threshold | Loan balance on 31 December 2016 (RON) |
|---|---|---|---|---|
| Unicredit Bank | RON | Negociated | 800,000 | 584,283 |
| Banca Comerciala Romana | RON/ EUR | Negociated | 2,000,000 | 804,501 |
| Raiffeisen Bank | RON/ EUR | Negociated | 3,740,000 | 1,210,357 |
| **Total** | | | | **2,599,141** |

- On 31 December 2017

| Financial institution | Currency | Interest rate | Threshold | Loan balance on 31 December 2017 (RON) |
|---|---|---|---|---|
| Unicredit Bank | RON | Negociated | 800,000 | 658,788 |
| Banca Comerciala Romana | RON/ EUR | Negociated | 2,000,000 | 920,665 |
| Raiffeisen Bank | RON/ EUR | Negociated | 3,740,000 | 512,466<br>948,828 |
| **Total** | | | | **3,040,747** |

On 31 December 2017, a possible increase in the interest rate of 1% would have an effect on the income statement of RON 623.

*(b) Credit risk*

Credit risk is mainly related to cash and cash equivalents and trade receivables. The Company has developed a number of policies whose application 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.

| | 31 December 2016 | 31 December 2017 |
|---|---|---|
| Clients for which the recovery of claims is under 30 days | 2,855,133 | 3,157,985 |
| Clients for which the recovery of claims is between 30 and 90 days | 2,525,171 | 2,989,170 |
| Clients for which the recovery of claims is between 90 and 180 days | 438 | 40,438 |
| **Total** | 5,380,742 | 6,187,593 |

(All amounts are expressed in RON unless otherwise stated)

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 created.

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

| **Bank's financial indicators** | **Bank** | **31 December 2016** | **31 December 2017** |
|---|---|---|---|
| Baa2 | Raiffeisen Bank | 4,671 | 3,894 |
| Baa2 | BRD | 2,900 | 13,978 |
| n/a | Treasury | 3,614 | 6,069 |
| Baa3 | BCR | 107,294 | 96,958 |
| n/a | Unicredit Tiriac Bank | 0 | 17,545 |
| n/a | Piraeus Bank Romania | 943 | 0 |
| n/a | CEC Bank | 416,458 | 416,458 |
| **Total** | | 535,880 | 554,902 |

Where:

Financial institutions quoted with indicator D shows a modest financial power, with a possible need for external support and the financial institutions listed with indicator E shows 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 made 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.

(All amounts are expressed in RON unless otherwise stated)

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

| | Up to 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|
| **On 31 December 2016** | | | | |
| Loans (Note 14) | 2,599,141 | - | - | - |
| Financial lease (Note 15) | 313,733 | 206,926 | - | - |
| Trade payables and of other nature (Note 16) | 3,870,455 | - | - | - |
| Current income tax | 119,114 | | | |
| **Total** | **6,902,443** | **206,926** | **-** | **-** |
| **On 31 December 2017** | | | | |
| Loans (Note 14) | 3,040,747 | - | - | - |
| Financial lease (Note 15) | 305,834 | 202,015 | - | - |
| Trade payables and of other nature (Note 16) | 6,440,457 | - | - | - |
| Current income tax | 50,722 | | | |
| **Total** | **9,837,760** | **202,015** | **-** | **-** |

## 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.

Like other companies operating in this sector, the Company monitors the capital on the basis of indebtedness 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 "equity" in the statement of financial position net debt.

In 2017, the Company's strategy, unchanged from 2016, was to maintain the indebtedness coefficient as low as possible to maintain the significant ability to borrow funds for future investment if and when necessary.

(All amounts are expressed in RON unless otherwise stated)

Indebtedness indicators on 31 December 2017 and 2016 were as follows:

| | 2016 | 2017 |
|---|---|---|
| Total loans | 3,119,800 | 3,548,596 |
| Less: cash and cash equivalents | 576,164 | 635,596 |
| Total liability | 2,543,636 | 2,913,000 |
| Total equity | 65,136,379 | 66,036,181 |
| **Total equity and liabilities** | 67,680,015 | 68,949,181 |
| **Indebtness ratio** | 4% | 4% |

## 3.3 Fair value measurement

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

It is considered that the carrying value minus the provision 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 quoted in active markets for identical assets and liabilities
b) level 2 - data other than quoted prices that are observable for the asset or liability
c) level 3 - data for assets and liabilities that are not based on observable market data

**Presentation at the fair value of financial assets and financial liabilities on 31 December 2017:**

| | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Financial assets:** | | | |
| Cash and cash equivalent | 635,776 | - | - |
| Receivables and other receivables | - | 8,376,047 | - |
| **Financial liabilities:** | | | |
| Loans | - | 3,548,596 | - |
| Trade payables and other nature | - | 6,440,457 | - |
| Current income tax | - | 50,722 | - |

**Presentation at the fair value of financial assets and financial liabilities on 31 December 2016:**

| | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Financial assets:** | | | |
| Cash and cash equivalent | 576,164 | - | - |
| Receivables and other receivables | - | 6,921,327 | - |
| **Financial liabilities:** | | | |
| Loans | - | 3,119,800 | - |
| Trade payables and other nature | - | 3,870,455 | - |
| Current income tax | - | 119,114 | - |

## 4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

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

### 4.1 Critical accounting estimates and assumptions

The Company develops estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. Estimates and assumptions for which there is a considerable risk to cause significant adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*(a) Income tax*

The Company is subject to income tax in one jurisdiction (Romania). There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities to financial audit based on estimates predict 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. APPLICATION FOR THE FIRST TIME OF IFRS

On 31 December 2012 the Company prepared the first financial statements under IFRS.
In preparing the statement of financial position according to IFRS on 1 January 2011 and 31 December 2011, the Company adjusted amounts reported previously in financial statements prepared in accordance with the Oreder of the Ministry of Public Finance 3055/2009.
The main restatement adjustments under IFRS of financial statements in accordance with the Order of the Miniser of Public Finance 3055 were as follows:

### a) Tangible assets

The Company has not calculated in previous periods depreciation expenses of tangible conservation. When adopting IFRS, tangible assets kept in storage still pays off for as long as 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 tangible assets 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. The depreciation expense is no longer recognized, and investment property is subject to a reassessment at the end of each financial year for the recognition at fair value. Revaluation is recognized in the income statement.

### c) Provisions for leaves not taken

The Company estimates for the days of leaves not taken and for the year ended, a provision for the registration of 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 in the Company. The value of this provision is up to date using the reference rate of interest according to the National Bank of Romania.

