

Translation for information purposes only

VRANCART S.A.

Consolidated financial statements
as at December 31st, 2017

Drawn up in accordance with
the Order of the Minister of Public Finances no. 2844/2016
for the approval of the Accounting regulations compliant with
the International Financial Reporting Standards, applicable to trade companies
whose securities are admitted to trading on a regulated market

Vrancart S.A.

Notes to the consolidated financial statements

for the financial year ended on December 31st, 2017

(all the amounts are expressed in lei, unless otherwise stated)

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Vrancart S.A.

Consolidated statement of financial position

for the financial year ended on December 31st, 2017

(all the amounts are expressed in lei, unless otherwise stated)

	Note	December 31 st , 2017	December 31 st , 2016
ASSETS			
Tangible assets	5	263.138.155	184.159.320
Intangible assets	6	9.230.006	1.364.307
Financial assets		-	845
Goodwill	6	8.526.391	3.380.811
Receivables related to deferred profit tax	16	-	427.686
Total fixed assets		280.894.552	189.332.969
Stocks	7	42.945.100	27.979.866
Trade receivables	8	66.016.628	39.692.123
Prepaid expenses		730.972	760.687
Restricted cash	9	4.130	8.899.753
Cash and cash equivalents	9	3.219.141	24.932.865
Receivables related to current profit tax		1.002.646	-
Other receivables	10	416.657	400.809
Total current assets		114.335.274	102.666.103
TOTAL ASSETS		395.229.826	291.999.072
EQUITY			
Share capital	11	103.168.355	103.168.355
Reserves	11	75.445.583	46.411.085
Retained earnings		18.129.505	16.856.244
Total equity		196.743.443	166.435.684
LIABILITIES			
Long-term loans	14	39.202.465	34.619.168
Long-term loans from bond issue	14	37.232.800	-
Deferred revenues	17	20.793.786	20.936.397
Long-term provisions		376.015	291.803
Debts related to deferred profit tax	16	5.987.434	-
Other long-term liabilities	13	1.017.200	-
Total long-term liabilities		104.609.700	55.847.368
Short-term trade liabilities	12	38.793.148	17.838.095
Short-term loans	14	37.554.938	41.762.760
Deferred revenues	17	3.212.452	3.038.904
Short-term provisions	15	72.393	-
Debts related to current profit tax		51.695	515.975
Other liabilities	13	14.192.057	6.560.285
Total current liabilities		93.876.683	69.716.020
TOTAL LIABILITIES		198.486.383	125.563.388
TOTAL EQUITY AND LIABILITIES		395.229.826	291.999.072

The financial statements were approved by the Board of Administrators on March 21st, 2018.

General Manager
Ionel-Marian Ciucioi

Financial Manager
Monica Vasilica Arsene

The notes from page 5 to page 47 are an integrant part of the financial statements.

Vrancart S.A.

Consolidated statement of comprehensive income

as at December 31st, 2017

(all the amounts are expressed in lei, unless otherwise stated)

	Note	2017	2016
Income from turnover	18	324.981.015	232.281.259
Other income	19	3.413.470	3.792.801
Variation of finished products stocks and production in progress		319.306	3.412.447
Expenses related to raw materials and consumables	20	(172.309.913)	(124.538.127)
Expenses related to commodities		(10.352.008)	(3.891.729)
Third party expenses		(25.227.578)	(18.282.006)
Personnel-related expenses	22	(59.866.434)	(41.137.727)
Expenses related to the amortisation and depreciation of tangible assets	5	(23.658.531)	(18.442.224)
Other expenses	21	(7.198.461)	(8.967.110)
Operating result		30.100.866	24.227.583
Financial revenues	23	1.035.689	(72.137)
Financial expenses	23	(3.072.728)	(1.431.746)
Profit before taxation		28.063.827	22.723.699
Profit tax expense	24	(2.624.873)	(2.238.669)
Profit for the year		25.438.954	20.485.031
Other comprehensive income items			
Increases of the reserve from the revaluation of tangible assets, net of deferred tax		18.963.480	-
Transfer of the revaluation reserve to retained earnings following the cassation of tangible assets		(666.280)	(369.798)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		43.736.154	20.115.233
Earnings per share			
Profit attributable to ordinary shareholders	25	25.438.954	20.485.031
Weighted average number of ordinary shares		1.031.683.547	877.715.056
Base earnings per share		0,025	0,023

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General Manager
Ionel-Marian Ciucioi

Financial Manager
Monica Vasilica Arsene

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Vrancart S.A.

