

ARMĀTURA SA
INDIVIDUAL FINANCIAL STATEMENTS
FOR THE YEAR CONCLUDED ON 31 DECEMBER 2019
DRAFTED PURSUANT TO FINANCIAL REPORTING INTERNATIONAL STANDARDS
ADOPTED BY THE EUROPEAN UNION



ARMATURA

| CUPRINS | PAGINA |
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ARMATURA SA
STATEMENT OF FINANCIAL POSITION
ON 31 DECEMBER 2019
(in lei, if not mentioned otherwise)

| Note | 31 December 2019 | | 31 December 2018 | |
|-------------------------------|---------------------|---------------------------|--------------------------|---|
| | | | | |
| Asset | | | | |
| Fixed assets | | | | |
| Tangible assets | 6 | 29.653.422 | 30.346.332 | |
| Intangible assets | 7 | <u>9.709</u> | <u>9.239</u> | |
| Total fixed assets | | <u>29.663.131</u> | <u>30.355.571</u> | |
| Current assets | | | | |
| Stocks | 11 | 2.640.638 | 4.058.368 | |
| Clients and other claims | 10 | 282.329 | 659.424 | |
| Cash and cash equivalents | 12 | 335.922 | 458.044 | |
| Short-term financial assets | | <u>110.155</u> | | - |
| Total current assets | | <u>3.369.044</u> | <u>5.175.836</u> | |
| Total assets | | <u>33.032.175</u> | <u>35.531.407</u> | |
| Equity and debts | | | | |
| Registered capital | 13 | 18.110.957 | 18.110.957 | |
| Reserves | | 21.335.091 | 21.335.091 | |
| Reported result | | <u>-44.288.947</u> | <u>-40.835.609</u> | |
| Total equity | | <u>- 4.842.899</u> | <u>-1.389.561</u> | |
| Long term debts | | | | |
| Loans | | - | - | - |
| Debts related to deferred tax | 16 | 2.666.568 | 3.006.772 | |
| Suppliers and other debts | | <u>-</u> | <u>-</u> | |
| | | <u>2.666.568</u> | <u>3.006.772</u> | |

The appended notes represent an integral part of the financial statements hereof.

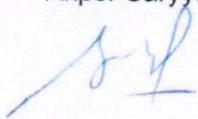
ARMATURA SA
STATEMENT OF FINANCIAL POSITION
ON 31 DECEMBER 2019
(in lei, if not mentioned otherwise)

| Note | 31 December 2019 | 31 December 2018 |
|---|--------------------------|--------------------------|
| Current debts | | |
| Suppliers and other debts 14 | 9.829.821 | 9.597.502 |
| Settlements with shareholders on registered capital | 100 | 100 |
| Loans | 25.230.721 | 24.148.638 |
| Provisions for risks and expenses 17 | <u>147.864</u> | <u>167.956</u> |
| Total current debts | <u>35.208.507</u> | <u>33.914.196</u> |
| Total debts | <u>37.875.074</u> | <u>36.920.968</u> |
| Total equity and debts | <u>33.032.175</u> | <u>35.531.407</u> |

The financial statements were signed today

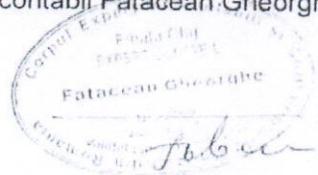
Director,

Akper Saryyev



Drafted by,

expert contabil Fătăcean Gheorghe



ARMATURA SA
STATEMENT OF REVENUES AND EXPENSES
ON 31 DECEMBER 2019
(in lei, if not mentioned otherwise)

| | Note | Year concluded on 31 December 2019 | Year concluded on 31 December 2018 |
|--|------|--|--|
| Revenues | | 7.305.111 | 8.283.671 |
| Other operating income | | 105.325 | 5.987 |
| Variation of finished products stocks and undergoing production | | 603.986 | 111.204 |
| Raw materials and materials | | -4.698.787 | -4.591.398 |
| Cost of merchandise | | -59.940 | -246.769 |
| Staff expenditure | 20 | -2.497.509 | -2.582.282 |
| Utilities expenditure | | -330.642 | -385.251 |
| Services rendered by third parties | | -380.195 | -465.593 |
| Amortisation and depreciation of fixed assets | | -776.287 | -973.354 |
| Net movement in provision for other risks and expenditure | 17 | 20.092 | 2.031 |
| Other operational expenditure | 19 | <u>-585.818</u> | <u>-1.134.631</u> |
| Other revenues / (losses), net | 18 | <u>-1.171.753</u> | <u>621.133</u> |
| Operational result | | <u>-2.466.417</u> | <u>-1.355.252</u> |
| Financial revenues | | 69 | - |
| Financial expenditure | | <u>-1.327.192</u> | <u>-530.108</u> |
| Net financial loss | 21 | <u>-1.327.123</u> | <u>-530.108</u> |
| Loss before taxation | | <u>-3.793.540</u> | <u>-1.885.360</u> |
| Revenue / (Expenditure) with current and deferred corporation tax | 22 | <u>340.204</u> | <u>-26.153</u> |
| Net loss related to the exercise | | <u>-3.453.336</u> | <u>-1.911.513</u> |
| Number of shares issued | | 40.000.000 | 40.000.000 |
| The result on basic action and diluted one | | <u>-0,0863</u> | <u>-0,0478</u> |

The appended notes represent an integral part of the financial statements hereof.

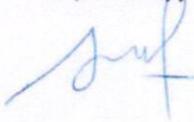
ARMATURA SA
STATEMENT OF REVENUES AND EXPENSES
ON 31 DECEMBER 2019
(in lei, if not mentioned otherwise)

| Note | Year concluded on 31 December | Year concluded on 31 December |
|---|----------------------------------|----------------------------------|
| | 2019 | 2018 |
| Loss related to exercise | <u>-3.453.336</u> | <u>-1.911.513</u> |
| Other elements of the global result: | | |
| Profit/(Loss) from the reassessment of buildings | - | 13.804.980 |
| Impact of deferred tax on the reassessment reserves | <u>-</u> | <u>-2.208.797</u> |
| Other elements of the global result | | |
| Related to the year, net tax | <u>-</u> | <u>11.596.183</u> |
| Total global result related to the exercise | <u>-3.453.336</u> | <u>9.684.670</u> |

The financial statements were signed today

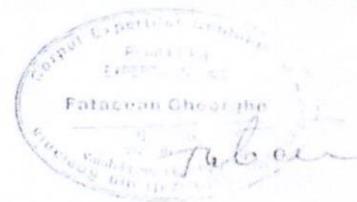
Director,

Akper Saryyev



Drafted by,

expert contabil Fătăcean Gheorghe



ARMATURA S.A.
STATEMENT OF MODIFICATIONS OF EQUITY
FOR THE YEAR CONCLUDED AT 31 DECEMBER 2019
(in lei, if not mentioned otherwise)

| | Registered capital | Reserves reassessment | Other reserves | Reported result | Total |
|------------------------------------|--------------------|--------------------------|----------------|--------------------|--------------------|
| Balance at 1 January 2018 | 18.110.957 | 8.787.961 | 950.947 | -38.924.096 | -11.074.231 |
| Profit/Loss related to the year | - | - | - | - | - |
| Other elements of global result | - | -2.208.797 | - | -1.911.513 | -1.911.513 |
| Reserves from reassessment | - | 13.804.980 | - | - | -2.208.797 |
| Total global result | - | 11.596.183 | - | -1.911.513 | 13.804.980 |
| Balance at 31 December 2018 | 18.110.957 | 20.384.144 | 950.947 | -40.835.611 | -1.389.563 |
| Balance at 1 January 2019 | 18.110.957 | 20.384.144 | 950.947 | -40.835.611 | -1.389.563 |
| Profit/Loss related to the year | - | - | - | - | -3.453.336 |
| Other elements of global result | - | - | - | - | - |
| Reserves from reassessment | - | - | - | - | - |
| Total global result | - | - | - | -3.453.336 | -3.453.336 |
| Balance at 31 December 2019 | 18.110.957 | 20.384.144 | 950.947 | -44.288.947 | -4.842.899 |

The financial statements were signed today

Director,
Akper Saryev

Drafted by,
expert contabil Fătăcean Gheorghe

Fătăcean Gheorghe
FATACHEAN GHEORGHE

ARMATURA S.A.
INDIVIDUAL STATEMENT OF TREASURY FLOWS FOR THE YEAR CONCLUDED ON
31 DECEMBER 2019

(in lei, if not mentioned otherwise)

Year concluded on 31 December Year concluded on 31 December

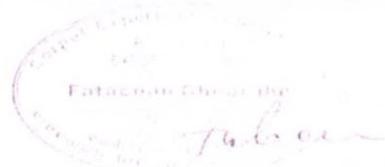
| | Note | <u>2019</u> | <u>2018</u> |
|---|------|----------------|-----------------|
| Cash flows from the operating activities | | | |
| Cash generated from operations | 24 | <u>76.630</u> | <u>-32.208</u> |
| Paid interests | | - | - |
| Net cash generated from operating activities | | | |
| | | <u>76.630</u> | <u>-32.208</u> |
| Cash flows from investment activities | | | |
| Purchase of tangible assets | | -101.104 | -75.574 |
| Net proceeds from the sale of tangible assets | | 12.438 | - |
| Interest proceeds | | 69 | - |
| Net cash used in investment activities | | | |
| | | <u>-88.597</u> | <u>-75.574</u> |
| Cash flows from financing activities | | | |
| Settlements from shareholders | | - | - |
| Net cash used in financing activities | | | |
| | | <u>-</u> | <u>-</u> |
| Net modification of cash and cash equivalents | | | |
| | | <u>-11.967</u> | <u>-107.781</u> |
| Cash and cash equivalents at the beginning of the year | 12 | <u>458.044</u> | <u>565.825</u> |
| Increases /- Decreases | | <u>-11.967</u> | <u>-107.781</u> |
| Cash and cash equivalents at the end of the year | 12 | <u>446.077</u> | <u>458.044</u> |

The financial statements were signed today

Director,
Akper Saryyev



Drafted by,
Expert contabil Fătăcean Gheorghe



NOTES TO INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR CONCLUDED
ON 31 DECEMBER 2019
(in lei, if not mentioned otherwise)

1 GENERAL DATA

ARMATURA SA („The Company”) registered at the beginning of the year 1991 at Cluj Trade Registry as a share company, and at the end of the year 1996 concluded the privatization process, currently being a trade company with full private registered capital. The company has the registered office in Cluj-Napoca, 19 Garii street, where it carries out its production activity.

The company has as object of activity „Manufacture of other taps and valves”, NACE code and is active in the field of metallic armatures with experience in manufacture of armatures for thermal installations and water and gas supply installations, including today in the product portfolio over 1,500 articles with dimensions according to the type. The company clients are national and international companies.

The Company's shares are registered in the second category of Bucharest Stock Exchange since 1997, and in the year 2019 the main shareholder is HERZ ARMATUREN Ges.m.b.H Austria.

The company has no branches, is not in association and does not own participation titles.

The company has a submitted registered capital in value of Lei 4,000,000 representing 40,000,000 shares with a nominal value of 0.1 lei per share.

2 THE SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The main accounting policies applied when drafting these individual financial statements are presented here. These policies were concertedly applied during all the years presented, if not mentioned otherwise.

2.1 Drafting basis

The financial individual statements of the Company were drafted pursuant to the provisions of the Order of Public Finance Ministry no. 2.844/2016, for the approval of Accounting regulations pursuant to the International Financial Reporting Standards, applicable to the trade companies whose securities are admitted for trade on a regulated market, with subsequent modifications and clarifications.

These provisions are in compliance to the International Financial Reporting Standards adopted by the European Union, except IAS 21 - The effects of modification of the exchange rate, regarding the functional currency. In order to draft these financial reports pursuant to the legislation requirements from Romania, the functional currency of the Company is considered to be RON („Romanian leu”).

**NOTES TO INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR CONCLUDED
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For the year concluded on 31 December 2011 and for all prior financial years, the Company drafted the individual financial statements pursuant to the Romanian accounting regulations (local accounting principles) represented by OMF 3055/2009 for the years 2011 and 2010. On December the 31st 2012 the Company drafted the first set of individual financial statements pursuant to IFRS adopted by the EU.

The drafting of individual financial situations pursuant to IFRS requires the use of critical accounting estimates. Also, it requires to the management to use the reasoning in the application process of the Company's accounting policies. The fields which involve a higher complexity degree and application of these reasonings or those in which the hypothesis and estimates have a significant impact on the individual financial statements are presented in note 4.

2.1.1. Continuation of activity

The current financial statements were drafted on the basis of the principle of continuation of activity, which means that the Company shall carry out its activity also in the predictable future.

The nature of the Company's activity may bring unpredictable variations in which concerns the cash intakes in the future. The management analysed the issue of opportunity of drafting the financial statements having as basis the principle of continuity of activity.

On 31 December 2019, The Company registered total loss in value of RON-3.453.336 (31 December 2018: RON1.911.513), having a reported loss of RON-44.288.947 (31 December 2018 : RON- 40.835.611).

Following the registered losses, the net assets of the Company diminished to less than a half of the value of submitted registered capital. In the year 2011, the Extraordinary General Meeting of Shareholders decided the reduction of registered capital with an amount equal to the losses which could not be covered from reserves, respectively with RON16,000,000 to the historical value and, thus, the losses from the years 2006-2008 were fully and partially covered from the year 2009.

On March 7, 2013 the Extraordinary General Meeting of Shareholders approved the Company's share capital decrease to the value "zero" and its concomitant increase in the amount of RON4,000,000 by contribution in cash by its shareholders. Completion of this operation was not possible because the shareholder Bugica Radu challenged the decision of the Commercial Court Cluj, request which made the object of case file no. 817/1285/2013 and the Decision of the EGMS was annulled by the court by a final decision. From a financial standpoint, the Company was affected only for the fact that they could solve the problem of equity, which on 31.12.2012 worthen less than 50% of the share capital value. The main reason for the cancellation was that the Company did not organize before approving the reduction and capital increase an EGMS in order to discuss the dissolution and liquidation of the Company.

ARMATURA S.A.

**NOTES TO INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR CONCLUDED
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(in lei, if not mentioned otherwise)**

On 29/04/2014 an EGMS took place which rejected the Board of Directors proposal of dissolution and liquidation of the Company.

On 12/02/2015, the Extraordinary General Meeting decided to reduce the Company's share capital from RON 4,000,000 to RON 400,000 by reducing the number of shares from 40,000,000 to 4,000,000 registered shares and simultaneously the capital increase from the value RON 400,000 to RON 4,000,000 value by cash contribution. The answer concerning the recording of the operation to reduce the share capital from ASF has been communicated to the company on 12/02/2016. The Extraordinary General Meeting of Shareholders dated April 2016 rejected the proposal approved by the Extraordinary General Meeting of Shareholders no. 01/12.02.2015. The same EGMS approved for the Board of Directors to be mandated the duty to approve and perform a capital increase of company up to a value of RON10,000,000, within one year from the date of adoption of the EGMS decision, but until the date of the financial statements hereof this procedure was not fulfilled.