(All amounts are expressed in RON unless otherwise stated)

**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. TANGIBLE ASSETS

Movements of tangible assets are as follows:

| | Land and buildings | Equipment and vehicles | Furniture, facilities and equipment | Tangible asset in progress | Total |
|---|---|---|---|---|---|
| **On 1 January 2016** | | | | | |
| Cost or valuation | 55,086,346 | 29,834,418 | 237,298 | 511,771 | 85,669,833 |
| Accumulated depreciation | (10,681,071) | (22,321,770) | (154,079) | - | (33,156,920) |
| Net book value | 44,405,275 | 7,512,648 | 83,219 | 511,771 | 52,512,913 |

**Year closed on 31 December 2016**

| | Land and buildings | Equipment and vehicles | Furniture, facilities and equipment | Tangible asset in progress | Total |
|---|---|---|---|---|---|
| Net initial book value | 44,405,275 | 7,512,648 | 83,219 | 511,771 | 52,512,913 |
| Inflow | - | 174,970 | - | 729,024 | 903,994 |
| Transfers | 280,045 | 550,562 | 18,460 | (849,067) | - |
| Gain on revaluation | - | - | - | - | - |
| Loss on revaluation | - | - | - | - | - |
| Outflow, net | - | (136,293) | (4,549) | (67,352) | (208,194) |
| Transfers to real estate investments | - | - | - | - | - |
| Amortisation expense | (764,156) | (1,387,256) | (12,349) | - | (2,163,761) |
| Amortisation of fixed means under conservation | (80,092) | - | - | - | (80,092) |
| Net final book value | 43,841,072 | 6,714,631 | 84,781 | 324,376 | 50,964,860 |

(All amounts are expressed in RON unless otherwise stated)

| **On 31 December 2016** | **Land and buildings** | **Equipment and vehicles** | **Furniture, facilities and equipment** | **Tangible asset in progress** | **Total** |
|---|---|---|---|---|---|
| Cost or valuation | 55,366,391 | 30,423,657 | 251,209 | 324,376 | 86,365,633 |
| Accumulated depreciation | (11,525,319) | (23,709,026) | (166,428) | - | (35,400,773) |
| Net book value | 43,841,072 | 6,714,631 | 84,781 | 324,376 | 50,964,860 |

**Year closed on 31 December 2017**

| | **Land and buildings** | **Equipment and vehicles** | **Furniture, facilities and equipment** | **Tangible asset in progress** | **Total** |
|---|---|---|---|---|---|
| Initial net book value | 43,841,072 | 6,714,631 | 84,781 | 324,376 | 50,964,860 |
| Inflows | - | 444,588 | - | 4,724,886 | 5,169,474 |
| Transfers | 7,889 | 133,181 | 3,677 | (144,747) | - |
| Gain on revaluation | - | - | - | - | - |
| Loss on revaluation | - | - | - | - | - |
| Outflow, net | - | (21,015) | - | (724,126) | (745,141) |
| Transfers to investment property | - | - | - | - | - |
| Expense on depreciation | (772,666) | (1,339,219) | (12,490) | - | (2,124,375) |
| Depreciation of fixed assets in conservation | (80,092) | - | - | - | (80,092) |
| Net final book value | 42,996,203 | 5,932,166 | 75,968 | 4,180,389 | 53,184,726 |

| **On 31 December 2017** | **Land and buildings** | **Equipment and vehicles** | **Furniture, facilities and equipment** | **Tangible asset in progress** | **Total** |
|---|---|---|---|---|---|
| Cost or valuation | 55,374,280 | 30,740,301 | 254,886 | 4,180,389 | 90,549,856 |
| Accumulated depreciation | (12,378,077) | (24,808,135) | (178,918) | - | (37,365,130) |
| Net book value | 42,996,203 | 5,932,166 | 75,968 | 4.180.389 | 53,184,726 |

(All amounts are expressed in RON unless otherwise stated)

**Fair value of tangible assets**

An independent assessment of land, buildings and other categories of property and equipment was conducted by an independent auditor to determine the fair value of tangible assets on 31 December 2015. The net revaluation surplus was recorded in other comprehensive income and presented in “other reserves” in equity.

On 31 December 2017 a market study conducted by an independent auditor for the need of carrying out a revaluation on 31 December 2017 concluded that it is not necessary to carry out a revaluation as at 31 December 2017, only 24 months from the previous one and given the industrial sector in which the Company operates.

**Presentation of the fair value of tangible assets on 31 December 2017:**

| | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| Land | - | 30,848,407 | - |
| Buildings and special constructions | - | 12,147,796 | - |
| **Total land and buildings** | **-** | **42,996,203** | **-** |
| **Equipment and vehicles** | **-** | **5,932,166** | **-** |
| **Furniture, fixtures and equipment** | **-** | **75,968** | **-** |

**Presentation of the fair value of tangible assets on 31 December 2016:**

| | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| Land | - | 30,848,407 | - |
| Buildings and special constructions | - | 12,992,665 | - |
| **Total land and buildings** | **-** | **43,841,072** | **-** |
| **Equipment and vehicles** | **-** | **6,714,631** | **-** |
| **Furniture, fixtures and equipment** | **-** | **84,782** | **-** |

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

| | 2016 | 2017 |
|---|---|---|
| Cost | 2,551,279 | 1,284,053 |
| Accumulated depreciation | 411,441 | 375,639 |
| **Net book value** | 2,139,838 | 908,414 |

(All amounts are expressed in RON unless otherwise stated)

For committed loans, the Company recorded the following guarantees over the tangible assets:
Buildings

| | 2016 | 2017 |
|---|---|---|
| Cost | 16,134,809 | 10,687,105 |
| Accumulated depreciation | 4,856,270 | 3,394,406 |
| **Net book value** | **11,278,539** | **7,292,699** |

Land related:

| | 2016 | 2017 |
|---|---|---|
| Cost | 8,818,960 | 5,945,288 |

On 31 December 2017, the following tangible fixed assets (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:

| No. | Subject matter of mortgage or pledge | Value of mortgage or pledge | Beneficiary of mortgage or pledge | Mortgage rank |
|---|---|---|---|---|
| 1.1 | Land with building located in P-ta 1 Mai nr. 3 registered in Cluj-Napoca Land Register 309072 | RON 2,000,000 + interest and associated fees | BANCA COMERCIALA ROMANA | I |
| 1.2 | Land with building located in P-ta 1 Mai nr. 3registered in Cluj-Napoca Land Register 305138 and Land Register 305138-C1-U1 | RO 2,000,000 + interest and associated fees | RAIFFEISEN BANK | I |
| 2.1 | Pledge for the inventory of finished products | RON 800,000 + interest and associated fees | UNICREDIT BANK | - |
| 2.2 | Pledge on current and future available funds / credit balances on present and future accounts and sub-accounts opened at the bank under the Agreement pledge, registered with the Electronic Archive of Pledges | RON 800,000 + interest and associated fees | UNICREDIT BANK | |