Consolidated statement of changes in equity

for the financial year ended on December 31st, 2017

(all the amounts are expressed in lei, unless otherwise stated)

	Capital social	Reserves from the revaluation of tangible assets	Other reserves	Retained earnings	Total equity
Balance as at January 1st, 2016	86.371.792	26.592.353	14.498.624	15.462.139	142.924.908
Total comprehensive income for the period					
Net profit/loss for the year	-	-	-	20.485.031	20.485.031
Other comprehensive income items					
Capital increase	16.796.563	-	-	-	16.796.563
Distribution from retained earnings	-	-	5.630.739	(19.450.226)	(13.819.487)
Other corrections	-	-	-	(10.496)	(10.496)
Changes in the reserve from the revaluation of tangible assets, net of deferred tax	-	59.168	-	-	59.168
Transfer of the revaluation reserve to retained earnings following the sale of tangible assets	-	(369.798)	-	369.798	-
Total other comprehensive income items	16.796.563	(310.631)	5.630.739	(19.090.924)	3.025.747
Total comprehensive income for the period	16.796.563	(310.631)	5.630.739	1.394.107	23.510.778
Balance as at December 31st, 2016	103.168.355	26.281.723	20.129.362	16.856.244	166.435.684
Balance as at January 1st, 2017	103.168.355	26.281.723	20.129.362	16.856.244	166.435.684
Total comprehensive income for the period					
Net profit/loss for the period	-	-	-	25.438.954	25.438.954
Other comprehensive income items					
Distribution from retained earnings	-	-	10.610.467	(24.641.363)	(14.030.896)
Other corrections	-	126.831	-	(190.610)	(63.779)
Changes in the reserve from the revaluation of tangible assets, net of deferred tax	-	18.963.480	-	-	18.963.480
Transfer of the revaluation reserve to retained earnings following the sale of tangible assets	-	(666.280)	-	666.280	-
Total other comprehensive income items	-	18.424.031	10.610.467	(24.165.693)	4.868.805
Total comprehensive income for the period	-	18.424.031	10.610.467	1.273.261	30.307.759
Balance as at December 31st, 2017	103.168.355	44.705.754	30.739.829	18.129.505	196.743.443

The notes from page 5 to page 47 are an integrant part of the financial statements.

Vrancart S.A.

Consolidated statement of cash flows

for the financial year ended on December 31st, 2017

(all the amounts are expressed in lei, unless otherwise stated)

	Note	2017	2016
Cash flows from operating activities			
Collections from customers		368.881.379	273.533.184
Payments to suppliers		(252.220.327)	(176.365.437)
Payments to employees		(44.647.130)	(33.120.018)
Payments to the state budget		(35.356.586)	(28.130.020)
Profit tax paid		(3.380.501)	(3.061.838)
Net cash flow from operating activities		33.276.835	32.855.871
Cash flows from investment activities			
Payments for the purchase of tangible and intangible assets		(54.038.622)	(38.776.718)
Escrow account for the purchase of financial assets		8.899.753	(8.899.753)
Payments made to acquire Rom Paper S.R.L.	6	(23.792.455)	-
Letters of credit for the purchase of tangible assets		-	10.786.408
Collections from the sale of tangible assets		105.302	283.700
Interests collected		1.221	3.701
Net cash flows from investment activities		(68.824.801)	(36.602.662)
Cash flows from financing activities			
Collections from loans		94.690.407	47.198.334
Capital increase		-	16.796.783
Interests paid and loans reimbursed		(67.069.966)	(23.320.240)
Dividends paid		(13.786.199)	(13.533.159)
Net cash flow from financing activities		13.834.242	27.141.718
		(21.713.724)	23.394.927
Net increase/ (reduction) of cash and cash equivalents			
Cash and cash equivalents at the financial year beginning	9	24.932.865	1.537.938
Cash and cash equivalents at the financial year end	9	3.219.141	24.932.865

General Manager
Ionel-Marian Ciucioi

Financial Manager
Monica Vasilica Arsene

The notes from page 5 to page 47 are an integrant part of the financial statements.

Vrancart S.A.

Notes to the consolidated financial statements

for the financial year ended on December 31st, 2017

(all the amounts are expressed in lei, unless otherwise stated)

1. The entity reporting

The Vrancart Group (“the Group”) includes the company Vrancart S.A., having its registered office in Adjud, 17 Ecaterina Teodoroiu Street, Vrancea county and its branches

1. Giant Prodimpex S.R.L., based in Ungheni locality, str. Principală No. 161/J, Mureș county
2. Rom Paper S.R.L., based in Cristian locality, DN73B, Brasov county.