During the year 2017, the Company came across an activity reorganization period and closed down the units: Iron Foundry, Mechanical Processing, Mounting Department and also the Presentation Store located at the registered office.

The Company depends on the financial support awarded by the shareholder Herz Armaturen Ges.m.b.H.

In the year 2018, Company's activity was reduced and mainly focused on the tapware items mounting, but also the rest of the support functions involved in the process.

On the date of 15/02/2018 was closed down the Brass Foundry Unit following the EGMS decision no. 02 of 29/04/2014.

On the date of 25/04/2019 an EGMA took place, via which, by the decision no. 3/25.04.2019, the shareholders representing 49.76% of the equity capital did not approve the dissolution of the Company and approved the selling, entirely or partially, simultaneously or successively, to one or several buyers, of any and all real-estate owned by the Company. The amounts collected from the sale of the real-estate will be used to pay the Company's debts.

Also, by the Decision of the Board of Directors of the Company Armatura SA no. 957/10.12.2019, was approved the dissolution from the organigram of 9 job positions, the individual employment agreements of the employees occupying these positions being scheduled to terminate on January 2020.

In January 2020, via the Decision of the Board of Directors of the Company Armatura SA no. 89/23.01.2020, was approved the scrappage of the fixed assets and the inventory items of all units of Armatura SA.

NOTES TO INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR CONCLUDED
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(in lei, if not mentioned otherwise)

2.1.2 New accountancy standards

New and altered standards adopted by the Company:

- IFRS 15 Profit from contracts with clients:

This standard enters into force for periods starting at or after 1 January 2018. IFRS 15 establishes a new 5 steps model that will apply for the acknowledgement of revenues from a contract concluded with a client (with limited exceptions), regardless of the type of transaction or industry. Moreover, the requirements of this standard will apply for the acknowledgement and the appraisal of the revenues and losses from the sale of certain assets of other nature than the operational one and which are not the result of the usual activity of the entity (such as: the sale of tangible and intangible assets). Will be included an extended presentation of information, comprising the detailed explanation of the total income, information about the execution obligations, alterations of the contractual balances of assets and debts accounts between the periods and the reasoning and the key estimates.

- IFRS 15 Profit from contracts with clients: (clarifications)

The clarifications apply for annual periods starting from or since 1 January 2018 and the early application is allowed. The object of clarifications is to specify the IASB intentions when drafting the IFRS 15 standard requirements, especially the accountancy of performance obligations identification, thus altering the formulation of "distinctly identifiable" assets principle, of the considerations regarding the Agent and the Principle, including the appraisal of the fact that an entity acts as Agent or as Principal as well as the application of the control and licence principle, thus suppling additional guidance regarding intellectual property and royalties accounting. The clarifications provide additional practical solutions for the entities that either apply IFRS 15 completely retrospectively, or they choose to apply the altered retrospective approach.

IAS 12. Acknowledgement of debts regarding the deferred taxes afferent to the non-achieved losses (alterations)

The objective of these modifications is to clarify the requirements related to the debts regarding the deferred tax related to unachieved loss, in order to approach the existing diversity in practice in which regards the application of IAS 12 Corporate tax. The specific probe of the fact that, in practice, there is diversity in application, refers to the existence of time deductible differences at the deduction of a just value, at the recovery of an asset at a value higher than its accounting value, at future taxable profits and at the assessment comparatively combined with the separate assessment.

IFRS 12. Presentation of information regarding the interests in other entities:

This alterations clarifies the fact that the IFRS12 presentation requirements, except those financial abstract information about subsidiaries, participation associations and associated entities, apply to the interests of an entity within a subsidiary, participation association, and

**NOTES TO INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR CONCLUDED
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associated entity that are classified as owned in view of sale, owned in view of distribution or interrupted activity according to IFRS 5.

- IFRS 9 Financial instruments refers to the classification, assessment and certification of financial assets and debts.

This standard enters into force for annual periods starting at or since 1 January 2018 and the early application is allowed. The complete version of IFRS 9 was published in July 2016. This replaces parts of IAS 39 referring to the classification and assessment of financial instruments. IFRS 9 maintains, but simplifies the mixed assessment model establishing 3 main categories of financial assets assessment: depreciation cost, just value by OCI (other elements of the global result) and the just value by P&L (profit and loss account). The basis of classification depends on the business model of the entity and of the features of the contractual cash flow of financial assets. The investments in equity instruments shall be assessed at the correct value by profit or loss, with the irrevocable option at the beginning to present the modifications in the correct value in OCI which shall not be recycled. There is a new modality of expected loss from credits which replaces the depreciation model of losses used in IAS 39. For the financial debts there were no modifications in classification and assessment, except the modification of the equity risk in other elements of the global result, for debts appointed at the correct value by the situation of profit and loss account. IFRS 9 relaxes the requirements regarding the efficiency of protection. This imposes an economic relation between the article covered and the coverage instrument and, in order for the 'coverage index' to be the same as the one effectively used by the management in order to manage risks.

-IASB issued the IFRS annual improvements - 2014-2016 Cycle, which represent a collection of IFRS alterations.

The alterations enter into force for annual periods starting at or since 1 January 2018 in case of IFRS 1, the first time adopting the Financial Reporting International Standards and for IAS 28 Investments in associated entities and in participation associations.

IAS 7: Initiative to present information (alteration)

The objective of these modifications is to supply data allowing to the users of the financial situations to assess the modifications occurred regarding the debts resulted in the debts resulted from the financing activity, including modifications occurred in the treasury flow, as well as non-monetary elements. The modifications stipulate the fact that a modality to fulfil the presentation requirements is the one to supply a chart accordance between the initial balances and the final ones in the case of financial position in case of debts resulted from the financing activity, including modifications from the treasury flow related to the financing activity, modifications resulted from obtaining or loss of control on branches or other segments, the effect of modifications of exchange rates, modifications of the correct value and other types of modifications.

**NOTES TO INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR CONCLUDED
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-IFRS 2: Classification and appraisal of shares-based payment transactions (alterations)

The alterations enter into force for annual periods starting at or since 1 January 2018 and the early application is allowed. The alterations provide requirements to account the necessary conditions effects in order to become rightful and to account the revocable conditions effects in order to become rightful in respect to the appraisal of the shares-based payments, as they are paid in cash, along with the shares-based payment transactions with the feature of the source taxable obligations, as well as for the alterations brought to the terms and conditions applicable to a shares-based payment that changes the transaction classification from cash payment transaction into equity instruments issuing payment.

- IFRIC 22 Interpretation: Foreign currency transactions and advance payments

The interpretation enters into force for annual periods starting at or since 1 January 2018 and the early application is allowed. The interpretation clarifies how were accounted for those transactions that include receiving or paying certain sums of money in advance in foreign currency. The interpretation covers foreign currency transactions for which the entity acknowledges a non-monetary asset or a non-monetary debt resulted from the payment or the receiving of an advance payment before the entity acknowledge the afferent asset, expense or income. The interpretation provides that, in order to determine the exchange rate, the transaction date is the date when is initially acknowledged the non-momentary asset paid in advance or the debt from the delayed income. In the event there are several advance payments or receiving, then the entity must determine a transaction date for each advance payment or receiving.

-IFRS 4: The application of IFRS 9 Financial Instruments together with IFRS 4 Insurance Agreements (alteration)

The alterations enter into force for annual periods starting at or since 1 January 2018. The alterations refer to the preoccupations generated by the implementation of the new Standard concerning the financial instruments, IFRS 9, before the implementation of the new standard concerning the insurance agreements that the Council develops in order to replace IFRS 4.

-IAS 40: Transfers to Real-estate Investments (alteration)

The alterations enter into force for annual periods starting at or since 1 January 2018 and the early application is allowed. The alterations clarify the moment when an entity must transfer real-estate properties, including real-estate properties that are under a construction or development process, in or from the real-estate investments. The alteration provides that a change of use takes place when the real-estate fulfils or no longer fulfils the definition of real-estate investments and there are proofs concerning the use alteration. A simple change of management intention concerning the use of a real-estate does not provide evidence regarding a use alteration.

New standards, amendments and interpretations issued, but inapplicable for the financial exercise starting with 1 January 2018, meaning non-adopted:

**NOTES TO INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR CONCLUDED
ON 31 DECEMBER 2019
(in lei, if not mentioned otherwise)**

-IAS 19: Alteration, reduction or deduction of employees' benefits plan (alterations)

The alterations enter into force for annual periods starting at or since 1 January 2019 and the early application is allowed. The alterations require to entities to use updated actuarial hypothesis in order to determine the actual services cost and the net interest for the rest of the reporting period, subsequent to the alterations. The alterations clarify, also, the manner in which the accounting of the alteration, the reduction or the deduction of a plan affect the application of the requirements concerning the assets cap.

-IFRS 10 alteration. Consolidated financial statements and IAS 28.

Investments in associated entities and participation association: sale of or contribution with assets between an investor and its associated entity (all sums are expressed in Lei if not otherwise specified) 12 from 56 participation association. The alterations refer to an inconsistency identified between the IFRS 10 and IAS 28 requirements, in respect to the sell and the contribution with assets between an investor and its associated entity or the participation association. The main consequence of the alterations is that a revenue or a total loss is acknowledged when the transaction supposes an enterprise (regardless it is or not under the form of a subsidiary). A revenue or a partial loss is acknowledged when a transaction supposes assets that do not represent an enterprise, even if under the form of subsidiaries. In December 2015, IASB delayed for an undetermined period of time the date this alteration shall enter into force.

-IFRS 16 Leasing Agreements: this standard entered into force starting with 1 January 2019. The standard establishes the principles for the acknowledgement, assessment, presentation and description/supply of information regarding the leasing agreements of the two parties of an agreement, thus, the client (Beneficiary) and the supplier (Owner). The new standard provides that the Beneficiaries must acknowledge the majority of the leasing agreements within their financial statements. The beneficiaries shall dispose of a single accountancy pattern for all agreements, with certain exceptions. The accountancy of the Owner significantly remains unchanged.

-IFRS 9: Features of advance payments with negative compensation (alteration)

The alteration enters into force for annual periods starting at or since 1 January 2019 and the early application is allowed. The alteration allows that the financial assets with features of advance payments, which allow or require that a party of an agreement either pay or receive a reasonable compensation for the early termination of the agreement (so that, from the perspective of the asset owner, it is possible to exist a „negative compensation”) be appraised at depreciation cost or at the just value via other elements of the global result. The alterations weren't yet adopted by the EU.

-IAS 28: Long term interests in associations and participation associations (Alterations)

The alterations enter into force for annual periods starting at or since 1 January 2019 and the early application is allowed. The alterations refer to the fact that if the appraisal and,

**NOTES TO INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR CONCLUDED
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(in lei, if not mentioned otherwise)**

especially, the requirements concerning the depreciation of the short term interests in associations and participation associations that, fundamentally, are part of the „net investment” in the respective association or participation association should be governed by IFRS 9, by IAS 28 or by a combination of these two standards. The alterations clarify the fact that an entity applies IFRS 9 Financial Instruments before applying IAS 28 to those long-term interests to which doesn't apply the equivalence method. In applying IFRS 9, the entity does not take into consideration the accountancy value adjustments of the long-term interests that are generated by the IAS 28 application.

-IFRS 1 Adopting for the first time the Financial Reporting International Standards:
This improvement eliminates the short-term exceptions concerning the information to be supplied regarding the financial instruments, the employees benefits and the investment entities, applicable for the companies that adopt for the first time the Financial Reporting International Standards.

-IAS 28 Investments in associated entities and in participation associations:
The alteration clarifies the fact that the choice to evaluate at the just value via the profit and loss account an investment in an associated entity or in a participation association that is owned by an entity representing a participation association or another entity that qualifies, is available for each investment in an associated entity or in a participation association for each individual investment, at the initial acknowledgment.
There are no other IFRS or IFRIC interpretation that did not yet enter into force and that might have a significant impact on the individual financial statements of the Company.

2.2 Reporting on segments

A segment is a distinctive component of the Company, which supplies certain products or services (segment of activity) or supplies products and services to a certain geographic environment (geographic segment) and which is subject to risks and benefits different from those of the other segments. From the point of view of segments of activity, the Company does not identify distinctive components from the point of view of risks and benefits.

IFRS 8 Segments of activity must be applied to the Individual Financial Statements of the Company so that its equity instruments shall be listed on a public stock exchange (Bucharest Stock Exchange).

The presentation of data regarding the products and services, as well as the geographic areas where the company is active is compulsory, even for those entities which identify only one reportable segment of activity, taking into account the quantitative limits and the aggregation criteria mentioned by the standard. Taking into account the quantitative limits and the aggregation criteria mentioned by the standard, from the point of view of the segments of activity, the company does not identify the distinctive components from the perspective of associated risks and benefits.

| | Sales | Percentage in total sales |
|-------------------------|---------|------------------------------|
| Internal Sales of Goods | 431.732 | 5.91 % |

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| | | |
|----------------------------|------------------|-------------|
| Internal Sales of Services | 649.995 | 8.90% |
| External Sales of Goods | 6.222.018 | 85.17 % |
| External Sales of Services | 1.366 | 0.02% |
| Total | 7.305.111 | 100% |

2.3 Conversion into a foreign currency

(a) The functional and presentation currency

The financial statements are presented in lei (RON), Romania's national currency. *The Company* keeps accounting records in lei, drafts and presents the financial statements pursuant to the specific legislation in the field and with the Regulations regarding accounting and financial-accounting reports issued by the Ministry of Public Finance.

(b) Transactions and balances

The transactions in foreign currency are converted in in functional currency by using the exchange rate valid at the date of transactions. The wins and losses resulted from the exchange rate differences following the conclusion of such transactions and from the conversion at the end of the financial year, at the exchange rate from the end of the year of the monetary assets and denominated bonds in foreign currency is reflected in the profit and loss account.

The wins and losses from the exchange rate which refer to loans and cash and cash equivalents are presented in the profit and loss account under „financial revenues or expenses”. All the other wins and losses from the exchange rate are presented in the profit and loss account under „other (losses)/revenues – net”.

The monetary assets and liabilities denominated in foreign currency are expressed in lei at the balance sheet date. On 31 December 2019, the exchange rate used at the conversion of balances in foreign currency is 1 EUR = 4.7793 RON. The wins and losses resulted from the conversion of assets and monetary debts are reflected in the profit and loss account during the year.

2.4 The accounting of hyperinflation effects

The Romanian economy went through relatively high inflation period and it was considered hyper inflationist pursuant to IAS 29 „Financial reporting in hyperinflation economies” („IAS 29”).

IAS 29 requires that the financial statements drafted in the currency of a hyperinflation economy shall be treated in the terms of purchase power from the balance date. The amounts expressed in the terms of purchase power at December the 31st 2004 (date of

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termination of hyperinflation) are treated as basis for the accounting values of these financial statements.

The company decided to reflect the impact of application of IAS 29 in the financial situations drafted on 31 December 2012. The impact of such adjustments was reflected on the value of the land, registered capital and result reported.