(All amounts are expressed in RON unless otherwise stated)

| | | | | |
|---|---|---|---|---|
| 2.3 | Pledge on current and future available funds / credit balances on present and future accounts and sub-accounts opened at the bank under the Agreement pledge, registered with the Electronic Archive of Pledges | RON 2,000,000 + interest and associated fees | BANCA COMERCIALA ROMANA | - |
| 2.4 | Pledge on current and future available funds / credit balances on present and future accounts and sub-accounts opened at the bank under the Agreement pledge, registered with the Electronic Archive of Pledges | RON 13,740,000 | RAIFFEISEN BANK | - |

We mention that on 17 February 2017, the mortgage in favor of Unicredit Bank was canceled from the Land Registry 261371, the net book value of the buildings at 31 December 2017 was RON 3,509,741 and the corresponding land RON 2,873,673. The credit line in the amount of RON 800,000 will be secured only with the mortgage on the stocks of finished products and the present and future cash availability / credit balances in its present and future accounts and sub-accounts opened at the bank under the real movable security collateral agreement, registered with the Electronic Archive of Real Movable Guarantees
The carrying amount that would have been recognized had the assets would have been recorded under the cost model are shown in the table below. This cost represents the cost at the date of transition to IFRSs.

| **Description** | **Land and buildings** | **Equipment and vehicles** | **Furniture, facilities and equipment** | **Tangible asset in progress and advances** | **Total** |
|---|---|---|---|---|---|
| **Year closed on 31 December 2016** | | | | | |
| Cost | 50,362,621 | 21,993,278 | 251,210 | 324,377 | 72,931,486 |
| Accumulated depreciation | 11,674,329 | 18,030,031 | 166,427 | 0 | 29,870,787 |
| **Net book value** | 38,688,292 | 3,963,247 | 84,783 | 324,377 | 43,060,699 |
| **Year closed on 31 December 2017** | | | | | |
| Cost | 50,369,693 | 22,239,765 | 254,886 | 4,180,389 | 77,044,733 |
| Accumulated depreciation | 11,886,983 | 18,065,590 | 178,918 | 0 | 30,131,491 |
| **Net book value** | 38,482,710 | 4,174,175 | 75,968 | 4,180,389 | 46.913.242 |

(All amounts are expressed in RON unless otherwise stated)

## 7. INTANGIBLE ASSETS

| | Trademarks and Licenses |
|---|---|
| **On 01 January 2016** | |
| Cost or valuation | 217,519 |
| Accumulated depreciation | (188,238) |
| Net book value | 29,281 |
| **Year closed on 31 December 2016** | |
| Initial net book value | 29,281 |
| Inflows | 9,187 |
| Depreciation expense | (17,611) |
| **Final net book value – intangible assets** | **20,857** |
| **On 31 December 2016** | |
| **On 01 January 2017** | |
| Cost or valuation | 226,707 |
| Accumulated depreciation | (205,850) |
| Net book value | 20,857 |
| **Year closed on 31 December 2017** | |
| Initial net book value | 20,857 |
| Inflows | 8,359 |
| Depreciation expense | (18,095) |
| **Final net book value – intangible assets** | **11,121** |
| Tangible assets in progress - initial | 0 |
| Inflows | 0 |
| Outflows | 0 |
| **Accounting value – intangible assets in progress** | **0** |

## 8. INVESTMENT PROPERTY

| **On 01 January 2016** | **Buildings** |
|---|---|
| Cost or valuation | 5,779,239 |
| Net book value | 5,779,239 |
| Inflows | 1,046,342 |
| Earnings / (loss) from fair value | - |
| Outflows | 220,000 |

(All amounts are expressed in RON unless otherwise stated)

| | |
|---|---|
| Final net book value | 6,605,581 |
| **On 31 December 2016** | |
| Cost or valuation | 6,605,581 |
| Net book value | 6,605,581 |
| **Year closed on 31 December 2017** | **Buildings + Land** |
| Inflows | - |
| Earnings / (loss) from fair value | - |
| Outflows | - |
| Final net book value | 6,605,581 |
| **On 31 December 2017** | |
| Cost or valuation | 6,605,581 |
| Net booj value | 6,605,581 |

## 9. FINANCIAL INSTRUMENTS

| | **31 December 2016** | **31 December 2017** |
|---|---|---|
| **Active** | | |
| Receivables and other receivables | 6,921,327 | 8,376,047 |
| Cash and cash equivalents | 576,164 | 635,776 |
| | 7,497,491 | 9,011,823 |
| **Total Assets** | 6,921,327 | 8,376,047 |
| **Liabilities** | | |
| Loans | 2,912,874 | 3,346,581 |
| Trade payables and otherwise | 3,870,455 | 6,440,457 |
| Current income tax | 119,114 | 50,722 |
| **Total Liabilities** | 6,902,443 | 9,837,760 |

**Accounting classifications and fair values:**

| **31 December 2017** | **Note** | **Amortized cost** | **Total carrying amount** | **Fair value** |
|---|---|---|---|---|
| **Financial assets (RON)** | | | | |
| Cash and cash equivalents | 12 | 635,776 | 635,776 | 635,776 |
| Receivables and other receivables | 11 | 8,376,047 | 8,376,047 | 8,376,047 |
| **Total Financial Assets** | | **9,011,823** | **9,011,823** | **9,011,823** |

(All amounts are expressed in RON unless otherwise stated)

| | | | | |
|---|---|---|---|---|
| **Financial liabilities (RON)** | | | | |
| Loans | 14 | 3,346,581 | 3,346,581 | 3.346,581 |
| Trade payables and otherwise | 16 | 6,440,457 | 6,440,457 | 6,440,457 |
| Current income tax | | 50,722 | 50,722 | 50,722 |
| **Total Financial Liabilities** | | **9,837,760** | **9,837,760** | **9,837,760** |

## 10. INVENTORY

| | 31 December 2016 | 31 December 2017 |
|---|---|---|
| Materials | 3,944,650 | 4,067,416 |
| Inventory items | 105,164 | 104,989 |
| Finished goods | 7,862,402 | 7,900,222 |
| Goods | 342,348 | 336,098 |
| Provisions on impairment of inventories | (192,118) | (186,491) |
| **Total inventories** | 12,062,446 | 12,222,234 |

| | 31 December 2016 | 31 December 2017 |
|---|---|---|
| On 1 January | 212,945 | 192,118 |
| Provisioned during the year (Note 15) | 0 | 0 |
| Reversal | (20,827) | (5,627) |
| On 31 December | 192,118 | 186,491 |

## 11. TRADE RECEIVABLES AND OTHER RECEIVABLES

| | 31 December 2016 | 31 December 2017 |
|---|---|---|
| Customer receivables | 7,074,992 | 8,397,558 |
| Provisions on impairment of receivables from customers | (229,369) | (192,052) |
| Trade receivables and other receivables | 6,845,623 | 8,205,506 |
| Deferred charges | 43,279 | 90,254 |
| Other receivables | 31,988 | 79,849 |
| Other long-term receivables (on a period exceeding 3 months) | 438 | 438 |
| Provisions on impairment of other receivables | 0 | 0 |
| Current income tax to be recovered | 0 | 0 |
| Total | 75,704 | 170,541 |
| **Total receivables after provisioning** | 6,921,327 | 8,376,047 |

(All amounts are expressed in RON unless otherwise stated)

The fair value of receivables and other receivables is equal to their nominal value.