The consolidated financial statements of the Group for the financial year ended on December 31st, 2017 are formed of the financial statements of Vrancart S.A. and of its branches, that form together the Group.

Branch	Field of activity	Shareholding as at	Shareholding as at
		December 31 st , 2017	December 31 st , 2016
Giant Prodimpex S.R.L.	Production of corrugated cardboard packaging	100%	100%
Rom Paper S.R.L.	Production of napkins and tissue paper products	85%	-

The Group operates in the paper and corrugated cardboard industry.

VRANCART S.A.

Vrancart S.A. (“the Company”) is a joint-stock trade company operating in Romania under the provisions of Law no. 31/1990 on trade companies.

The company is based in Adjud, 17 Ecaterina Teodoroiu Street, Vrancea County.

The company has working points for waste paper collection opened in the following localities: București, Iași, Focșani, Bacău, Ploiești, Botoșani, Sibiu, Constanța, Arad, Brașov, Pitești, Timișoara, Cluj, Baia Mare, Târgu Mureș, Craiova, Calimanesti and Braila.

The company’s main object of activity is represented by the manufacture and trading of the following products:

- single-wall, double-wall and double-double wall corrugated cardboard, corrugated cardboard with micro-flutes;
- corrugated cardboard boxes of various formats, die-cut and printed;
- paperboards;
- tissue papers in various assortments.

The company’s average number of employees as at December 31st, 2017 was 1072 (December 31st, 2016: 939 employees).

The company’s shares are listed to the Bucharest Stock Exchange, standard category, with the indicative VNC, starting from July 15th, 2005. The Group posts its consolidated financial statements on its website www.vrancart.ro.

As at December 31st, 2017, the company is owned 75% by SIF Banat – Crisana S.A. and 25% by other shareholders.

Vrancart S.A.

Notes to the consolidated financial statements

for the financial year ended on December 31st, 2017

(all the amounts are expressed in lei, unless otherwise stated)

1. The entity reporting (continued)

GIANT PRODIMPEX S.R.L.

On July 17th, 2015 we completed the process related to the acquisition of Giant Prodimpex S.R.L., that was approved by the Ordinary General Meeting of the Shareholders on April 29th/ 30th, 2015, through the Decision no. 7. Following the acquisition, Vrancart holds 100% of the shares of Giant Prodimpex S.R.L..

Giant Prodimpex S.R.L. (“the 1st Branch”) was established in 1994 and it is a Romanian privately-owned company. The continuous investments in technology, production areas and not least, for personnel, shortly turned Giant into one of the most important corrugated cardboard processors in Romania.

Identification data of the company acquired

Name – Giant Prodimpex S.R.L.

Registered Office – Ungheni locality, Ungheni City, No. 161/J, Mureş County

Registered with the Trade Registry under no.: J26/1305/1994

Tax Identification Number – 6564319

Object of activity – manufacturing of corrugated cardboard packaging

The number of employees of the Branch as at December 31st, 2017 was of 41 employees (December 31st, 2016: 39 employees).

ROM PAPER S.R.L.

On January 20th, 2017, the company completed the process related to the purchase of the majority stake of Rom Paper S.R.L., a purchase that was approved by the Ordinary General Meeting of the Shareholders.

Rom Paper S.R.L. (“the 2nd Branch”) was established in 2002 and it is a Romanian privately-owned company, which produces napkins, folded paper towels, tissue paper, professional rolls, facial tissues and boxed tissues. Its products are traded in 7 countries, both on the territory of Romania, and abroad, by means of store chains (hypermarkets, supermarkets, cash and carry) and also by means of distributors.

The purchase contract provided for the first stage the sale of 70% of the shares of Rom Paper S.R.L.

The Group has the option to buy the remaining shares as follows: 15% of the shares in April 2017 (call 1 option) and 15% of the shares in April 2018 (call 2 option).

If the company does not exert its option to buy the remaining shares, the sellers of Rom Paper S.R.L. have the option to sell these to the Company as follows: 15% of the shares in 2017 (put 1 option) and 15% of the shares in 2018 (put 2 option).

During the period when the option rights can be exerted by both parties, the distribution of dividends by Rom Paper S.R.L. is forbidden. The price at which the seller’s options, respectively the buyer’s options, will be exerted is based on an EBITDA multiplier corresponding to the latest financial year ended previously to the periods during which the options may be exerted.