2.5 Tangible assets

The buildings and lands are presented at their correct value, on the basis of regular assessments, at least once in every three years, performed by independent external reviewers, minus subsequent amortisation and depreciation. Any amortisation cumulated at the date of reassessment is eliminated from the gross accounting value of the asset, and the net value is registered as reassessed value of the asset. All the other fixed assets are registered at the historical cost minus amortisation. The historical cost includes the expenses which might be directly attributed to the purchase of respective elements.

The subsequent expenses are included in the accounting value of the asset or acknowledged as separate active, as applicable, only when the entrance of future economic benefits for the company associated to the element is probable and the cost of the respective element may be assessed in an adequate manner.

The increase of accounting value resulted from the reassessment of buildings is credited at „reassessment reserves” from equity.

The diminution compensating the related increases to the same asset are registered next to other reserves directly in equity; all the other diminutions are registered in the profit and loss account. The elements registered in the reassessment reserves are transferred to the reported result at the end of the useful lifetime of the asset or when the asset is to be acknowledged.

The reparations and maintenance expenses are recorded in the revenues and expenses statements in the financial period of time when they are executed. The costs to replace the major components of the tangible assets elements and the equipment are capitalized and the replace component are taken off use.

The wins and losses from the eliminations determined by the comparison of encashments with the accounting values are acknowledged in profit or loss.

The lands shall not be amortized. Amortization of other tangible assets elements is calculated on the basis of the linear method in order to allocate the reassessed value of every asset until its residual value during its lifetime, as follows:

| <u>Type</u> | <u>Number of years</u> |
|-------------|------------------------|
| Buildings | 7 - 45 |

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| | |
|-----------|--------|
| Equipment | 2 - 12 |
| Vehicles | 3 - 15 |

The residual value of an asset is the estimated value which might be obtained by the company by the sale of the respective asset minus the estimate costs of the sale, in case the asset already has the age and corresponds to the conditions related to the end of its lifetime. The residual value of an asset is zero in case the Company estimates the use of the asset until the end of its physical life. The residual values of assets and the lifetime are reviewed and adjusted in an adequate manner, at every date of the balance sheet.

The wins and losses from assignation are determined by the comparison of the amounts obtained from assignation to the accounting value, and are acknowledged at „Other (losses)/wins-net” in the situation of revenues and expenses.

At the sale of reassessed assets, the amounts included at other reserves are transferred to the reported result.

Real-estate investments

The real-estate investments are real-estate properties (buildings) owned by the Company for the purpose of renting it or increasing its value or both, and not for:

- using it in the production or supply of goods and services or for administrative purposes; or
- to be sold during the normal activity.

A real-estate investment is initially appraised at its just value. The accountancy policy of the Company regarding the subsequent appraisal of the real-estate investments is the one fundament on the just value pattern. This policy is uniformly applied to any and all investments owned. The appraisal of the just value of the real-estate investments is performed by evaluators members of the National Association of Romanian Evaluators (ANEVAR). Thus, the depreciation expense is no longer acknowledged, and the real-estate investment is submitted to the re-appraisal with enough regularity in view of acknowledgement at its just value. The revenues or the losses resulted following the alteration of the just value of the real-estate investments are acknowledged in the profit and loss account of the period of time when these occur.

2.6 2.7

Non-tangible assets

Software

The purchased licenses related to software copyright capitalized on the basis of the costs registered with the purchase and installation of the respective software. These costs are amortised during their estimated lifetime (three years). The costs related to the development or maintenance of software are acknowledged as expenses on the period they are performed.

Other non-tangible assets

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Within other non-tangible assets is registered the software created by the entity or purchased from third parties for its own use, as well as other non-tangible assets owned by the Company.

The expenses allowing to the non-tangible assets to generate economic benefits are added to their original cost. These expenses are capitalized as non-tangible assets, if not part of non-tangible assets.

2.8 Depreciation of non-financial assets

The assets which are subject to amortisation are reviewed for the identification of losses from depreciation every time events or changes in circumstances indicate the fact that the accounting value cannot be recovered. The loss from depreciation is represented by the difference between the accounting value and the recoverable value of the respective asset. The recoverable value is the maximum between the correct value of the asset minus sale costs and value of use.

2.9 Financial assets

Loans and claims

Classification

The loans and claims are non-derivate financial assets with fixed payments or payments which might be determined and which are listed on an active stock exchange. They are included in the current assets, except those which have a maturity period higher than 12 months from the date of the balance sheet. They are classified as fixed assets.

Acknowledgement and assessment

The financial assets purchase and sales are acknowledged from the transaction date at which the Company undertakes to buy or to sell the respective asset. The financial assets cease to be acknowledged at the moment when the right to encash treasury flows from investments expire or is transferred, and the Company transfers all the risks and benefits related to property right. The loans and claims are registered at amortisation cost on the basis of effective interest. The loans and claims of the Company are classified as „cash and cash equivalents”, respectively as „clients and other claims” in the balance sheet (notes 2.12 and 2.13).

2.10 Compensation of financial instruments

The financial assets and debts are compensated and the net value is reported in the balance sheet only when there is an applicable legal right to compensate the acknowledged amounts and there is the intention to compensate on a net basis or to valorise the asset and to compensate the debts in the same time.

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2.10 Stocks

The stocks are registered at the purchase or production cost. The discharge of stocks is to be executed starting with the year 2019 via the FIFO method.

The finished products and the products under construction are registered at the effective construction cost.

Where necessary, slow movement stock provisions shall be done, physically or morally obsolete. The net achievable value is estimated on the basis of the sale price diminished with the finalization costs and with the sale costs.

2.12 Trade claims

The claims are registered at the nominal value minus the adjustments for their depreciation.

The trade claims are the amounts due by clients for the products, merchandise sold or services rendered during the regular course of activity.

The provision for depreciation of trade claims is done at the moment when there is objective proof that the Company shall not be able to collect all the amounts due pursuant to the initial conditions of the claims. The significant difficulties encountered by the debtor, probability that the debtor enters a bankruptcy procedure or financial reorganization, failure to pay or failure to observe the payment conditions are considered indicators of depreciation of trade claims.

The accounting value of the asset shall be reduced by using a provision account, and the loss value is acknowledged in the situation of revenues and expenses at „other wins/(losses) – net” in the profit and loss account. When a trade claim cannot be recovered, it is mentioned as expenses, with adequate drawback of the provision for trade claims. The subsequent recovery of amortised amounts is credited in the profit and loss account.

2.13 Cash and cash equivalents

For the situation of cash flow, the cash and its equivalents contain cash, bank accounts, spot bank deposits, other short-term financial investments, overdrafts and short-term restricted bank accounts.

2.14 Registered capital and reserves

The registered capital composed of common shares is registered at the value set on the basis of the articles of association and of addendums, as applicable, as of the explanatory documents regarding capital deposits.

The own shares redeemed, pursuant to the law, are presented in the statement of assets, debts and equity as a correction of equity.

The profit or loss related to the issue, buy-back, sale, free of charge assignment or cancellation of equity instruments of the entity are directly acknowledged in equity in the

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lines of „Profit / or Losses related to equity instruments”.

2.15 Trade debts

The trade debts are acknowledged at their correct value.

The trade debts are obligations to pay for the goods and services which were purchased during the regular course of the activity from suppliers. The supplier's accounts are classified as current debts if the payment has to be done within a year or less than a year (or later, during the regular course of activity). Otherwise, they shall be presented as long-term debts.

2.16 Loans

The short term and long-term loans are registered initially at the amount received, net for the costs related to obtaining the loans. During the following periods, the loans are registered at amortised cost by using the effective output method, the differences between the amounts received (net from the production costs) and the regular buy-back value, being acknowledged in the profit and loss account during the duration of the loan contract.

The short-term part of long-term loans is classified as “Debts: the amounts which have to be paid for a period of up to a year” and included together with the accumulated interest at the balance sheet date in “Amounts due to credit institutions” within current debts.

2.16 Current and deferred corporation tax

The company registers current corporation tax at a rate of 16% from the net fiscal result resulted from the statutory financial situations, by adjustment of expenses which cannot be deducted and of untaxable revenues, pursuant to Romania's Fiscal Code and with related regulations.

The tax expenditure related to the period includes the current tax and deferred tax. The tax is acknowledged in the profit and loss account, except the case in which it refers to the acknowledged elements to other elements of global or direct result in equity. In this case, also the related tax is acknowledged in other elements of the global result or directly in equity.

The current corporation tax expenditure is calculated according to the fiscal regulations in force at the date of balance sheet in Romania. The management regularly assesses the positions from the fiscal statements concerning the cases in which the fiscal regulations applicable may be interpreted. It established provisions, if necessary, on the basis of the amounts estimated as debts to the fiscal authorities.

The corporation tax is acknowledged on the basis of the balance obligation method, for the temporary differences occurred between the fiscal basis of assets and debts and their accounting values from the individual financial statements. However, the deferred corporation tax which results following the initial acknowledged of assets or liabilities from a transaction other than a combination of enterprises and which, at the moment of transaction, does not affect the accounting profit, nor the taxable one and the taxable one is not acknowledged. The deferred corporate tax is determined on the basis of the tax rates

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(and of the laws) in effect until the date of balance sheet and which shall be applied on the period when the deferred tax which has to be recovered shall be valorised or the deferred tax to be paid shall be paid.

The deferred tax to be recovered is acknowledged only to the degree in which it is probably to be obtained in the future a taxable profit from which the temporary differences shall be deducted.

The claims and debts regarding the deferred tax are compensated when there is the legal applicable right to compensate the current fiscal claims with current fiscal debts, and when the claims and debts regarding the deferred tax imposed by the same fiscal authority either to the taxable entity, or to different taxable entities, if there is the intention to compensate the balances on a net basis.

2.18 Uncertain fiscal positions

The uncertain fiscal positions of the Company are analysed by the management at the date of each balance. Debts are registered for the fiscal positions for which the management considers it is probably to be applied additional tax if these positions would be verified by the fiscal authorities. The assessment is based in the interpretation of fiscal laws which were adopted at the date of balance sheet. The debts related to penalties, interests and taxes, others than the income tax, are acknowledged on the basis of the best estimate of management necessary for elimination of obligations at the date of the balance sheet.

2.19 Benefits of employees

During the financial exercise *the Company* makes payments to the Social Insurance budget for its employees, because all of them are included in the public pensions system.

The Company does not contribute to any other pensions or benefits plan after retirement and does not have any other obligations such are those mentioned for its employees.

Benefits at the termination of activity

In the collective labour agreement of the company it is stipulated that the employees of the Company receive on retirement a bonus equivalent to a basic salary on the month prior to retirement. The company made an estimate of the updated value of this promised benefit, in order to establish the necessary provision, but which did not materialize because it was not considered as having a significant impact on the financial statements.

2.20 Provisions

The provisions are acknowledged when the Company has a current obligation (legal or implicit) generated by a prior event, it is probably that a resource exit is necessary in order to settle the obligation, and the debts may be estimated in a credible manner.

The provisions for taxes are set for the amounts to pay due to the state budget, if the respective amounts do not appear as debts to the state.

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The provisions are reviewed at the date of financial situations and adjusted in order to reflect the best current estimate of the Management regarding this. In case for the estimate of an obligation it is not probable an exit of resources, the provision has to be cancelled by mentioning it at revenues again.

2.21 Acknowledgement of revenues

The revenues are registered when the significant risks and advantages of owning property of assets are transferred to the client. The amounts representing revenues do not include value added tax (VAT), but include trade discounts granted. The financial discounts granted to the clients (discounts) reduce the value of Company's revenues.

The company acknowledges the revenues when their value may be assessed in an adequate manner, when it is probable to produce future economic benefits for the entity, and when the specific criteria for each of the Company's activities were fulfilled as described hereunder. The value of revenues is not considered as adequately subject to assessment until all contingencies related to sales were not settled. The company bases its estimates on historical results, taking into account the type of client, type of transaction and elements specific to each contract.

The revenues from service rendering are acknowledged for the period they were rendered and in correspondence with the execution stage.

The revenues from interests are regularly acknowledged, proportionally, as the respective income is generated, on the basis of accounting of engagements.

The revenues of leases and/or asset use rights are acknowledged on the basis of engagements accounting, pursuant to the contract.

The dividends distributed to the share owners, proposed or declared after the date of financial statements, are acknowledged as revenues from dividends when the shareholder's right to cash them is settled.

2.22 Leasing contracts

The leasing represents a contract, or part of a contract, which allows the Company the right to use an asset (support-asset) for a certain period of time in exchange for a counter-value. At the date the execution of the contract begins, the Company appraises the asset's cost afferent to the right of use.

The asset's cost afferent to the right of use includes:

- The value of debt's initial appraisal, resulted from the leasing contract;
- Any and all leasing payment executed upon beginning of contract execution or before that respective date, minus any and all received leasing stimulents;
- Any and all initial direct costs encumbered by the Company;
- An estimate of costs to be encumbered by the Company as beneficiary in order to demount and eliminate the support-asset, to restore the place where this is located

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or to bring the support-asset to the condition imposed in the terms and conditions of the leasing contract, except when these costs are encumbered for stocks production. The beneficiary undertakes an obligation towards these costs either at the date the execution of the contract begins, or subsequently to the use of the support-asset during a certain period of time.

The Company shall choose not to apply the IFRS16 provisions for the short-term leasing contracts (<12 months) and for the leasing contracts where the support-asset has a low value.

The depreciation of the support-asset is determined as follows:

- If at the end of the leasing contract the ownership right transfer takes place, then the depreciation shall be acknowledged as expense on the asset's useful life duration.
- Otherwise, the depreciation shall be acknowledged on the shortest duration from the asset's useful life duration and the leasing contract period.

In the year 2019, the Company had zero on-going leasing contracts.

2.23 Dividends Distribution

Dividends distribution is acknowledged as debt in the financial statements of the Company on the period in which the dividends are approved by the Company's shareholders.

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3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

By nature of activities performed, the Company is exposed for different risks, including: market risk (including monetary risk, interest rate risk regarding the correct value, interest rate risk regarding the cash flow and price risk), credit risk and liquidity risk. The Company's risk management program is focused on unpredictability of financial markets and searches to minimize the possible adverse effects on Company's financial performance. The Company does not use derivative financial instruments in order to be protected from certain exposure to risk.

Risk management is the responsibility of management of ARMATURA SA on the basis of the policies approved by the management board. The management of ARMATURA SA identifies and assesses the financial risks in close cooperation with the operational units of the Company. The management board supplies the basic principles for risk management, as well as recommendations for specific areas, such as currency risk, interest rate risk, credit risk and excessive liquidity investment.

- (i) *Market risk*
- (ii) *Currency risk*

The company works mainly in Romania and is exposed to currency risk resulted from the exposure to various currencies, especially related to Euro. The currency risk results especially from loans, claims and trade debts of the Company.