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

| | 31 December 2016 | 31 December 2017 |
|---|---|---|
| RON | 6,726,343 | 8,093,996 |
| EUR | 194,984 | 282,051 |
| Other currencies (USD, GBP) | - | - |
| **Total receivables** | 6,921,327 | 8,376,047 |

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

| | 31 December 2016 | 31 December 2017 |
|---|---|---|
| During the maturity period | 5,380,742 | 6,187,593 |
| Maturity period exceeded but without the risk of depreciation | 1,540,585 | 2,188,454 |
| **Total** | 6,921,327 | 8,376,047 |

The analysis on the seniority of outstanding receivables, but not provisioned are as follows:

| | 31 December 2016 | 31 December 2017 |
|---|---|---|
| Up to 3 months | 1,396,898 | 2,008,559 |
| Between 3 and 6 months | 133,538 | 153,134 |
| More than 6 months | 10,149 | 26,761 |
| **Total** | 1,540,585 | 2,188,454 |

The analysis of provision movement for the amortization of receivables:

| | 31 December 2016 | 31 December 2017 |
|---|---|---|
| On 1 January | 226,602 | 229,369 |
| Receivables provisioned during the year | 26,593 | 36,135 |
| Provision reversal | (23,826) | (73,452) |
| On 31 December | 229,369 | 192,052 |

(All amounts are expressed in RON unless otherwise stated)

## 12. CASH AND CASH EQUIVALENTS

| | 31 December 2016 | 31 December 2017 |
|---|---|---|
| Cash in hand and in bank | 62,432 | 126,827 |
| Performance guarantees under 3 months | - | - |
| Cash collateral at the bank - letters | - | - |
| Other cash equivalents | - | - |
| Short-term deposits | 513,732 | 508,949 |
| **Total** | 576,164 | 635,776 |

| | 31 December 2016 | 31 December 2017 |
|---|---|---|
| Cash in hand and in bank in RON | 51,966 | 122,360 |
| Cash in hand and in bank in USD | 3,282 | 951 |
| Cash in hand and in bank in EUR | 7,184 | 3,516 |
| Short-term deposits in RON | 513,732 | 508,949 |
| Short-term deposits in EUR | - | - |
| **Total** | 576,164 | 635,776 |

| Bank | 31 December 2016 | 31 December 2017 |
|---|---|---|
| Raiffeisen Bank | 4,671 | 3,895 |
| BRD | 2,900 | 13,978 |
| Trezorerie | 3,614 | 6,069 |
| BCR | 10,021 | 4,468 |
| Unicredit Ţiriac Bank | 0 | 17,545 |
| Piraeus Bank Romania | 943 | 0 |
| Cash in hand and other cash equivalent | 40,283 | 80,873 |
| Short-term deposits BRD | 0 | 0 |
| Short-term deposits BCR – manager securities | 97,274 | 92,490 |
| Short-term deposits – CEC BANK – recorded dividends | 416,440 | 416,440 |
| Short-term deposits – CEC BANK - sureties | 18 | 18 |
| | 576,164 | 635,776 |

(All amounts are expressed in RON unless otherwise stated)

In 2016, the amount of RON 416,440 representing the 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 registered with the CEC BANK SA. The amounts were recorded on the basis of an Ordinance issued on 25 September 2015 by the Directorate for the Investigation of Organized Crime and Terrorism in File No. 394 / D / P / 2007.

| | 31 December 2016 | 31 December 2017 |
|---|---|---|
| Cash and cash equivalents | 567,164 | 635,776 |
| Total current portions of loans | 2,599,141 | 3,040,747 |
| | 3,166,305 | 3,676,523 |

## 13. EQUITY

| | 31 December 2016 | 31 December 2017 |
|---|---|---|
| Share capital | 12,325,438 | 12,325,438 |
| Adjustments of share capital | - | - |

| | Value | Number of shares | Value of share (RON) | Percentage of ownership(%) |
|---|---|---|---|---|
| Ionescu Mircea-Pietro | 3,095,990 | 1,238,396 | 2.5 | 25.1187 |
| Popoviciu Viorel-Dorin | 1,607,925 | 643,170 | 2.5 | 13.0456 |
| Popa Gheorghe Titus Dan | 1,544,490 | 617,796 | 2.5 | 12.5309 |
| S.C. ELECTROARGEŞ S.A. | 1,527,833 | 611,133 | 2.5 | 12.3958 |
| Individuals | 2.875,515 | 1,150,206 | 2.5 | 23.3299 |
| Legal entities | 1,673,685 | 669,474 | 2.5 | 13.5791 |
| **Total** | 12,325,438 | 4,930,175 | | 100 |

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

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

(All amounts are expressed in RON unless otherwise stated)

| Month, Year | Movements in consumer price indices | Index | Conversion Factor |
|---|---|---|---|
| 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 2017, the Company did not appropriate any dividends to owners.

## 14. LOANS

| | 31 December 2016 | 31 December 2017 |
|---|---|---|
| Loans from banks | 2,599,141 | 3,040,747 |
| Loans from shareholders | - | - |
| Total loans | 2,599,141 | 3,040,747 |
| Current portion of loans | 2,599,141 | 3,040,747 |
| Long-term portion– loans from banks | - | - |
| | 2,599,141 | 3,040,747 |

In November 2017, the Company signed with RAIFFEISEN BANK S.A. a term SME Investment 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. The loan withdrawals will take place in the first part of 2018 for the purpose of paying the debt to the supplier, which as at 31 December 2017 was RON 2,534,877 and is included in current financial statements as Current Debt.

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 guarantee granted by the EIF.

(All amounts are expressed in RON unless otherwise stated)

The credit facility provided under this Contract benefits from 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.