The Company is not covered against currency risk. Due to the fact that the Company's activities are carried out especially on the internal market, this does not generate revenues in the same currency as the loans. However, the management regularly receives previsions related to the RON / EUR exchange rate evolution and uses the data in the price establishment strategy. The management shall take into account for the future the elaboration of strategies for protection of the Company against currency risk.

- (iii) *Interest rate risk regarding the cash flow and correct value*

The company does not have significant assets which bear interest. The interest rate risk in the case of the Company comes from long term loan. The contracted loan is with variable interest and exposes the Company to the interest rate risk regarding the cash flow, which is partially compensated by the cash owned at variable rates. In 2019 and 2018, the variable rate loan of the Company was denominated in EUR.

The Company dynamically analyses the exposure to interest rate. Various scenarios are simulated, taking into account the financing, renewal of existing positions and alternative functions. Based on these scenarios, the Company calculates the impact on profit and loss of the modification of interest rate. For each simulation, the same percentage of modification

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of interest rate is used for all currencies. The scenarios are applied only in case of debts representing major interest-bearing positions.

(a) *Credit risk*

Credit risk results from cash and cash equivalents, bank deposits and financial institutions, as well as from clients' exposure to credit, including the due claims and undertaken transactions. In the case of banks and financial institutions, only those independently assessed with a minimum rating „BB” are accepted. For clients, there is no independent assessment; the management assesses the client's solvency, taking into account the financial position, past experience and other factors. The individual risk limit is set on the basis of internal and external qualifications, pursuant to the limits set by the management board. The use of credit limits is regularly monitored. Please consult note 9 for additional presentations related to credit risk.

(b) *Liquidity risk*

The previsions referring to the treasury flows are performed by operational entities of the Company and aggregated by the Company management. The Company management monitors the previsions regarding the liquidity necessary of the Company, in order to ensure that there is sufficient cash in order to serve the operational requirements. These previsions are made in compliance to the financing plans of the Company's debts, observing the agreements, internal objectives regarding the balance sheet indexes.

The Company management is investing the cash surplus in the current accounts bearing interests and term deposits, selecting the instruments with adequate maturities or sufficient liquidity in order to offer a sufficient margin, as established on the basis of the previsions mentioned before.

In the chart hereunder the financial debts of the Company are analysed on groups of relevant maturity, in relation to the period left at the date of balance sheet until the date of contractual maturity date. The values presented in the chart represent the respective gross values at the date of balance sheet.

| On 31 December 2019 | above | | | Total |
|---------------------------|------------------|----------------|------------|------------|
| | under 1 year | 1 - 5 years | 5 years | |
| Loans | 23.896.500 | - | - | 23.896.500 |
| Suppliers and other debts | 9.829.821 | - | - | 9.586.380 |

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| | | | | |
|--------------|--------------------------|----------|----------|--------------------------|
| Total | <u>33.726.321</u> | - | - | <u>33.482.880</u> |
|--------------|--------------------------|----------|----------|--------------------------|

On 31 December 2018

| | under 1 year | 1 - 5 years | above 5 years | Total |
|---------------------------|--------------------------|------------------------|------------------------------|--------------------------|
| Loans | 23.319.500 | - | - | 23.319.500 |
| Suppliers and other debts | <u>9.597.502</u> | - | - | <u>9.597.502</u> |
| Total | <u>32.917.002</u> | - | - | <u>31.917.002</u> |

3.2 Equity Risks Management

The Company objectives regarding equity management aiming at the protection of the Company's capacity to continue the activity in the future, in order to bring profit to shareholders and benefits to the other parties involved, as well as maintenance of an optimal structure of capital and reduction of capital expenditure.

In order to maintain or adjust equity structure, the Company may adjust the value of dividends granted to shareholders, may return capital to shareholders, issues new shares or sells assets for the reduction of debt.

The company monitors the capitals on the basis of the debt degree coefficient. This coefficient is calculated by dividing the net debt to the total capital. The net debt is calculated by deducting from the total of loans (including „long term loans and short-term loans” from the balance sheet) the cash and cash equivalents. The total capital is calculated by adding to „equity” from the balance sheet the net debt.

| | 31 December 2019 | 31 December 2018 |
|---|---------------------------------|-----------------------------|
| Total loans (note 15) | 23.896.500 | 23.319.500 |
| Less: cash and cash equivalent at the disposal of the Company (note 12) | -445.977 | -457.944 |
| Net debts | 23.450.523 | 22.861.556 |
| Total Company's equity | <u>-4.842.899</u> | <u>-1.389.561</u> |
| | <u>18.607.626</u> | <u>21.471.995</u> |

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| | | |
|----------------------|--------------|---------------|
| Total equity | | |
| Indebt Degree | -4.84 | -16.45 |

3.3 Just Value Appraisal

The company does not own financial instruments appraised in the accounting balance at the just value and, as follows, the data presentation related to the just value does not apply.

The estimates and reasonings are continuously assessed and have as basis historical experience and other factors, including the anticipations regarding the future elements which are considered reasonable under the given conditions.

4. CRITICAL ACCOUNTING ESTIMATES AND REASONINGS

Critical estimates and hypothesis

The Company elaborates estimates and hypothesis on the future. The accounting estimates shall be, by definition, rarely equal to the adequate current results. The estimates and hypothesis involving a high degree of risk and which determine significant adjustments of accounting values of assets and liabilities in the following financial year are presented as follows.

(a) Corporation tax

In order to establish the income tax significant assessments are necessary. There are several transactions and calculations for which the determination of final tax is uncertain. The company acknowledges obligations for issues anticipated to result following fiscal verifications on the basis of estimates regarding the payment of additional tax. If the fiscal final result of such operations is different from the amounts initially registered, the differences shall influence the claims and debts regarding the current income tax or deferred tax in the period in which the determination is performed. The acknowledgement of an asset in which concerns the deferred income tax takes into account a detailed analysis in which concerns the possibility of achieving it.

(b) Estimate depreciation of fixed assets

Determination of loss from equipment depreciation requires significant reasonings, as described in note 2.8. When performing this estimate, the Company compares the net accounting value of such equipment with the highest value between the estimate sale price and the updated net value of cash flows which shall be generated by the equipment during the rest of their lifetime.

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6 TANGIBLE ASSETS

| | <u>Lands and buildings</u> | <u>Vehicles and equipment</u> | <u>Furniture, supplies and equipment</u> | <u>Assets to be constituted</u> | <u>Total</u> |
|--|----------------------------|-------------------------------|--|---------------------------------|-------------------|
| Financial year concluded on | | | | | |
| 31 December 2017 | | | | | |
| Net initial accounting value | 16.539.335 | 861.661 | 40.262 | 80.706 | 17.521.963 |
| Increase from equity reassessment | 13.804.980 | - | - | - | 13.804.980 |
| Transfers | 10.836 | 69.870 | - | -80.706 | - |
| Inputs | - | 61.802 | - | - | 61.802 |
| Outputs | - | 268.277 | 5.558 | - | 273.835 |
| Amortisation expenditure | -577.149 | -461.858 | -14.210 | - | -1.053.217 |
| Increases from the reassessment in global result | -193.160 | - | - | - | -193.160 |
| Transfers | | -69.870 | | | -69.870 |
| Final net accounting value | 29.584.841 | 729.881 | 31.610 | 0 | 30.346.332 |
| On 31 December 2018 | | | | | |
| Cost or assessment | 29.584.841 | 8.227.653 | 105.735 | - | 37.918.229 |
| Cumulated amortisation | 0 | 7.497.772 | 74.125 | - | 9.571.897 |
| Net accounting value | 29.584.841 | 729.881 | 31.610 | - | 30.346.332 |

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TANGIBLE ASSETS

| | <u>Lands and buildings</u> | <u>Vehicles and equipment</u> | <u>Furniture, supplies and equipment</u> | <u>Assets to be constituted</u> | <u>Real-estate investment</u> | <u>Total</u> |
|---|----------------------------|-------------------------------|--|---------------------------------|-------------------------------|-------------------|
| Financial year concluded on 31 December 2018 | | | | | | |
| Net initial accounting value | 29.584.841 | 729.881 | 31.610 | - | - | 30.346.332 |
| Increase from equity reassessment | - | - | - | - | - | - |
| Transfers | 6.900 | 52.438 | 1.192 | -60.530 | - | - |
| Inputs | - | 29.232 | 4.950 | 62.505 | 4.742.938 | 4.839.625 |
| Outputs | -4.742.938 | -2.179.520 | - | - | - | -6.922.458 |
| Amortisation expenditure | -579.737 | 1.979.447 | -9.787 | - | - | 1.389.924 |
| Increases from the reassessment in global result | - | - | - | - | - | - |
| Transfers | - | - | - | - | - | - |
| Final net accounting value | 24.269.066 | 611.479 | 27.965 | 1.975 | 4.742.938 | 29.653.423 |
| On 31 December 2019 | | | | | | |
| Cost or assessment | 24.848.803 | 6.129.804 | 111.876 | 1975 | 4.742.938 | 31.092.458 |
| Cumulated amortisation | 579.737 | 5.518.325 | 83.911 | - | - | 6.181.974 |
| Net accounting value | 24.269.066 | 611.479 | 27.965 | 1975 | 4.742.938 | 29.653.423 |

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6 TANGIBLE ASSETS

The Company's buildings were reassessed on 31 December 2018 by an independent assessor, ANEVAR member. The surplus from reassessment was credited in the „Reassessment reserves”, except the deferred tax calculated for this surplus, and the value decrease for which there were no differences from covering reassessment were registered in the expenditure on the respective period.

In the year 2014 it was decided the modification of accounting policy in which concerns the company lands, by adoption of the correct value model. Thus, a reassessment of the land value owned by the Company at 31.12.2014 was performed. The surplus from reassessment was credited in the reassessment reserve account within equity. The company land was reassessed on 31.12.2014 by an independent assessor member of ANEVAR. The latest reassessment of the land owned by the Company was performed on 31.12.2018.

The tangible assets lands and buildings, presented under Note 6, represent warranty for the credit undertaken by the Company from the significant shareholder Herz Armaturen GmbH.

The tangible assets amortisation method, for the 2019 Financial exercise, was linear. For these no residual value was established.

During the 2019 financial exercise, the Company transferred from the category of real-estate properties used by the holder in real-estate investments, buildings and afferent land in value of 4,742,938 because these are held in order to obtain income from rent. The transfer was executed at the just value of the buildings, established on 31.12.2018 by an independent evaluator.

The real-estate investments are acknowledged by using the just value model. Starting with the transfer date, these were no longer amortized.

In the Profit and Loss Account were acknowledged incomes from rents afferent to real-estate investments in value of 496,695, and the direct exploitation expenses resulted from the real-estate investments were insignificant.

There were zero net gains or losses resulted from the just value adjustments.

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7. NON-TANGIBLE ASSETS

| | Software | Advances and other non-tangible assets | Total |
|---|-----------------|---|--------------|
| The financial year concluded on 31 December 2017 | | | |
| Initial balance | 445 | - | 445 |
| Inputs | 9.605 | - | 9.605 |
| Amortisation expenditure | -811 | - | -811 |
| Transfers | - | - | - |
| Final balance on 31 December 2018 | 9.239 | - | 9.239 |
| Cost | 275.851 | - | 275.851 |
| Cumulated amortisation and depreciation | 266.612 | - | 266.612 |
| Net accounting value | 9.239 | - | 9.239 |

| | Software | Advances and other non-tangible assets | Total |
|---|-----------------|---|--------------|
| The financial year concluded on 31 December 2018 | | | |
| Initial balance | 9.239 | - | 9.239 |
| Inputs | 4.417 | - | 4.417 |
| Amortisation expenditure | -3.947 | - | -3.947 |
| Transfers | - | - | - |
| Final balance on 31 December 2019 | 9.709 | - | 9.709 |
| Cost | 280.268 | - | 280.268 |
| Cumulated amortisation and depreciation | 270.559 | - | 270.559 |

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| | | | |
|-----------------------------|--------------|----------|--------------|
| Net accounting value | 9.709 | - | 9.709 |
|-----------------------------|--------------|----------|--------------|

The non-tangible assets consist in software. These are evaluated at cost, except the cumulated amortisation.

The amortisation method for the year 2019 for the non-tangible assets was linear.

8 FINANCIAL INSTRUMENTS ON CATEGORIES

All the Company's financial assets belong to the category of loans and claims. Their accounting value is presented hereunder:

| | 31 December 2019 | 31 December 2018 |
|--|-----------------------------|-----------------------------|
| Clients and other claims (except the advance expenses, advances at suppliers and VAT to be encashed) | 207.635 | 644.853 |
| Cash and cash equivalents (Note 12) | 446.077 | 458.044 |
| Total | 653.712 | 1.102.897 |

All the financial debts of the Company are financial debts accounted on the basis of the model of amortised cost. Their accounting value is presented hereunder:

| | 31 December 2019 | 31 December 2018 |
|---|-----------------------------|-----------------------------|
| Loans | 23.896.500 | 23.319.500 |
| Trade debts and other debts (excluding statutory obligations and revenues in advance) | 9.775.164 | 9.363.146 |
| Total | 33.671.664 | 32.682.646 |

9. CREDIT RISK FOR FINANCIAL ASSETS

The credit risk related to financial assets which are not due, nor depreciated, may be assessed in relation to the historical data related to the failure to pay rate for third parties, so that there are no independent external ratings for Company's clients:

| | 2019 | 2018 |
|--|-------------|-------------|
| Trade claims which are not due, nor depreciated: | | |

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| | | |
|-----------------------------|---------------|---------------|
| Group 1 | 49.419 | 37.115 |
| Of which affiliated parties | - | - |
| Group 2 | - | - |
| Of which affiliated parties | - | - |
| Group 3 | - | - |
| Of which affiliated parties | - | - |
| Group 4 | <u>49.419</u> | <u>37.115</u> |

9. CREDIT RISK FOR FINANCIAL ASSETS (CONTINUATION)

The description of trade claims in relation to the credit risk was done pursuant to the historical data from the financial year 2019 and, where possible, from the financial year 2018, taking into account the following criteria:

- Group 1: represents debtors for which the average historical period of encashment was between 1-60 days;
- Group 2: represents debtors for which the average historical period of encashment was between 61-90 days;
- Group 3: represents debtors for which the average historical period of encashment was between 91-180 days;
- Group 4: represents debtors for which the average historical period of encashment was between 180 - 360 days.

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10. CLIENTS AND OTHER CLAIMS

| | 31 December 2019 | 31 December 2018 |
|---|-----------------------------|-----------------------------|
| Trade claims | 866.155 | 843.834 |
| Minus: provision for depreciation of trade claims | -743.225 | -727.666 |
| Trade claims – net | 122.930 | 116.168 |
| -of which in relation to affiliated parties (note 26) | 0 | 0 |
| VAT to collect | 56.797 | - |
| Advance expenditure | 16.985 | 14.217 |
| Advances granted to suppliers | 913 | 353 |
| Minus: provision for depreciation of advances | - | - |
| Various debtors | 7.000 | 7.304 |
| Other claims | 77.704 | 521.382 |
| Current portion of trade claims and other claims | 282.329 | 659.423 |

The analysis based on oldness of due but non-depreciated trade claims is as follows:

| | 31 December 2019 | 31 December 2018 |
|------------------------|-----------------------------|-----------------------------|
| Between 1 and 3 months | 62.082 | 50.211 |
| Between 3 and 6 months | 7.932 | 26.772 |
| Above 6 months | 3.497 | 2.071 |
| Total | 73.511 | 79.054 |

Company's clients and other claims accountancy value are expressed in the following currencies:

| | 31 December 2019 | 31 December 2018 |
|--------------------|-----------------------------|-----------------------------|
| RON | 122.205 | 115.460 |
| EUR | 725 | 708 |
| 122.930 | 116.168 | |

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10. CLIENTS AND OTHER CLAIMS (CONTINUATION)

Movements of Company provisions for depreciation of clients and other claims are as follows:

| | 2019 | 2018 |
|---|----------------|----------------|
| On 1 January | 727.666 | 726.455 |
| Provision for depreciation of claims | 15.559 | 1.211 |
| Amounts retaken in the course of the period | - | - |
| At the end of the period | 743.225 | 727.666 |

11 STOCKS

| | 31 December | 31 December |
|--|--------------------|--------------------|
| | 2019 | 2018 |
| Raw materials and materials | 1.848.032 | 2.713.596 |
| Provisions for raw materials and materials | -861.087 | -328.283 |
| Production in progress | 1.404.731 | 1.086.107 |
| Provisions for goods in progress | -601.980 | -428.345 |
| Merchandise | 160.456 | 162.898 |
| Provisions for merchandise | -160.456 | -161.475 |
| Finished products | 2.010.124 | 1.725.601 |
| Provisions for finished products | -1.232.219 | -815.105 |
| Other stocks | 110.549 | 112.044 |
| Provisions for other stocks | -37.512 | -8.670 |
| Total | 2.640.638 | 4.058.368 |

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12 CASH AND CASH EQUIVALENTS

For the situation of cash flow, cash and cash equivalents include the following:

| | 31 December 2019 | 31 December 2018 |
|---|-----------------------------|-----------------------------|
| Cash in bank | 320.101 | 439.906 |
| - amounts in RON | 290.626 | 312.363 |
| - amounts in other currency | 29.475 | 127.543 |
| Restricted bank accounts | 100 | 100 |
| - short-term | 100 | 100 |
| - RON | - | - |
| - foreign currency | - | - |
| Cash deposit | 15.721 | 18.037 |
| - amounts in RON | 15.696 | 15.425 |
| - amounts in other currency | 25 | 2.613 |
| Bank deposits | 110.155 | - |
| - amounts in RON | 110.155 | - |
| - amounts in other currency | - | - |
| Total cash and cash equivalent available for the Company | 445.977 | 457.944 |
| Restricted bank accounts | | |
| On short-term / RON | 100 | 100 |
| Total | 446.077 | 458.044 |

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13 EQUITY CAPITAL

Shares

On 31 December 2018, the shareholders structure is as follows:

| | 31 December 2018 | 31 December 2018 | 31 December 2018 |
|--|------------------------|--|----------------------------|
| | Number of shares | Value of subscribed and paid-up equity capital (RON) | Percentage owned (%) |
| Hric Beteiligungs Ges.m.b.h | 10.400.000 | 1.040.000 | 26.0000 |
| Tridelta Heal Herz Beteiligungsgesellschaft | 6.703.418 | 670.342 | 16,7585 |
| S.A.I Swiss Capital Asset Management SA | 4.180.618 | 418.062 | 10.4515 |
| Herz Armaturen GesbH | 2.797.352 | 279.735 | 6.9934 |
| Broadhurst Investments Limited | 2.730.881 | 273.088 | 6,8273 |
| FDI Active Dinamic/SAI Swiss Capital | 2.791.735 | 279.174 | 6.9793 |
| Natural Entities | 7.851.339 | 785.134 | 19.6283 |
| Legal Entities | 2.544.657 | 254.466 | 6.3616 |
| Total | 40.000.000 | 4.000.000 | 100.0000 |

Total authorised number of shares is of 40.000.000 shares with a net value of 0.1 RON per share.

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13 EQUITY CAPITAL

Shares

On 31 December 2019 the shareholders structure is as follows:

| | 31 December 2019 | 31 December 2019 | 31 December 2019 |
|--|------------------------|--|----------------------------|
| | Number of shares | Value of the subscribed and paid-up equity capital (RON) | Percentage owned (%) |
| Herz Armaturen GesbH | 13.197.352 | 1.319.735 | 32,9934 |
| Hric Beteiligungs Ges.m.b.h | 10.400.000 | 1.040.000 | 26,0000 |
| Tridelta Heal Herz Beteiligungsgesellschaft | 6.703.418 | 670.341 | 16,7585 |
| Natural Entities | 5.816.220 | 581.622 | 14,5406 |
| Legal Entities | 3.883.010 | 388.301 | 9,7075 |
| | | | |
| Total | 40.000.000 | 4.000.000 | 100.0000 |

The total number of authorised shares is of 40.000.000 shares having a net value of 0.1 RON per share.

14 SUPPLIERS AND OTHER DEBTS

| | 31 December 2019 | 31 December 2018 |
|---|---------------------|---------------------|
| Trade debts | 9.586.380 | 9.363.146 |
| -of which in relation to affiliated parties (note 26) | 9.280.702 | 8.781.856 |
| Debts with staff, contributions, social insurance | 188.685 | 182.943 |
| Value added tax | - | - |
| Other debts | 54.757 | 51.413 |
| | | |
| 9.829.821 | | 9.597.502 |
| | | |
| Minus long term portion: subsidies | - | - |

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| | | |
|---|-------------------------------|-------------------------------|
| Current portion of trade debts and other debts | <hr/> <hr/> <hr/> <hr/> <hr/> | <hr/> <hr/> <hr/> <hr/> <hr/> |
| | 9.829.821 | 9.597.502 |
| 15 LOANS | | |
| | 31 December 2019 | 31 December 2018 |
| Short term | | |
| Short term loans | 23.896.500 | 23.319.500 |
| Long term loans | | |
| Long term loans | - | - |

During the month of April 2010, a loan was contracted on a period of 5 years from the majority shareholder Herz Armaturen Ges.m.b.H, in value of 5 million Euros, respectively 23,896,500 RON, with a variable interest rate Euribor+2p.p which shall be paid in full at the due date. Following the decision of the Ordinary General Meeting of Shareholders from the year 2015 the due date of the credit was extended with 1 more year, that is until 15.04.2016. This due date was not updated.

The short-term loans are guaranteed as such:

| | | |
|-----------------|-------------------------|-------------------------|
| | 31 December 2019 | 31 December 2018 |
| Tangible assets | 29.012.004 | 29.584.841 |

The accountable values of loans approximate their just values. The Company does not have any loan facilities unused as on 31 December 2019 and 31 December 2018.

16 DEFERRED INCOME TAX

The analysis of claims and debts regarding the deferred income tax is as follows:

| | | |
|--|-------------------------|-------------------------|
| | 31 December 2019 | 31 December 2018 |
| Claims regarding the deferred income tax: | | |
| – Claims regarding the deferred tax to be recovered in less than 12 months | 605.495 | 422.000 |
| Debts regarding the deferred tax: | | |
| – Debts regarding the deferred tax | | |
| to be recovered in more than 12 months | -3.272.063 | -3.428.772 |
| to be recovered in less than 12 months | -2.666.568 | -3.006.772 |

The gross modification related to the deferred income tax is as follows:

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| | 2019 | 2018 |
|---|-------------------|-------------------|
| On 1 January | -3.006.772 | -771.822 |
| (Expenditure) / Retake in the profit and loss account | 340.204 | -26.153 |
| (Creation) / Retake in the global result situation | - | -2.208.797 |
| On 31 December: assets / (debt) | -2.666.568 | -3.006.772 |

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16 DEFERRED INCOME TAX (CONTINUATION)

The alteration in claims and debts on the deferred income tax during the year, but without taking into account the settlement of related balances for the same fiscal authority, is the following:

| | On 1 January 2018 | On 31 December 2018 | On 31 December 2019 | Credited in the global result | (Debited) / Credited in the profit and loss account |
|---|-------------------------|---------------------------|---------------------------|-------------------------------------|--|
| Reassessment of tangible assets | <u>1.286.829</u> | -66.854 | <u>2.208.797</u> | 3.428.772 | -156.709 |
| Debts on deferred tax | 1.286.829 | -66.854 | 2.208.797 | 3.428.772 | -156.709 |
| Provision for trade claims | -116.233 | -194 | - | -116.427 | -2.489 |
| Provision for suppliers' penalties, litigates and material warranties | -24.509 | -2.364 | - | -26.873 | 24.154 |
| Provision for stocks | -374.265 | 95.565 | - | -278.700 | -184.221 |
| Provision for untaken leave days, provision for re-structuring | - | - | - | - | - |
| Claims regarding the deferred tax | -515.007 | -93.007 | - | -422.000 | -183.495 |
| Effect of net deferred tax | 771.822 | 26.153 | 2.208.797 | 3.006.772 | -340.204 |
| | | | | | 3.272.063 |
| | | | | | -118.916 |

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17 PROVISIONS FOR RISKS AND EXPENDITURE

| | Warranties granted to clients | Litigates | Other provisions | Total |
|---|--|------------------|-------------------------|----------------|
| On 1 January 2019 | - | 11.014 | 156.942 | 167.956 |
| Registered in the profit and loss account | 16.955 | -11.014 | -26.033 | -20.092 |
| Retaken not used amounts | - | - | - | - |
| On 31 December 2019 | 16.955 | - | 130.909 | 147.864 |

(a) *Untaken leaves*

At the end of each period, the Company establishes provisions for the value of untaken leaves by its employees.

(b) *Other provisions*

The Company constituted provisions for possible penalties from suppliers, due to delays in due trade debts payments.

The Company constituted provisions for activity restructuring in value of 107,732 RON, representing compensations dues for 9 employees whose job positions were dissolved and for whom their Individual Labour Agreement shall end on January 2020. The compensations represent the equivalent of 4 gross monthly wages and shall be paid upon termination of their Individual Labour Agreements.

18 OTHER (LOSSES) / GAINS - NET

| | 2019 | 2018 |
|--|-------------------|----------------|
| (Loss)/gain from assignment of tangible assets | -4.818 | 25.065 |
| (Expenditure) / Retake of provision for stocks | -1.151.376 | 596.068 |
| (Expenditure) / Retake of provision for claims | -15.559 | - |
| Other net expenditure/gains | - | - |
| Total | -1.171.753 | 621.133 |

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19 OTHER OPERATING COSTS

| | 2019 | 2018 |
|-------------------------------------|----------------|------------------|
| Travel and daily allowance expenses | 10.383 | 3.566 |
| Leases | 100.327 | 189.184 |
| Insurances | 36.986 | 38.323 |
| Repairs and maintenance | 83.055 | 57.163 |
| Transportation | 37.629 | 23.341 |
| Taxes and similar costs | 151.166 | 243.952 |
| Advertising and protocol | 29.536 | 19.809 |
| Commissions and fees | 73.093 | 470.540 |
| Others | 63.641 | 88.753 |
| Total | 585.818 | 1.134.631 |

20 STAFF COSTS

| | 2019 | 2018 |
|---------------------------|------------------|------------------|
| Wages and indemnities | 2.440.637 | 2.512.038 |
| Social insurance expenses | 56.872 | 70.244 |
| | 2.497.509 | 2.582.282 |

Number of employees

| | 2019 | 2018 |
|----------------------------|-------------|-------------|
| Number of employees | 42 | 45 |
| Management Personnel | 1 | 1 |
| Executive Personnel | 13 | 14 |
| Production Personnel | 28 | 30 |

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21 FINANCIAL REVENUES AND COSTS

| | 2019 | 2018 |
|---|------------------|----------------|
| Costs with interests: | | |
| - Loans contracted from shareholders | 481.352 | 471.716 |
| Exchange rate differences costs | 1.156.300 | 564.925 |
| Revenues from exchange rate differences | -310.460 | -506.533 |
| Net financial costs | 1.327.192 | 530.108 |
| - Revenues from interests to short term bank deposits | -69 | - |
| Financial Revenues | -69 | - |
| Net financial costs | 1.327.123 | 530.108 |

22 INCOME TAX COST

| | 2019 | 2018 |
|--|-----------------|---------------|
| Current tax: | | |
| Current income tax related to the year | - | - |
| Total current tax | - | - |
| Deferred tax (note 16): | | |
| Occurrence and retake of temporary differences | -340.204 | 26.153 |
| Total deferred tax | -340.204 | 26.153 |
| Profit Tax Cost | -340.204 | 26.153 |

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23 CASH GENERATED BY OPERATIONS

| | 2019 | 2018 |
|--|----------------------|----------------|
| Net profit | -3.453.336 | -1.911.513 |
| Adjustments for: | | |
| – Depreciation costs (note 6) | 776.287 | 1.047.391 |
| – (Profit) / loss from the sale of tangible assets (note 18) | 4.818 | |
| – Revenues from interests (note 21) | -69 | - |
| – Interest cost (note 21) | 481.496 | 471.716 |
| – Profit tax (note 22) | -340.204 | 26.153 |
| – Provisions for trade stocks and claims (note 18) | 1.166.935 -20.092 | 596.068 |
| - Provisions for risks and expenses (note 17) | | -2.031 |
| – Losses from the exchange rate differences | 600.587 | 21.000 |
| Alterations of the circulating capital: | | |
| – Stocks | 266.354 | -141.901 |
| – Clients and other claims | 361.536 | 128.218 |
| – Suppliers and other debts | <u>232.318</u> | <u>924.828</u> |
| Cash generated by operations | 76.630 | -32.208 |

Non-monetary transaction

The non-monetary transaction is represented by settlements between the trade debts and claims to different internal and external partners.

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24 REVENUES ON CATEGORIES

Analysis of revenues on categories

| | 31 December 2019 | 31 December 2018 |
|-------------------|-----------------------------|-----------------------------|
| Sales of goods | 6.653.750 | 7.798.681 |
| Sales of services | 651.361 | 484.990 |
| | 7.305.111 | 8.283.671 |

Analysis of revenues per geographical area

| | 31 December 2019 | 31 December 2018 |
|-----------------------|-----------------------------|-----------------------------|
| EU interstate exports | 6.223.384 | 7.350.379 |
| National revenues | 1.081.727 | 933.292 |
| | 7.305.111 | 8.283.671 |

25 CONTINGENCIES

(a) Litigates

The Company has litigated with trade partners, resulted out of the normal course of activity deployment, as well as with ex-employees. The Company's Management considers that these legal actions will not have a significant adverse effect on the economic outcome and financial position of the Company.

The majority of disputes refer to claims from companies in insolvency procedure and for which the company already created provisions in the past years.