The fair value of loans at the end of each reporting period coincides with their carrying amount at that date.

| | 31 December 2016 | 31 December 2017 |
|---|---|---|
| RON | 2,599,141 | 2,091,919 |
| EUR | 0 | 948,828 |
| | 2,599,141 | 3,040,747 |

The effective average annual interest rate on bank loans for the year 2017 was of 2.20% (for the year 2016 being 1.54%).

## 15. FINANCE LEASE

| | 31 December 2016 | 31 December 2017 |
|---|---|---|
| Up to one year | 313,733 | 305,834 |
| Between 1 year and 5 years | 206,926 | 202,015 |
| Current value of finance lease | 520,659 | 507,849 |

| | 31 December 2016 | 31 December 2017 |
|---|---|---|
| Up to one year | 325,159 | 315,472 |
| Between 1 year and 5 years | 211,906 | 204,818 |
| Future finance charges | (16,406) | (12,441) |
| Current value of finance lease | 520,659 | 507,849 |

The effective average annual interest rate of the finance lease for the year 2017 was of 2.08% (for the year 2016 was of 2.44%).

(All amounts are expressed in RON unless otherwise stated)

## 16 . SUPPLIERS AND OTHER CREDITORS

| | 31 December 2016 | 31 December 2017 |
|---|---|---|
| Suppliers | 1,847,745 | 4,406,772 |
| Amounts owed to personnel | 594,462 | 572,315 |
| Interest payable | 2,741 | 3,533 |
| Dividends payable | 838,888 | 656,224 |
| VAT payable | 193,773 | 298,173 |
| Other liabilities to the State | 302,641 | 361,333 |
| Deferred income | 0 | 0 |
| Customers in credit and sundry creditors | 83,588 | 118,133 |
| Inventory surpluses in the form of noncurrent assets | 6,617 | 23,974 |
| **Total** | 3,870,455 | 6,440,457 |

| | 31 December 2016 | 31 December 2017 |
|---|---|---|
| EUR | 695,774 | 3,490,804 |
| USD | - | - |
| RON | 3,174,681 | 2,949,653 |
| | 3,870,455 | 6,440,457 |

The amount of RON 2,534,877 that is found in the debt to the suppliers as at 31 December 2017 represents the equivalent in RON of the debt to the external supplier who delivered us a piece of equipment at the end of December 2017 and will be paid in the first part of 2018 the investment loan contracted from Raiffeisen Bank.

(All amounts are expressed in RON unless otherwise stated)

## 17. ANALYSIS OF REVENUE BY CATEGORY

| | 31 December 2016 | 31 December 2017 |
|---|---|---|
| Revenue from sale of finished goods | 29,158,670 | 30,707,448 |
| Revenue from sale of goods | 654,499 | 523,659 |
| Revenue from services rendered | 208,754 | 192,372 |
| **Total** | 30,021,923 | 31,423,479 |

**Other operating income**

| | 31 December 2016 | 31 December 2017 |
|---|---|---|
| Gain / (loss) from sale of fixed assets | 20,475 | (21,015) |
| Other income | **1,161,911** | **10,079** |
| Gain on revaluation of tangible assets | 0 | 0 |
| Gain on fair revaluation of property investment | 0 | 0 |
| Rental income | 1,403,067 | 1,478,799 |
| **Total** | 2,585,453 | 1,467,863 |

Other operating income as at 31 December 2016 recorded revenues of RON 1,155,160 representing dividends distributed in 2001, 2006, 2007, 2009, 2011 and 2012, outstanding until 31 December 2016 and for which the right of the shareholders to ask for their payment is prescribed.

## 18. WAGES AND OTHER COSTS RELATED

| | 31 December 2016 | 31 December 2017 |
|---|---|---|
| Salary expenses | 10,301,881 | 10,801,453 |
| Salary contribution expenses | 2,347,051 | 2,496,290 |
| Employee luncheon vouchers | 456,356 | 442,749 |
| **Total** | 13,105,288 | 13,740,492 |

| | 31 December 2016 | 31 December 2017 |
|---|---|---|
| Average number of employees | 222 | 217 |
| Number of employees | 222 | 230 |
| Salary of administrative staff (managers, including related social contributions) | 1,314,841 | 1,391,050 |
| Board of Directors (including related social security contributions) | 827,138 | 827,223 |

(All amounts are expressed in RON unless otherwise stated)

## 19. OTHER OPERATING EXPENSES

| | 31 December 2016 | 31 December 2017 |
|---|---|---|
| Other third-party services expenses | 744,724 | 877,940 |
| Royalties and rental expenses | 148,638 | 50,355 |
| Utilities expenses | 1,815,945 | 1,721,996 |
| Maintenance and repair expenses | 350,897 | 310,085 |
| Insurance expenses | 110,233 | 118,850 |
| Damages and penalties expenses | 138 | 33,913 |
| Other provisions expense / (reversal) | - | 23,555 |
| Net provision for receivables expense / (reversal) | 2,767 | (37,317) |
| Postage and other fees | 52,149 | 45,801 |
| Expenses on commissions and fees | 8,368 | 10,243 |
| Entertainment, advertising and publicity expenses | 145,824 | 99,649 |
| Net (gain) / loss from exchange differences from operating activities | (5,031) | (1,715) |
| Net provision for slow moving inventories or impaired expense / (reversal) | (20,827) | (5,627) |
| Banking and related expenses | 44,099 | 46,251 |
| Travel expenses | 205,868 | 184,559 |
| Other operating expenses | 862,623 | 793,803 |
| Shipping costs | 147,192 | 159,340 |
| **Total** | **4,613,609** | **4,431,681** |

In 2017, an audit fee of EUR 8,000 was paid to the auditor for auditing the financial statements as at 31 December 2016

In 2017, the Company paid to the City Hall of Cluj-Napoca an amount of RON 5,621, which represents late payment for the additional difference of RON 13,026 set for tax on land during the tax inspection which verified the period 01 January 2012 – 31 December 2016.