On the date of 31/12/2019, there is an active trial procedure involving an ex-employee of the Company who claims from Armatura the amount of 500,000 EUR with the title of damages, in order to cover the prejudice suffered from a work injury. In the primary court session, the Company Armatura has obtained a favourable sentence, in the meaning that the Court rejected the claims of the ex-employee. On the date of 12/03/2020 The Court of Appeals from Cluj rejected the appeal declared, sense in which the Company shall pay no amount of money to the ex-employee. The decision of the Court is final.

b) Taxation

All the amounts due to the State for taxation purposes were paid or registered at the date of financial statements. The Romanian fiscal system is under consolidation and

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harmonization with the European legislation, with the possibility to have different interpretations of authorities in relation to the fiscal legislation, which might result in additional taxes, amounts and penalties. In case the state authorities discover violations of legal provisions applicable in Romania, these may determine, as applicable: forfeiture of respective amounts, additional fiscal obligations, application of fines, application of delay penalties to the effective amounts due to be paid). As such, the fiscal sanctions resulted from violations of the legal provisions may lead to important amounts to be paid to the State. The Company holds that it paid in due time and in full all taxes, charges, penalties and penalty interests, to the degree applicable.

The Romanian fiscal authorities performed controls in relation to calculation of income tax until 31.12.2008.

Transfer price

Pursuant to the relevant fiscal legislation, the fiscal assessment of a transaction concluded with affiliated parties has as basis the concept of market price related to the respective transaction. Pursuant to this concept, the transfer prices shall be adjusted so that they reflect the market prices agreed between the entities in an affiliation relation and which act independently, based on „regular market conditions”.

During the month of September 2011, a verification process of trade relations between Armatura SA and affiliated companies of Herz group was initiated, the period subject to analysis being the financial years 2009 – 2010. Because the Company did not have at that time a Transfer price file, it was given the permission to draft the documentation within the deadlines mentioned by the legislation in force.

The Company drafted and submitted the Transfer price file for the period mentioned in due time, that is on February 17th 2013. Until the date of the current financial statements, the Fiscal Inspection Service of ANAF Cluj (National Fiscal Administration Agency) did not verify and did not conclude on the observance of the principle of „regular market conditions” and as taxation basis of the contributor is not distorted. The Company management cannot estimate the finality of such verifications.

For the financial years 2012 – 2017, the Company drafted the documentation regarding the transfer prices implemented in the trade proceedings with the affiliated parties.

(b) Financial crisis

Recent volatility of international and Romanian financial markets:

The current global liquidity crisis which started at the middle of the year 2007 had as result, among others, a low financing level of market capital, low levels of liquidity in the banking and circumstantial sector, higher rates at interbanking loans and a very high volatility of stock exchanges.

Currently, the entire impact of the current financial crisis is impossible to anticipate and to prevent in total.

The management cannot accurately estimate the effects on financial position of the Company, continuous decrease of liquidity of financial markets and increase of volatility of the exchange rate of national currency and of capital markets indexes. The management considers that they took all diligent measures in order to ensure the continuity of the

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Company under the current conditions.

Impact on liquidities:

The volume of financing from economy was significantly reduced lately. This may affect the Company's capacity to obtain new loans and/or to refinance the existing loans in similar terms and conditions with the prior financing.

The impact on clients/ lending parties:

The clients and other debtors of the company may be affected by the market conditions, which may affect their capacity to reimburse the amounts due. This may have an impact also on the previsions of the Company management regarding the cash flows and on the assessment of depreciations of financial and non-financial assets of the company. To the degree where there is available data, the management reflected in an adequate manner the reviewed estimates of the future cash flows in the assessment of depreciation.

25 TRANSACTIONS WITH AFFILIATED PARTIES

The Company engaged transactions with the following affiliated parties:

Herz Armaturen Ges.m.b.H – shareholder;
Herz d.o.o – entity under joint control.

Sales of goods and services

| | 2019 | 2018 |
|---|------------------|------------------|
| <i>Sales of assets</i> | 6.222.018 | 7.342.117 |
| Shareholder | 6.211.740 | 7.341.417 |
| Entities under joint control with the shareholder | 10.278 | 700 |
| <i>Sales of services</i> | 1.366 | - |
| Shareholder | 1.366 | - |
| Entities under joint control with the shareholder | - | - |
| | 6.223.384 | 7.342.117 |

Purchase of assets and services

| | 2019 | 2018 |
|---|------------------|------------------|
| <i>Purchase of assets</i> | 3.476.587 | 4.169.075 |
| Shareholder | 3.476.587 | 4.169.075 |
| Entities under joint control with the shareholder | - | - |
| <i>Purchase of services</i> | 109.413 | 203.054 |
| Significant shareholder | 109.413 | 302.054 |
| Entities under joint control with the shareholder | - | - |
| <i>Purchase of tangible assets</i> | - | 9.307 |
| Significant shareholder | - | 9.307 |
| Entities under joint control with the shareholder | - | - |
| | 3.586.000 | 4.381.436 |

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NOTES ON INDIVIDUAL FINANCIAL STATEMENTS
FOR THE YEAR CONCLUDED ON 31 DECEMBER 2019
(in lei, if not otherwise specified)

26

TRANSACTIONS WITH AFFILIATED PARTIES (CONTINUATION)

Compensations granted to key management staff

The key management staff includes managers (executive and non-executive) and members of the Board of Directors. The paid compensations in 2019 and 2018 to the key management staff for their services as employees are presented as follows:

| | 2019 | 2018 |
|-----------------------------------|----------------|----------------|
| Members of the Board of Directors | - | - |
| Management Staff | <u>172.599</u> | <u>161.992</u> |

Balances at the end of the year which result from sales/purchases of goods/services

| | 2019 | 2018 |
|---|-------------------------|-------------------------|
| Trade claims from entities under joint control with the shareholder | - | - |
| Trade debts to the shareholder | 9.266.729 | 8.781.856 |
| Trade debts to entities under joint control with the shareholder | 205.087 | 363.318 |
| Advances received from the shareholder | - | - |
| | <u>9.471.816</u> | <u>9.145.174</u> |

| | 2019 | 2018 |
|--|-------------|-------------|
| Loans from the shareholder | 23.896.500 | 23.319.500 |
| Interest to be paid at the end of the period | 1.334.221 | 829.138 |

The claims from affiliated parties result mainly from sale transactions and are due between 30 – 90 days from the date of sale, in relation to the negotiated contractual conditions. The claims are not guaranteed and do not bear interest. On 31 December 2019 and on 31 December 2018 no provisions were created for claims from affiliated parties.

The debts to affiliated parties result mainly from purchase transactions and are due one month from the purchase date. The debts do not bear interest.

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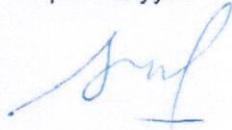
27 EVENTS SUBSEQUENT TO BALANCE SHEET DATE

There were no events, subsequent to balance sheet date, to be reported.

The Financial Statements were signed today,

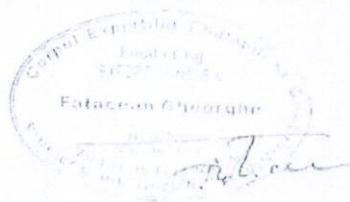
Director,

Akper Saryyev



Drafted by,

expert contabil Fătăcean Gheorghe



MANAGEMENT REPORT
2019

Company Data:

Registered Office: 400267 Cluj-Napoca. Str. Gării, Nr. 19

Telephone: +40 264 435 367

Fax: +40 264 435 368

Email: office@armatura.ro

Website: www.armatura.ro

Sole Registration Code: RO 199001

Trade Register Number: J 12/13/1991

Subscribed and paid-up equity capital: 4,000,000 RON

The Company has zero branches.

Shareholders and Issued Shares Data:

The shareholders consolidated synthetic structure on the date of 31/12/2019, according to the information supplied by the Central Register:

| Owner Name | Percentage % |
|--|---------------------|
| Herz Armaturen | 32.99 |
| Hric Beteiligungs | 26 |
| Tridelta Heal Beteiligungsgesellschaft | 16.76 |
| Natural Entities | 14.54 |
| Legal Entities | 9.71 |
| Total | 100.00 |

The regulated market on which are traded the issued stocks is: Bucharest Stock Exchange.

The main features of the stock issued by the Company:

- Number of shares: 40,000,000;
- Nominal values: 0.1 RON/share;
- The nominal shares, issued in dematerialised form, are registered in the independent registry SC Depozitarul Central SA;
- The Company did not buy individual shares during the financial exercise 2019;
- There are no restrictions concerning the stock issued by the Company;
- There are no holders of stock issued by the Company that have special control rights and a description of those rights;
- There are no schemes to award shares to the employees;
- There are no restrictions regarding the rights of vote;

APPENDIX A: DIRECTOR'S REPORT

- There aren't any agreements between the shareholders that are known by the entity and that might result in restrictions regarding the transfer of the stock and/or the rights to vote;
- The assignment or replacement of the members of the Board of Directors and the alteration of the constitutive acts of the entity are to be executed with the approval of the General Meeting of the Shareholders.

Corporate Governance:

The Company has shares listed to the Bucharest Stock Exchange. Subsequently, the Company implements any and all legal provisions in force: Law 31/1990 updated, OMFP 2844/2016 for the approval of the Accountancy Regulation according to the International Standards of Financial Reports, the ASF regulation 05 / 2018 regarding the reporting, the law 297/2004 regarding the stock exchange market, the Bucharest Stock Exchange regulations and others. All those documents are public. Until the date this report was drafted, the Company did not adhere to the Corporate Governance Code issued by Bucharest Stock Exchange in the year 2015. The Company implemented an Organisation and Functioning Regulation and an Internal Order Regulation that are meant to ensure the secure functioning of the Company and the fulfilment of Company's goals. The internal control system fulfils the established objectives and no significant deficiencies were noted in the internal system functioning. The implemented principles of the internal control system are decision separation, existence of software incorporated automatic controls, authorisation limits, periodic reporting etc. The Company designated an internal auditor, but not an auditing committee. There is no distinct department of investors relations. The Company signed a contract with an authorised financial auditor, according to the legal requirements, and the auditor verifies the financial statements according to the legal provisions in force. The General Assembly has the attributions provided by Law 31/1990 with the afferent alterations and Company's constitutive act in force at the date the General Meeting is held. The manner to deploy the Shareholders General Assembly and the key-attributes of this assembly comply with the legislation in force and with Company's Statute. The shareholders rights and the manner in which they can be exerted are provided in the applicable legislation.

Members of the Board of Directors:

- Akper Saryyev – President of the Board of Directors
- Matthias Haider - member
- Damir Rutar – member
- Walter Simmel – member
- Zoran Bankovic - member

Activity Data:

Main object of activity of SC Armatura SA: „Manufacture of taps and valves”.

The Company develops, manufactures and sells the following products:

ARMĀTURA SA

APPENDIX A: DIRECTOR'S REPORT

- Products for equipment of installations of gas, water, heating, cooling and air conditioning;
- Industrial products, as supplier for OEM clients.

Company's products are sold both on the national and international markets.

Financial Statements Presentation:

The documents regarding the economic and financial operations afferent to the reporting period were correctly recorded, in strict compliance with the accountancy principles, the accountancy rules and methods provided by the legislation in force.

Were observed the financial statements drafting rules, provided in the Law no. 82/1991 and the Order of Public Finances Minister no. 2844/2016, the data inscribed in the Financial Position Situation correspond with the date recorded in the accounting registers and agree with the real situation of the patrimonial elements.

The situation of the global outcome truly reflects the income, the costs and the financial results of the reporting period.

Elements of the Financial Position Situation:

| Column No. | Indicator Name | Balance on | |
|------------|--|-------------------|-------------------|
| | | 01.01.2019 | 31.12.2019 |
| | FIXED ASSETS | | |
| 1 | Intangible assets | 9.239 | 9.709 |
| 2 | Tangible assets | 30.346.332 | 29.653.422 |
| 3 | Financial immobilisations | 0 | 0 |
| 4 | FIXED ASSETS - TOTAL (line 01 to 03) | 30.355.571 | 29.663.131 |
| | CURRENT ASSETS | | |
| 5 | Stocks | 4.058.368 | 2.640.638 |
| 6 | Debts | 659.424 | 282.329 |
| 7 | Short-term financial assets | - | 110.155 |
| 8 | Cash and Bank accounts | 458.044 | 335.922 |
| 9 | CURRENT ASSETS - TOTAL (lines 05 to 08) | 5.175.836 | 3.369.044 |
| 10 | TOTAL ASSETS (line 4 + line 9) | 35.531.407 | 33.032.175 |

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| EQUITY CAPITAL AND DEBTS | | | |
|---------------------------------|---|-------------|-------------|
| EQUITY CAPITAL | | | |
| 11 | Share Capital | 18.110.957 | 18.110.957 |
| 12 | Reserves | 21.335.091 | 21.335.091 |
| 13 | Reported Result | -40.835.609 | -44.288.947 |
| 14 | EQUITY CAPITAL – TOTAL(lines 11 to 13) | -1.389.561 | -4.842.899 |
| DEBTS | | | |
| 15 | LONG-TERM DEBTS | 3.006.772 | 2.666.568 |
| 16 | SHORT-TERM DEBTS AND PROVISIONS | 33.914.196 | 35.208.507 |
| 17 | TOTAL DEBTS (line 15 + line 16) | 36.920.968 | 37.875.074 |
| 18 | TOTAL EQUITY CAPITAL AND DEBTS (line 14 + line 17) | 35.531.407 | 33.032.175 |

Stocks Analysis:

Company's stocks recorded a **decrease** as compared to the beginning of 2019 in value of 1,417,730 RON.

Stocks structure on 31.12.2019 is as follows:

% in total stocks

- finished products and merchandise 29.46 %
- on-going production 30.40%
- raw materials and materials 40.14 %

Stocks rotation average duration (DMR) calculated as report between the average stock and the turnover presents as follows:

- *raw materials and materials (mp)*

$$\text{DMRmp} = \text{average stock mp} / \text{CA} * 360 \text{ days}$$

$$2018: \text{DMRmp} = [(2.068.322+2.486.030) / 2] / 8.283.671 * 360 \text{ days} = 99 \text{ days}$$

$$2019: \text{DMRmp} = [(2.486.030+1.059.982) / 2] / 7.305.111 * 360 \text{ days} = 87 \text{ days}$$

- *intermediate products (pn)*

$$\text{DMRpn} = \text{average stock pn} / \text{CA} * 360 \text{ days}$$

$$2018: \text{DMRpn} = [(1.233.634+657.762) / 2] / 8.283.671 * 360 \text{ days} = 41 \text{ days}$$

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2019: $DMRpn = [(657.762+802.751) / 2] / 7.305.111 * 360 \text{ days} = 36 \text{ days}$

- *finished products (pf)*

$DMRpf = \text{average stock pf} / \text{CA} * 360 \text{ days}$

2018: $DMRpf = [(18.443 + 914.576) / 2] / 8.283.671 * 360 \text{ days} = 20 \text{ days}$

2019: $DMRpf = [(914.576+777.905) / 2] / 7.305.111 * 360 \text{ days} = 42 \text{ days}$

Stock rotation speed calculated as report between the turnover and the average stock is as follows:

- *raw materials and materials (mp)*

$VRmp = \text{CA} / \text{average stock mp}$

2018: $VRmp = 8.283.671 / [(2.068.322 + 2.486.030) / 2] = 4 \text{ times}$

2019: $VRmp = 7.305.111 / [(2.486.030 + 1.059.982) / 2] = 4 \text{ times}$

- *on-going production (pn)*

$VRpn = \text{CA} / \text{average stock pn}$

2018: $VRpn = 8.283.671 / [(1.233.634+657.762) / 2] = 9 \text{ times}$

2019: $VRpn = 7.305.111 / [(657.762+802.751) / 2] = 10 \text{ times}$

- *finished products (pf)*

$VRpf = \text{CA} / \text{average stock pf}$

2018: $VRpf = 8.283.671 / [(18.443 + 914.576) / 2] = 18 \text{ times}$

2019: $VRpf = 7.305.111 / [(914.576+777.905) / 2] = 9 \text{ times}$

Claims Analysis:

On the date of 31/12/2019, Company's claims in sum of 282,329 RON had the following structure:

| | Value RON | % in total |
|---------------|--------------|------------|
| Trade claims: | 122,930 | 43.54% |
| Other claims | 159,399 | 56.46% |

Trade claims and other claims balance decreased during the year 2019 with 377,095 RON.

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Average duration of claims payment:

DM ic = [(claims at the beginning of the period + claims at the end of the period) / 2] / CA *
360 days

2018: DM ic = [(753.287 + 645.206) / 2] / 8.283.671 * 360 days = 30 days
2019: DM ic = [(645.206 + 265.344) / 2] / 7.305.111 * 360 days = 22 days

At the end of the year 2019, the Company has provisions constituted from the prior years for the depreciation of trade claims in value of 743,224 RON.

Payment Obligations Analysis:

Company's payment obligations on 31/12/2019 have the following structure:

| <u>Category</u> | <u>Balance in RON</u> |
|--|-----------------------|
| Suppliers (affiliated parties included) | 9.586.380 |
| Settlements with shareholders regarding the equity | 100 |
| Debts with staff and afferent social security | 188.685 |
| Value Added Tax | - |
| Sums due to shareholders (interests included) | 25.230.721 |
| Other debts | 54.757 |
| TOTAL | 35.060.643 |

Credits and other loans analysis:

On the date of 31/12/2019, the Company had a loan contracted from the shareholder Herz Armaturen Ges.m.b.H in value of 5 million EUR for the payment of Company's debts (23,896,500 RON)

Credits were secured by mortgages on Company's patrimony assets.

Global result situation on 31/12/2019

The global result situation on 31/12/2019 comprises: net turnover, incomes and costs of current exercise, grouped according to their nature, as well as exercises' result.

| No. | Indicator's Name | Financial Exercise: | |
|-----|------------------|---------------------|------------|
| | | 31.12.2019 | 31.12.2018 |
| 1 | Net turnover | 7.305.111 | 8.283.671 |
| 2 | Operation Result | Profit | - |
| | | Loss | 2.466.417 |
| 3 | Financial Result | Profit | - |
| | | | - |

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| | | | | |
|---|---------------------|--------|-----------|-----------|
| | | Loss | 1.327.123 | 530.108 |
| 4 | Gross Result | Profit | - | - |
| | | Loss | 3.793.540 | 1.885.360 |
| 5 | Deferred Profit Tax | | 340.204 | -26.153 |
| 6 | Net result | Profit | - | - |
| | | Loss | 3.453.336 | 1.911.513 |

Risks and Uncertainties:

Company's management identifies, analyses and drafts, constantly strategies to fight the risks that the Company faces in deploying its activity.

View that a significant portion of Company's sales represent exports, one risk the Company takes and is carefully monitored is represented by the exchange rate of the foreign currency risk.

Because of the general economic environment, the cash flow risk and the treasury flow risk constituted an increased interest theme for Company's management and they tried to find the best solutions in order to prevent this risk, including, amongst others: analysis of obligations due dates, efforts in recuperating claims, optimal use of bank resources etc.

On the date of 07 March 2013, The Extraordinary General Meeting of the Shareholders approved the reduction of Company's equity capital at the value „zero” and simultaneously the increase of its value at 4,000,000 RON via cash contribution from Company's shareholders. The finalisation of this operation was not possible because the shareholder Bugică Radu contested the decision at Trade Court from Cluj, his request made the object of the file no. 817/1285/2013 and the EGMS was annulled by the Court by definitive decision. From the financial point of view, the Company wasn't affected except for the fact that the issue of equity capital couldn't be solved, and, on the date of 31/12/2015 the equity capital was 50% below the share capital. The main reason of the annulment was that the Company did not organize before the approval of the reduction and the increase of the share capital an EGMS to discuss the dissolution and liquidation of the Company.

On the date of 29/04.2014, an EGMS took place in which was rejected the proposal of the Board of Directors to dissolve and liquidate the Company, and the Company received a one year delay to present a proposal for the shareholders to solve the issue of negative equity capital, until the end of the year 2014.

On the date of 12/02/2015, the Extraordinary General Assembly decided the reduction of the share capital of the Company from 4,000,000 RON to 400,000 RON by reducing the number of shares, from 40,000,000 to 4,000,000 nominative shares and simultaneously the increase of the share capital from the value of 400,000 RON to the value of 4,000,000 RON by cash inflow. The reply communicated by ASF regarding the registration of the operation to reduce the share capital was sent to the Company on the date of 12/02/2016. In the EGAS that took place in April 2016 was rejected the proposal approved by the EGAS Decision

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01/12.02.2015. In this EGAS, was approved the assignment of the Board of Directors to approve and execute a share capital increase up to the value of 10,000,000 RON, within one year since the EGAS date, but until the date of these financial statements the respective action was not taken.

On the date of 25/04/2019, took place an EGAS in which, via the decision no. 3/25.04.2019, the shareholders representing 49.76% of the share capital do not approve the dissolution of the Company and approve the selling, entirely or partially, simultaneously or successively, to one or several buyers, of any and all real-estate owned by the Company. The amounts of money thus obtained will be used to pay Company's debts.

Moreover, via the Decision of the Board of Directors of the Company Armatura SA no. 957/10.12.2019, was approved the dissolution from the organigram of 9 job positions, and the individual labour agreements of the employees occupying those positions were scheduled to end on January 2020.

In the month of January 2020, via the Decision of the Board of Directors of the Company Armatura SA no. 89/23.01.2020, was approved the scrapping of the fixed assets and the inventory items from all the departments of Armatura SA.

The due date for the reimbursement of the 5 million EUR credit contracted from the shareholder Herz Armaturen Ges.b.h was not renewed during the year 2019, the due date remaining 15/04/2016.

Important events occurred after the end of the financial exercise

There were no subsequent events to report.

Cluj-Napoca

Director,

Akper Saryyev



To: BUCHAREST STOCK EXCHANGE
FINANCIAL SUPERVISORY AUTHORITY

DECLARATION OF CONFORMITY WITH THE CORPORATE GOVERNANCE CODE
OF THE BUCHAREST STOCK EXCHANGE

31.12.2019

| The provisions of the Code | Respect | Not respect or respect partial | Reason for nonconformity |
|---|---------|--------------------------------|--|
| A.1 All companies must have an internal Council regulation that includes the terms of reference / responsibilities of the Council and the key management functions of the company and which applies, <i>inter alia</i> , the General Principles of Section A. | | Not | To be adopted by the Board of Directors |
| A 2 Provisions for managing conflicts of interest should be included in the Council Regulation. In any case, Council members must notify The Council on any conflicts of interest that have occurred or may occur and refrain from participating in the discussion (including by not presenting, unless the failure to attend would hamper the formation of the quorum) and the vote on the adoption of a decision on the matter gives rise to that conflict of interest. | | Not | There is no regulation yet, it will be adopted after the election of the council |
| A 3 The Board of Directors or the Supervisory Board must be composed of at least five members | Yes | | |
| A 4 Most members of the Board of Directors should not have executive functions. In the case of Standard Category companies, at least one member of the Board of Directors should be independent. | Yes | | |
| A4. Each independent member of the Board of Directors shall make a declaration at the time of his nomination for election or re-election, as well as when any change of his status occurs, indicating the elements on the basis of which he is considered to be independent in character and his / her judgment, and according to the following criteria: A4.1-A4.9 | | Not | So far there is no A1 rule |
| A.5 Other relatively permanent engagements and duties of a member of the Board, including executive and non-executive positions in the Board of Non-Profit Societies and Institutions, must be disclosed to potential shareholders and investors prior to nomination and during their term of office. | | Not | To be implemented |
| A 6 Any member of the Council must report to the Council on any report with a shareholder who holds | | Not | To be implemented |

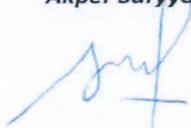
| | | | |
|---|--|-----|---|
| directly or indirectly shares representing more than 5% of all voting rights. This obligation refers to any report that may affect the member's position on matters decided by the Council. | | | |
| A.7 The Society shall designate a Council Secretariat responsible for supporting the work of the Council. | | Not | To be implemented |
| A.8 The Corporate Governance Statement will inform whether a Council assessment has taken place under the chairmanship of the Chair or the nomination committee and, if so, will summarize the key measures and the resulting changes. Society must have a policy / guidance on the Council's assessment of the scope, criteria and frequency of the evaluation process. | | Not | To be implemented |
| A.10 The corporate governance statement should include information on the exact number of independent members of the Board of Directors or the Supervisory Board | | Not | Until this time, there was no information on the number of independent members, but the AGA's decision-making decisions were published on the company's website, through which members were elected |
| B.1 The Board should set up an audit / risk committee in which at least one member should be a non-executive non-executive. Most members, including the Chairperson, must have proven that they have appropriate qualifications relevant to the functions and responsibilities of the Committee. At least one member of the audit committee must have proven and appropriate audit or accounting experience | | Not | We do not have an audit committee, the company will start the implementation procedure of the internal audit committee |
| B.2 The Audit / Risk Committee Chairman must be an independent non-executive member. | | Not | We do not have an audit committee |
| B.3 As part of its responsibilities, the audit / risk committee should conduct an annual review of the internal control system. | | Not | We do not have an audit committee |
| B.4 The assessment should take into account the effectiveness and coverage of the internal audit function, the adequacy of the risk management and internal control reports submitted to the Council's audit committee, the promptness and effectiveness with which executive management addresses identified weaknesses or weaknesses following internal control and the submission of relevant reports to the Council's attention | | Not | We do not have an audit committee. |
| B.5 The audit committee should assess the conflicts of interest in relation to the transactions of the company and its subsidiaries with affiliated parties | | Not | We do not have an audit committee |
| B.6 The audit committee must assess the | | Not | We do not have an audit |

| | | | |
|---|-----|-----|---|
| effectiveness of the internal control system and the risk management system | | | committee. |
| B 7 The Audit Committee should monitor the application of generally accepted legal standards and auditing standards. The Audit Committee should receive and evaluate internal audit team reports | | Not | We do not have an audit committee. |
| B 8 Whenever the Code mentions reports or analyzes initiated by the Audit Committee, they should be followed by periodic reports (at least annually) or ad hoc reports to be submitted to the Council | | Not | We do not have an audit committee |
| B.9 No shareholder may be granted preferential treatment over other shareholders in connection with transactions and agreements entered into by the company with shareholders and their affiliates. | Yes | | |
| B.10 The Council should adopt a policy to ensure that any transaction of the company with any of the companies with which it has close relationships whose value is equal to or greater than 5% of the company's net assets (according to the latest report financial) is approved by the Council following a binding opinion of the Council Audit Committee and properly disclosed to shareholders and potential investors to the extent that such transactions fall within the category of events subject to reporting requirements | | Not | We do not have an audit committee. |
| B 11 Internal audits should be performed by a separate structural division (internal audit department) within the company or by hiring an independent third party. | | Not | We do not have an audit committee |
| B.12 In order to ensure the main functions of the internal audit department, it must report functionally to the Council through the audit committee. For administrative purposes and within the management's responsibility to monitor and reduce risks, it must report directly to the Director General | | Not | We do not have an audit committee |
| C 1 The company must publish the remuneration policy on its website and include a statement on the implementation of the remuneration policy in the annual report during the annual period under review. | | Not | No, we are going to implement a Renewal policy to comply with the BVB Code |
| D 1 The company must organize an Investor Relations Service - indicating to the general public the responsible persons or the organizational unit. In addition to the information required by law, the company must include on its website a section dedicated to Investor Relations, in Romanian and English, with all relevant information of interest to investors, including: | | Not | There are special columns on the company's website that include different investor information, depending on the nature of the information, but there is no distinct heading - Investor Relations |

| | | | |
|--|-----|-----|---|
| D.1 2 Professional CVs of members of the management body of the company, other professional engagements of Council members, including executive and non-executive positions in boards of directors in companies or non-profit institutions; | | Not | We are going to take steps to comply with the BVB Code |
| D.1 3 Current reports and periodic reports (quarterly, semester and annual) - at least those under D 8 - including current reports with detailed information on non-compliance with this Code; | Yes | | |
| D 1 4 Information on general shareholders meetings: agenda and informative materials, the procedure for the election of the members of the Council, the arguments supporting the nomination of candidates for election to the Council, together with their professional resumes, shareholders' questions about agenda items and company responses, including resolutions adopted; | Yes | Not | Information on AGA is posted on the site We are going to take steps to comply with the BVB Code |
| D.1 6 Name and contact details of a person who will be able to provide relevant information upon request, | | Not | We are going to take steps to comply with the BVB Code |
| D 2 The Company will have a policy on the annual distribution of dividends or other benefits to shareholders proposed by the Director General and adopted by the Council in the form of a set of guidelines that the company intends to follow regarding the distribution of net profit. The principles of the annual distribution policy to shareholders will be published on the company's website | | Not | We are going to take steps to comply with the BVB Code |
| D.3 Society will adopt a policy in relation to forecasts, whether they are made public or not. The forecasts refer to quantified conclusions of studies aimed at determining the overall impact of a number of factors over a future period (the so-called hypotheses) by its nature, this projection has a high level of uncertainty, the actual results may differ significantly from the forecasts originally presented. The forecast policy will determine the frequency, timing and content of the forecasts. If published, forecasts can only be included in the annual, half-yearly or quarterly reports. The forecasting policy will be published on the company's website | | Not | We have not implemented a forecasting policy so far. We are going to take steps to comply with the BVB Code |
| D 4 The rules of general shareholders' meetings should not limit the participation of shareholders to general meetings and the exercise of their rights. Changes to the rules will take effect at the earliest, starting with the next shareholders' meeting. | Yes | | |
| D 5 External auditors will be present at the general shareholders' meeting when their reports are presented at this meeting. | Yes | | |
| D 6 The Board will give a brief assessment to the | | | |

| | | | |
|---|-----|-----|--------------------------------------|
| Annual General Meeting of Shareholders on the internal control and risk management systems as well as opinions on matters subject to the decision of the general meeting. | | | |
| D.7 Any specialist, consultant, expert or financial analyst may attend the shareholders' meeting on the basis of a prior invitation from the Board. Accredited journalists may also participate in the general meeting of shareholders, unless the President of the Council decides otherwise. | | Not | Will take a decision in this regard. |
| D.8 Quarterly and half-yearly financial reports will include both Romanian and English information on key factors influencing changes in sales, operating profit, net profit and other relevant financial ratios, both quarter- to another and to one year to another. | Yes | | |
| D.10 If a society supports different forms of artistic and cultural expression, sporting activities, educational or scientific activities and considers that their impact on innovation and the competitiveness of society is part of its mission and development strategy, it will publish its policy with of its activity in this field | | Not | We do not support |

*Chairman of the Board of Directors,
Akper Saryyev*



Statement

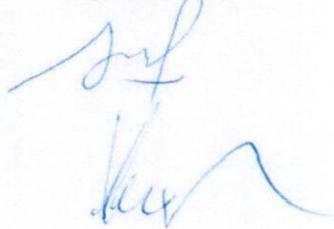
according to the provisions of art. 30 of the Accountancy Law no.
82/1991

Were drafted the annual financial statements on 31.12.2019
for: SC Armatura SA,
county: 12 – Cluj
address: Cluj-Napoca, Str. Garii, Nr. 19
Trade Register Number: J12/13/1991
Ownership Form: 34 – Joint Stock Companies
Main Activity (NACE code and class name): 2814 – Manufacture of other taps and
valves
Fiscal Identification Code: RO 199001

We, the undersigned Matthias Haider and Akper Saryyev, as Directors of SC
Armatura SA, hereby take full responsibility for the drafting of the annual financial
statements on 31.12.2019 and hereby confirm that:

- a) The individual financial statements on 31.12.2019 were drafted according to the International Financial Reporting Standards (IFRS) and the Order of the Minister of Finances 2844/2016.
- b) The accountancy policies used in drafting the annual financial statements comply with the applicable accountancy regulation.
- c) The annual financial statements offer a true image of the financial position, financial performance and other information regarding the deployed activity.
- d) The legal entity deploys its activity under continuity conditions.