(All amounts are expressed in RON unless otherwise stated)

## 20. FINANCIAL RESULT

| | 31 December 2016 | 31 December 2017 |
|---|---|---|
| Interest expense | | |
| - Loans | 36,603 | 62,293 |
| - Financial leases | 20,808 | 10,590 |
| Net result from exchange rate differences | 759 | 48,099 |
| **Financial costs** | 58,170 | 120,982 |
| Interest income | 1,621 | 6 |
| Other financial income | 0 | 0 |
| **Other financial income** | 1,621 | 6 |
| **Net financial result** | (56,549) | (120,976) |

## 21. INCOME TAX

| **Description** | 31 December 2016 | 31 December 2017 |
|---|---|---|
| Net income | 967,965 | 978,970 |
| Tax rate according to national regulations | 16% | 16% |
| Items similar to income | 1,123,282 | 993,699 |
| Items similar to expenses | (36,181) | (28,656) |
| Deductions | (2,812,071) | (2,614,586) |
| Non-taxable income | (78,000) | (126,604) |
| Non-deductible expenses | 2,957,439 | 2,796,131 |
| Total | 2,122,434 | 1,998,954 |
| Tax expense | (339,589) | (319,833) |
| Tax credit | 67,917 | 63,967 |
| Total | (271,672) | (255,866) |
| (Expense) / revenue with Ddeferred tax | 5,151 | 48,681 |
| (Expense) / revenue with income tax | (266,521) | (207,185) |

(All amounts are expressed in RON unless otherwise stated)

## 21. INCOME TAX (CONTINUED)

| | 1 January 2016 | Movement in deferred tax | 31 December 2016 | Movement in deferred tax | 31 December 2017 |
|---|---|---|---|---|---|
| Deferred tax assets | 39,056 | (26,241) | 12,815 | 10,051 | 22,866 |
| Deferred tax liabilities | (4,948,731) | 164,919 | (4,783,12) | (40,538) | (4,824,350) |
| Asset / (liability) from deferred tax - net | (4,909,675) | 138,678 | (4,770,997) | (30,487) | (4,801,484) |

| Deferred tax liabilities | Tangible assets | Provisions | Total |
|---|---|---|---|
| On 1 January 2016 | (4,947,298) | (1,433) | (4,948,731) |
| Movement in deferred tax | 173,253 | (8,334) | 164,919 |
| On 31 December 2016 | (4,774,045) | (9,767) | (4,783,812) |

| Deferred tax liabilities | Tangible assets | Provisions | Total |
|---|---|---|---|
| On 1 January 2016 | 14,783 | 24,273 | 39,056 |
| Movement in deferred tax | (1,968) | (24,273) | (26,241) |
| On 31 December 2016 | 12,815 | 0 | 12.815 |
| Asset / (liability) from deferred tax - net | (4,761,230) | (9,767) | (4,770,997) |

| Deferred tax liabilities | Tangible assets | Provisions | Total |
|---|---|---|---|
| On 1 January 2017 | (4,774,045) | (9,767) | (4,783,812) |
| Movement in deferred tax | (43,265) | 2,727 | 40,538 |
| On 31 December 2017 | (4,817,310) | (7,040) | (4,824,350) |

(All amounts are expressed in RON unless otherwise stated)

| **Deferred tax liabilities** | **Tangible assets** | **Provisions** | **Total** |
|---|---|---|---|
| On 1 January 2017 | 12,815 | 0 | 12,815 |
| Movement in deferred tax | - | 10,051 | 10,051 |
| On 31 December 2017 | 12,815 | 10,051 | 22,866 |
| Asset / (liability) from deferred tax - net | (4,804,495) | 3,011 | (4,801,484) |

## 22. AFFILIATES

The list of Company affiliates is as follows:

| **Affiliate** | **Explanations** |
|---|---|
| CARBOREF SA Cluj-Napoca | CARBOCHIM SA holds 25% of the share capital of CARBOREF SA. D-l Popoviciu Viorel is 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 owns 70% of the social shares).<br>Deliveries represent the equivalent rent and utilities under contract 2249 / 13 December 2012.<br>Purchases are procurements of auxiliary materials. |
| EURO CLUB SRL Timişoara | D-l Popa Dan – Director of CARBOCHIM SA holds 50% of EUROCLUB SRL and is the Director of EUROCLUB SRL together with another person. Deliveries are deliveries of grinding wheel products in order to sell them as authorized dealer (according to contract no. 35001/2008, and the addendum 20/2016). |
| AUTO EUROPA SRL Timişoara | D-l Popa Dan – Director of CARBOCHIM SA holds 50% of AUTOEUROPA SRL and is the director together with another person AUTOEUROPA SRL |
| ELECTROARGES SA Curtea de Argeş | ELECTROARGES SA holds 12.40% of the CARBOCHIM SA share capital |
| SERVICE AUTOMOBILE 2 SA, Cluj-Napoca | Mr. Turcu Iacob Ovidiu – Director of CARBOCHIM SA holds 41.88% of SERVICE AUTOMOBILE 2 SA and is the representative of the Director of DACIA SERVICE CLUJ FELEAC |
| DACIA SERVICE CLUJ FELEAC SA, Cluj-Napoca | Mr. Turcu Iacob Ovidiu – Director of CARBOCHIM SA, starting 26 April 2013 he holds 95.66% of DACIA SERVICE FELEAC SA and is Director together with two persons |

(All amounts are expressed in RON unless otherwise stated)

The analysis of balances and transactions with affiliates:

| **Balances on 1 January 2016** | **Receivables** | **Other receivables** | **Payables** |
|---|---|---|---|
| CARBOREF SA | 1,555 | - | - |
| EURO CLUB SRL | 122,922 | - | - |
| AUTOEUROPA SRL | - | - | - |
| ELECTROARGES SA | - | - | - |
| SERVICE AUTOMOBILE 2SA | - | - | - |
| DACIA SERVICE FELEAC SA | - | - | - |
| **Total** | 124,477 | - | - |

| **Transactions carried out during 2016:** | **Sales** | **Expenses** | **Loans** |
|---|---|---|---|
| CARBOREF SA | 9,773 | 27 | - |
| EURO CLUB SRL | 692,893 | - | - |
| AUTOEUROPA SRL | - | 4,165 | - |
| ELECTROARGES SA | 523 | - | - |
| SERVICE AUTOMOBILE 2 SA | 834 | 9,365 | - |
| DACIA SERVICE FELEAC SA | 1,432 | 5.660 | - |
| **Total** | 705,455 | 19,217 | - |

| **Balances on 31 December 2016** | **Receivables** | **Other receivables** | **Payables** |
|---|---|---|---|
| CARBOREF SA | 837 | - | - |
| EURO CLUB SRL | 142,228 | - | - |
| AUTOEUROPA SRL | - | - | - |
| ELECTROARGES SA | - | - | - |
| SERVICE AUTOMOBILE 2 SA | - | - | 957 |
| DACIA SERVICE FELEAC SA | - | - | - |
| **Total** | 143,065 | - | - |

| **Transactions carried out during 2017:** | **Sales** | **Expenses** | **Loans** |
|---|---|---|---|
| CARBOREF SA | 10,051 | 1,607 | - |
| EURO CLUB SRL | (3,149) | - | - |
| AUTOEUROPA SRL | - | 315 | - |
| ELECTROARGES SA | 687 | - | - |
| SERVICE AUTOMOBILE 2 SA | 14,179 | - | - |
| DACIA SERVICE FELEAC SA | 18,768 | 550 | - |
| **Total** | 40,536 | 2,472 | - |

| **Balances on 31 December 2017** | **Receivables** | **Other receivables** | **Payables** |
|---|---|---|---|
| CARBOREF SA | - | - | - |
| EURO CLUB SRL | - | - | - |
| AUTOEUROPA SRL | - | - | - |
| ELECTROARGES SA | - | - | - |
| SERVICE AUTOMOBILE 2 SA | - | - | - |
| DACIA SERVICE FELEAC SA | - | - | - |
| **Total** | **-** | **-** | **-** |

The amounts are stated in RON and inclusive of VAT.