Signatures,



| | |
|--------------------|------|
| S.C. ARMATURA S.A. | |
| CLUJ - NAPOCA | |
| INTRARE | 398 |
| Nr. | |
| IESIRE | |
| ANUL | 2020 |
| LUNA | 03 |
| | 30 |

No. 355/18.03.2020

INDEPENDENT FINANCIAL AUDITOR'S REPORT

on the individual financial statements elaborated on 31.12.2019

by

ARMATURA S.A. Cluj Napoca

Towards,

Associates, creditors and management of ARMATURA S.A.

and

the other legal users of the information in the *individual financial statements* and the present *Report*

Report regarding the individual financial statements

1 CONTRARY OPINION

(1.1) We have audited *the individual financial statements* drawn up by the executive management of Armatura S.A. having office in Cluj-Napoca, hereinafter *the Company*, statements drawn up for the financial year concluded on 31.12.2019 and attached to the present, composed of:

- Balance sheet
- Income statement
- Statement of changes in equity
- Cash flow statement
- Annotations to the annual financial statements.

(1.2) *The individual financial statements* audited have been drawn up and presented by the executive management of the Company and haven't yet been presented in or approved by the Shareholders' General Assembly (SGA).

(1.3) Main reference values on 31.12.2019 regarding the *individual financial statements* up mentioned, are

| | |
|---------------------------------------|----------------|
| • Total assets | 33.032.175 lei |
| • Net turnover | 7.305.111 lei |
| • Result of the financial year (loss) | 3.453.336 lei |

(1.4) In our opinion, the *individual financial statements* of ARMATURA S.A., attached to the present, with the exception of those referred at point 3.1, 3.2, 3.3, 3.4, 3.5, 3.6, 3.7, present faithfully (correctly) under all significant aspects, the financial position and performance, their variations, the global result, cash flows, as well as other information presented in the Annotations (accounting policies and other explanatory information) of the *Company* for the financial year concluded on 31.12.2019, according to the requirements of the *general financial reporting framework* as it is defined at point (2.7) below.

II REFERENCES REGARDING THE AUDIT MISSION AND LEGAL REQUIREMENTS (STANDARDS) APPLICABLE

(2.1) A financial audit consists of

- Performing procedures and tests, in order to obtain audit evidences which should sustain the amounts and information presented in the financial statements and allow the auditor to ground his opinion;
- Evaluation of risk that the individual financial statements present significant distortions due to fraud or error regarding their elaboration as well as the correct presentation (faithful) by them of the operations and transactions performed, through the analysis (testing) of the relevance of the internal control system on this purpose, but without having the scope of expressing an opinion regarding its efficiency;
- Evaluation of the adequacy level of the accounting policies adopted and the reasonable character of the accounting estimations made by the management of the audited entity for the elaboration of the financial statements;
- Evaluation of the overall presentation of the financial statements.

(2.2) The object of a financial audit mission is to give a reasonable insurance for the reduction of risks regarding its development to an acceptably low level so that the collected evidences may represent a base for the conclusions (opinion) of the auditor, and in this way to increase the confidence of the user of the audit report and of the audited financial statements, in their quality and content.

(2.3) An audit mission has to be planned and perform in such a way as to allow the achievement of a reasonable insurance that the financial statements do not contain significant distortions or, if the case, that they are influenced by such distortions (errors), as so, the independent financial auditor's report shall to be drawn up, and its opinion shall be formulated, accordingly.

(2.4) The reasonable insurance represent a high insurance level, but it not a guarantee of the fact that an audit developed according to the International standards of Audit (ISA) elaborated by the International Federation of Accountants will always detect a significant distortion, if this exists.

(2.5) Distortions may be due to fraud, or error and are significant if it can reasonably be expected that they, individually or collectively, will influence the economic decisions of users taken on the basis of the information in the financial statements and / or the report of the independent financial auditor.

(2.6) The risk to not detect a significant distortion caused by fraud is higher than that of not detecting a significant distortion caused by error, because fraud may suppose secrete understandings, intentional omissions, false documents and statements, avoidance of the internal control system etc.

(2.7) ACCOUNTING AUDIT S.R.L.'s mission (*the Auditor*) regarding the performance of audit of the *individual financial statements* has been assumed under the contract 105/01.08.2019 signed with the *Company*.

(2.8) Our audit has been planned and performed according to ISA, adopted by the Chamber of Financial Auditors of Romania (CAFR), and the other legal requirements and professional regulations applicable in Romania, which also establish our responsibilities (*the Auditor*) as they are described below in section VII – *Responsibility of the Auditor* from the present *Report*.

(2.9) ISA standards as the other legal incidental regulations require the auditor to observe the Ethic Code of IFAC, and the fundamental principles regarding the independence towards the audited entity, integrity, objectivity, professional competence, both when engaging in a financial audit mission and during its performance.

(2.10) *The individual financial statement* of the Company have been elaborated considering the legal regulations applicable in Romania (*the general financial reporting framework*), meaning

- Accounting Law no. 82/1991, republished, with subsequent modifications and additions (*L. 82/1991*);
- Order of the Ministry of Public Finances no. 2844/2016 for the approval of the Accounting regulations regarding the individual annual financial statements and consolidated annual financial statements, in accordance with IFRS/IAS, applicable to trading companies whose securities are admitted to trading on a regulated market (*OMFP 2844/2016*);
- The other legal regulations (professional standards) applicable.

(2.11) The audit evidence obtained during the audit mission, as a result of applying the professional standards, tests and specific procedures, we consider them sufficient and adequate in order to base the contrary opinion regarding the individual financial statements, as they are presented in section III – Basis of the contrary opinion.

III. BASIS OF THE CONTRARY OPINION

(3.1) Regarding those mentioned in section II – “References regarding the audit mission and legal requirements” applicable, as well as the section VII – “The auditor responsibility” - which connect with our audit results and the audit evidence obtained during the audit mission, we consider that we have collected sufficient and adequate audit evidence in order to base the contrary opinion regarding the individual financial statement made concluded at 31.12.2019 by Armatura S.A..

(3.2) The loss registered by the company at 31.12.2019 in sum of 3.453.336 lei and the cumulative reported losses reflected in 117 account in sum of 44.288.947 lei at 31.12.2019, as well as the significant reduction of the company activity.

(3.3) Regarding the decision no.3/25.04.2019 through which the shareholders, representing 49.76% from the social capital, approved the total or partial sale of the company's assets from which will be paid the company's debts, as well as the Decision of the Board of directors no.89/23.01.2020 through which was approved the disposal of the fixed assets and inventory objects from Armatura's sections.

(3.4) Through the Decision of the Board of Directors no.957/10.12.2019 was approved the reduction of the company's number of employees as a result of cutting 9 positions from the chart, fact that questions the good development of the company activity under the continuity conditions.

(3.5) The degree of indebtedness has decreased in 2019 compared to the previous financial year, but the 5.000.000 euro contract from the shareholder Herz Armaturen Ges b.h. term was not prolonged during 2019, its deadline being exceeded since 2016.

- (3.6) Failure to comply, most probably, the principle of activity continuity for the following 12 months starting 01.01.2020 as was stipulated by the lead in the annotations at page 10 – pct. 2.1.1, may affect the company's assets which cannot be made under normal operating conditions. This situation affects the global result of the company.
- (3.7) Considering all the aspects mentioned above, are sufficient conditions, information and aspects to sustain that the principle of continuity of activity is not going to be respected by the company.

IV. OTHER ASPECTS

- (4.1) Beside the contrary opinion presented above, we draw attention to the beneficiaries of information from this present report, that the company must prepare the documentation of transfer prices regarding the most significant transactions made with the affiliated parties, because important transactions (as number and value) were registered. Therefore, is a risk that the ANAF authorities may adjust all these transactions at the market price level, thing that may generate additional taxes to be paid, in case there will not be presented this kind of files for the last 5 years of prescription.

V. KEY ASPECTS IN AUDIT

| Key aspects of audit | The auditor perspective regarding the key aspects |
|---|--|
| 1. Company's debts and ways of solve them. | Documentation and discussion with the lead of the company regarding the debts' situation and the values of the guarantees, as well as their stage. The risk regarding the sale of the company's assets, for which exists a Shareholders Decision from 25.04.2019 (no.3/25.04.2019) |
| 2. The loan from an affiliate company worth 5.000.000 euro overdue from 2016. | Confirmation from the affiliate company and the possibility to extend the contract. Discussions with the board regarding the guarantees granted for the loan received (fixed assets). |
| 3. The risk related to the going concern assumption. | Considering the decrease of the net turnover and the losses registered, as well as the decision of the boarding no.957/10.12.2019, through which was approved the abolition of 9 work positions, the labour contracts due to cease in January 2020, leads us to a high risk related to the impossibility to carry on the company's activities. |

VI MANAGEMENT'S RESPONSIBILITY

(6.1) The management of the *Company* and the person responsible with the governance of the *Company* are fully responsible for:

- The correct (faithful) elaboration and presentation of transactions and operations performed, in the individual financial statements, according to the general financial reporting framework applicable, including with regard to the oversight of the financial reporting process;
- The conception, implementation and maintaining of a relevant internal control (efficient) for the elaboration of financial statements, so that these should not contain significant distortions due to fraud or error.

(6.2) On the drawing up of the *individual financial statements*, the management is responsible for the evaluation of the capacity of the *Company* to continue the activity and to apply the continuity assumption as a basis for the financial-accounting reporting.

(6.3) In case the management of the *Company* identifies high risks and major uncertainties about business continuity, it has also the obligation and responsibility to approve a set of accounting policies that address these risks and uncertainties, and to prepare individual financial statements by assuming non-compliance with the business continuity principle.

VII RESPONSIBILITY OF THE AUDITOR

(7.1) During an audit mission according to ISA, the financial auditor uses the professional judgment and he is committed to maintain professional skepticism, meaning

- Must identify and evaluate the risks of significant distortion of the financial statements caused either by fraud or by error and to design and apply audit procedures as answer to those risks, meaning to obtain accounting evidences sufficient and adequate in order to base his audit opinion;
- Must understand the internal control relevant for the audit, in order to chose the most adequate work procedures given the circumstances, but has no obligation and it is not the purpose of his mission to express an opinion on the efficiency of the internal control of the audited entity;
- Evaluated the adequacy level of the accounting policies used and the reasonable character of the accounting estimations and of the financial-accounting information presentation within the financial statements elaborated and presented by the management of the entity;
- Communicates to the persons responsible with governance, through other aspects, the timely planning and programming of audit, as well as the main observations, including any deficiencies of the internal control identified during the mission;
- Must present a conclusion regarding the degree of adequacy of the usage by the management of the accounting based on the continuity of activity and to determine, based on the accounting evidence obtained, if there is a significant uncertainty regarding events and conditions which could generate significant doubts regarding the capacity of the audited entity to continue its activity;
- In case the financial auditor concludes that there is a significant uncertainty regarding the continuity of activity must draw the attention in his report on the afferent presentations within the financial statements or in case those presentations are inappropriate, to change the opinion;
- The conclusion regarding the observance of the principle of activity continuity are based on the accounting evidences obtained until the date of the report but however

future events or conditions can make the audited entity to stop develop its activity based on the continuity assumption.

- (7.2) We (*Auditor*) are independent of the *Company* in accordance with the professional ethical requirements relevant to auditing the financial statements of an entity in Romania, also fulfilling the other requirements / responsibilities with respect to ethical conduct, including the non-performance of professional services other than audit services.
- (7.3) Our responsibility as independent financial auditor was to observe those mentioned on points (7.1) and (7.2) above and to express an opinion on the *individual financial statements* elaborated by the *Company*, based on the audit performed.

Report on other legal and regulatory requirements

VIII REPORT OF THE ADMINISTRATORS

- (8.1) „The Report of the Administrators” presented in the annex A is not a part of the *individual financial statements* even if it was submitted / presented together with these and our opinion on these statements doesn’t cover this report.
- (8.2) Our responsibility, of the *Auditor*, is to study the „Administrators’ Report” to appreciate if there are any significant inconsistencies between this and the *individual financial statements*, if it includes the information required by the applicable legal regulations and if, based on our knowledge and understanding gained during the audit engagement with the *Company* and the specific nature of its activity, the information included in the “Administrators’ Report” is significantly erroneous (affected). We did not find errors or other erroneous information.
- (8.3) Regarding data and financial accounting information contained in the „Administrators’ Report” on the activity of the *Company* for 2019, we (*Auditor*) we did not identify any issues that would cause us to question their compliance with those in the audited *individual financial statements*.
- (8.4) Based on our knowledge and information acquired during the audit mission regarding the *Company* and its current activities, including the economic environment in which the company is running, we haven’t identified other significantly distorted information (erroneous) that could have been included in the “Administrators’ Report”.

On behalf of ACCOUNTING AUDIT S.R.L.

Registered to the Chamber of Financial Auditor of Romania with no. 740/2007

VĂSAR DORINA

Key Partner responsible for the mission

Registered to the Chamber of Financial Auditor of Romania with no. 2134/2007

Cluj-Napoca
March, 18 2020