On 31 December 2017, 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 643,170 shares.

- Popa Gheorghe Titus Dan, member of the Board of Directors. Holds 617,796 shares

- Ionescu Mircea Pietro, Member of the Board of Directors. Holds 1,238,396 shares.

- Turcu Iacob Ovidiu, Member of the Board of Directors. Holds 164 shares.

- Crisan Viorel Vasile, Member of the Board of Directors. Holds 7,609 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.

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.

(All amounts are expressed in RON unless otherwise stated)

| | **Year closed on 31 December 2016** | **Year closed on 31 December 2017** |
|---|---|---|
| Profit attributable to equity holders of the Company | 967.965 | 978.970 |
| Weighted average of number of shares | 4,930,175 | 4,930,175 |
| Basic earnings and diluted earnings per share (RON per share ) | 0.20 | 0.20 |

## 24. CONTINGENCIES

### Litigation

The Company is subject to a number of lawsuits, most representing insolvency proceedings of doubtful clients. 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.

### 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 2017, 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 tangible assets, 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 on 31 December 2010 in the financial statements prepared according to the Order of the Ministry of Public Finance 3055/2009.

**Financial crisis**

**Recent volatility in international and Romanian financial markets:**

The current 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. Also, the RON exchange rate volatility and the main currencies used in international trade was very high. Currently, the full impact of the current financial crisis is still impossible to predict and totally preventable.

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. The management believes that it has taken all the necessary measures to ensure the continuity of the Company under current conditions.

**Revaluation of properties held at fair value**

The real estate market in Romania has been severely affected by the recent volatility in financial markets which resulted in restricting access to credit for companies and individuals. 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.

## 25. SUBSEQUENT EVENTS

In the Current Report issued on 20 March 2018 to publish the agenda of the Ordinary General Meeting of Shareholders of 26 April 2018, convened for approval of the Financial Situations of 2017, the following shall be submitted for approval:

- appropriation of the net profit of 2017 in the amount of RON 978,969.72 as follows: to the legal reserves the amount of RON 59,307.74, to the dividends the amount of RON 887,431.50 representing a gross dividend of RON 0.18 / share and other reserves (own financing sources) the difference of RON 32,230.48.

- appropriation of dividends in the amount of RON 345,112.25, i.e. a gross dividend of RON 0.07 / share, of the net profit of 2015 remained unpaid amounting to RON 682,821.94.

400058, P-ța 1 Mai, nr. 3, Cluj-Napoca, România
tel: 0040 264 437 005, fax: 0040 264 437 026 www.carbochim.ro, e-mail: sales@carbochim.ro
ISO 9001:2008 ISO 14001:2004
RO 201535, J12/123/1991, Cap. social subscris și vărsat 12.325.437,5 Lei,
cont IBAN RO51RZBR0000060001948981 deschis la Raiffeisen Bank SA

CARBOCHIM CLUJ ABRAZIVE PROFESIONALE

Nr......................................
din......................................

# STATEMENT

We, the undersigned POPOVICIU VIOREL-DORIN acting in the capacity of Chief Executive Officer and BARABULA MIHAELA-MARIA acting in the capacity of Chief Financial Officer of CARBOCHIM S.A., hereby state:

- The separate financial statements on 31 December 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and with the Order of the Ministry of Public Finance 2844/2016 approving the Accounting Regulations in accordance with the International Financial Reporting Standards.

- The accounting policies used in the preparation of financial statements are in accordance with the accounting regulations applied;

- The separate financial statements prepared in accordance with the International Financial Reporting Standards ("IFRS") present fairly the financial position, financial performance and other information related to the activity carried out;

- The Company operates in terms of continuity

- At the time of this statement, we have no knowledge about other information, events, circumstances that would significantly alter the above statements.

| | |
|---|---|
| CHIEF EXECUTIVE OFFICER<br>VIOREL POPOVICIU, Engineer | CHIEF FINANCIAL OFFICER<br>MIHAELA BARABULA, Economist |

“INTEGRAL AUDIT” SRL

**Cluj-Napoca, str. Cal. Dorobantilor 14-16, ap. 33**
**Share Capital: RON 200, J12/741/25 March 2011, Tax Registration Number 28244862**
**Phone no. 0725 068012, fax no. 0264 599589, email: neliagoia@yahoo.com**

## INDEPENDENT AUDITOR'S REPORT

**To CARBOCHIM SA Shareholders**

### Report on the Financial Statements Audit

### Opinion

1 . We have audited the enclosed Financial Statements of CARBOCHIM SA (the "Company") with registered office in Romania, CLUJ-NAPOCA CITY, Piata 1 Mai nr. 3, identified with Tax Registration Number and VAT Code RO 201535, which comprise the Statement of Revenue and Expenditure, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Cash Flow Statement and Notes to the Financial Statements (including a summary of the significant accounting policies and other explanatory notes), prepared as at 31 December 2017. The aforementioned Financial Statements include:

- Total Assets: RON 81,073,485
- Equity RON 66,036,181
- Debts RON 15,037,304
- Net profit for the year RON 978,970

2. In our opinion, the accompanying Financial Statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance, and its cash flows for the year closed on that date, in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union.

### Basis for Opinion

3. We conducted our audit in accordance with the International Standards on Auditing (ISAs), EU Regulation no. 537 of the Parliament and of the European Council (hereinafter "the Regulation") and Law 162/2017 (the "Law"). Our responsibilities under these standards are described in detail in the Auditor's Responsibilities section, in a Financial Statements audit in our report. We are independent of the Company, according to the Ethical Code of Professional Professionals issued by the International Ethics Standards Board for Accountants (IESBA Code), according to the requirements of professional ethics relevant to the Financial Statements audit from Romania and we fulfilled the other responsibilities of professional ethics according to these requirements and the IESBA Code. We reckon that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Issues

4. The key audit issues are those issues that, in our professional reasoning, had the greatest importance to the Financial Statements audit of the current period. These issues were addressed in the context of the overall financial statement audit and forming our opinion on them and do not provide a separate opinion on these issues.

5. **Assessment of Inventories**

The information provided by CARBOCHIM SA regarding inventories, including inventory depreciation adjustments, is presented in the Financial Statements in Note 9.

As at 31 December 2017, the Company held inventories of RON 12,408,725 for which there were adjustments of RON 186,491, as per Note 9 of the Financial Statements.

Where necessary, adjustments are recorded for inventories that are used morally and slow-moving inventories. Individually identified morally-used inventories are adjusted to full value or removed from the balance sheet. For slow-moving inventories, an age estimate is made on each main category based on the inventory turnover.

Identifying and establishing adjustments for inventory depreciation involves conducting analyses, judgments, and assumptions that involve a high level of uncertainty.

Due to the significant value of the stock balance, the age of inventories and uncertainties about the assumptions used to determine the adjustments, this is considered a key audit issue.

Method of approaching this key audit issue:

We conducted a sample-based additional inventory of inventories over one year for which no impairment adjustments were recorded by the Company to insure and observe the physical condition of inventories.

We have requested and obtained additional analysis of slow-moving inventories performed and assumed by the Company's technical service.

We have carried out comparative calculations and analyses on how slow-moving inventories evolve over time.

We have found that inventories older than one year are consistent in terms of quality and are sold in a slow-moving mode and raw materials are used in the manufacturing process with a slower movement due to changes in the production structure.

**Other Information**

6. Other information includes the Directors' Report but does not include the Financial Statements and the Auditor's Report thereon. Management is responsible for further information.

7. Our opinion on the Financial Statements does not cover this other information and does not express any reassurance conclusion on them.

8. In connection with the Financial Statements audit for the financial year closed on 31 December 2017, our responsibility is to read this other information and, in doing so, to assess whether the other information is significant inconsistent with the Financial Statements or knowledge that we have obtained during the audit, or they seem to be materially misstated. Should we conclude, based on the work performed, that there is a material misstatement of the other information, we are required to report it. In this respect, we have nothing to report.

**Responsibilities of Management and Persons Charged with Governance to the Financial Statements**

9. Company Management is responsible for the preparation and fair presentation of the Financial Statements in accordance with IFRSs and for such internal control as the Management considers necessary to enable the preparation of financial statements free of material misstatement, whether due to fraud or error.

10. In preparing the Financial Statements, the Management is responsible for assessing the Company's ability to continue in operation, showing, if any, the aspects of business continuity and using the accounts on a going concern basis unless the Management either intends to liquidate the Company or close down operations, or has no realistic alternative beyond.

11. Persons responsible with the governance are responsible for overseeing the financial reporting process of the Company.

**Auditor's Responsibilities in a Financial Statements Audit**

12. Our goals are to obtain reasonable assurance on whether the Financial Statements, as a whole, are free from material misstatement, whether due to fraud or error, as well as issuing an Auditor's Report which includes our opinion. The reasonable assurance has a high level of assurance, but there is no guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement, if any. Misstatements can be caused either by fraud or error and are deemed significant if it can be reasonably expected that they will influence, individually or in aggregate, the economic decisions of users taken on the basis of these Financial Statements**.**

13. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. Moreover:
    - We identify and assess the risks of material misstatement of the Financial Statements, due either to fraud or error, design and execute audit procedures in response to such risks and obtain sufficient and appropriate audit evidence to provide a basis for our opinion. The risk of failing to detect a significant misstatement due to fraud is higher than the one of failing to detect a material misstatement due to error because fraud may involve collusion, forgery, deliberate omissions, misrepresentations and avoiding internal control.
    - We acknowledge the internal control relevant to the audit, in order to design audit procedures appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of the Company.
    - We assess the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
    - We draw a conclusion on the appropriateness of the use by the Management of accounts on a going concern basis and determine, based on the audit evidence obtained, whether a material uncertainty exists regarding events or conditions that may cast significant doubt on the ability of the Company to continue its operations. If we conclude that there is significant uncertainty, we must draw the attention in the Auditor's Report on the presentations related to the Financial Statements or, if these disclosures are inadequate, to alter our opinion. Our conclusions are based on the audit evidence obtained until the Auditor's Report. However, future events or conditions may cause the Company may not carry on business in a going concern basis.
    - We assess the presentation, structure and general content of the Financial Statements, including disclosures, and whether the Financial Statements reflect transactions and events based in a manner that achieve fair presentation.

14. We communicate, among other things, the planned scope and timing of the audit and the main audit findings to those responsible for governance, including any significant deficiencies in the internal control that we identified during the audit.

15. We also provide those responsible for governance a statement that we complied with the ethical requirements relevant to the independence, and that we communicated all relationships and other matters which might be reasonably assumed to affect our independence, and, where appropriate, the related protective measures.

16. We determine, among the matters communicated with those charged with the governance, which are the most important for the audit of the Financial Statements for the current period and which are therefore key audit issues. We describe these issues in the Auditor's Report, unless laws or regulations prohibit public disclosure of this matter or where, in extremely rare circumstances, we believe that they should not be communicated in our Report as it is reasonably predicted that public interest benefits would overcome the negative consequences of this communication.

**Report on Other Legal and Regulatory Provisions**
Reporting on information other than Financial Statements and our report thereon

17. In addition to our reporting responsibilities under ISA and described in the "Other Information" on the Directors' Report, we have read the Directors' report attached to the individual Financial Statements and disclosed from page 1 to 15 and report that:

    a) we did not identify information in the Directors' Report that is not consistent in all material respects with the disclosures in the accompanying individual Financial Statements;

b) the Directors' Report identified above includes, in all material respects, the information required by Order of the Minister of Public Finance no. 2844/2016, sections 15-18 (Accounting Regulations in accordance with International Financial Reporting Standards)

c) based on our knowledge and understanding acquired during the audit of the Financial Statements for the year closed on 31 December 2017 on the Company and its environment, we have not identified any information contained in the Directors' Report to be significantly flawed.

18. We have been appointed by the General Meeting of Shareholders on 26 April 2017 to conduct an audit on the Financial Statements of CARBOCHIM SA for the financial year closed on 31 December 2017. The uninterrupted total duration of our commitment is 7 years, covering the financial years closed on 32 December 2011 until 31 December 2017.

We confirm that:

• Our audit opinion is in line with the additional report submitted to the Company's Audit Committee, which we issued the same date when we also issued this report. Furthermore, in conducting our audit, we have retained our independence from the audited entity.

• We did not provide for the Company the forbidden non-audited services referred to in Article 5 (1) of EU Regulation no. 537/2014.

For and on behalf of the Company INTEGRAL AUDIT SRL

SIMION NELIA

Financial Auditor registered with the Chamber
Financial Auditors of Romania under
number 3444/30 March 2010.

INTEGRAL AUDIT SRL

registered with the Chamber
Financial Auditors of Romania under
number 1052/2011

Cluj-Napoca, 21 March 2018