As at December 31st, 2017, the Group holds 85% of the shares of Rom Paper S.R.L., following exertion of the call 1 option for the purchase of 15% of the shares of Rom Paper S.R.L. in 2017. As at the same date, the value of call 2 option is presented in other current receivables (see Note 10) and the value of put 2 option is presented in other current liabilities (see Note 13).

Vrancart S.A.

Notes to the consolidated financial statements

for the financial year ended on December 31st, 2017

(all the amounts are expressed in lei, unless otherwise stated)

1. The entity reporting (continued)

Identification data of the company acquired

Name – Rom Paper S.R.L.

Registered office – Cristian locality, DN73B, Brasov county

Registered with the Trade Registry under no.: J28/548/2002

Tax Identification Number – 14619270

Field of activity – production of corrugated cardboard packaging

The number of employees of the 2nd Branch as at December 31st, 2017 was 134.

2. Basis for preparation

(a) Statement of conformity

The consolidated financial statements are drawn up by the Group in accordance with the requirements of the Finance Minister Order no. 2844 from 2016, for the approval of the Accounting regulations compliant with the International Financial Reporting Standards (OMFP 2844/2016). The International Financial Reporting Standards (IFRS) are the standards adopted according to the procedure provided by the (EC) Regulation no. 1606/2012 of the European Parliament and of the Council of July 19th, 2002 on the application of the International Accounting Standards.

(b) Submission of financial statements

The financial statements are presented in accordance with the provisions of IAS 1 “Submission of financial statements”. The Group adopted a presentation based on liquidity within the statement of financial position and a presentation of revenues and expenses according to their nature within the statement of comprehensive income, considering that these presentation methods provide information that is credible and more relevant than the information that would have been presented based on other methods allowed by IAS 1.

(c) The functional and presentation currency

The Group’s management considers that the functional currency, as defined by IAS 21 “The effects of currency exchange rate variation” is the Romanian leu (lei). The consolidated financial statements are presented in lei, rounded to the closest amount in lei.

(d) Basis for evaluation

The consolidated financial statements were prepared based on the historical cost, except for tangible assets from the category of land, constructions and technological equipments that are assessed using the re-assessment model.

The accounting policies defined below were applied consistently for all the periods presented in these financial statements. These financial statements were prepared based on the business continuity principle.

In 2017, the Group recorded a net profit of 25.438.954 lei (2016: 20.485.031 lei). As at December 31st, 2017, the working capital is positive, of 20.458.591 lei (December 31st, 2016: 32.950.083 lei).

Notes to the consolidated financial statements

for the financial year ended on December 31st, 2017

(all the amounts are expressed in lei, unless otherwise stated)

2. Basis for preparation (continued)

The Group gives particular importance to profitability indicators, by optimizing the operational and liquidity processes, through the effective use of resources.

Based on these analyses, the management considers that the Group will be able to continue its business in the foreseeable future, but not limited to the following 12 months and therefore, the application of the business continuity principle in the preparation of the financial statements is justified.

(e) The use of estimates and judgements

The preparation of the consolidated financial statements in accordance with OMFP 2844 requires the use by the management of some estimates, judgements and assumptions that affect the application of the accounting policies, as well as the reported value of assets, liabilities, revenues and expenses. The judgements and assumptions associated to these estimates are based on the historical experience, as well as on other factors deemed reasonable in the context of these estimates.

The results of these estimates form the basis of the judgements relating to the accounting values of the assets and liabilities that cannot be obtained from other sources of information. The results obtained may be different from the values of the estimates.

The judgements and assumptions underlying these are regularly revised by the Group. The revisions of the accounting estimates are recognised during the period when the estimates are revised, if the revisions affect only that period, or during the period when the estimates are revised and the next periods if the revisions affect both the current period and the next periods.

The information on estimates, judgments and assumptions with increased risk of resulting in a material adjustment to the amount of assets and liabilities as at December 31st, 2017 is included in the following notes:

- Note 3 (a) (v), describing the accounting policy chosen by the Group to recognise the acquiring of Rom Paper S.R.L.
- Note 6, presenting:
 - the recognition of the fair values of the net assets purchased from Rom Paper S.R.L.
 - the recognition of the goodwill following the acquiring of Rom Paper
 - the allotment of some lifetimes for the intangibles purchased
- Note 13, describing the estimate of the put 2 option in relation to the acquiring of Rom Paper S.R.L.

Notes to the consolidated financial statements

for the financial year ended on December 31st, 2017

(all the amounts are expressed in lei, unless otherwise stated)

3. Significant accounting policies

(a) Basis for consolidation

(i) Combinations of entities

Combinations of entities are accounted for through the acquisition method on the date when the Group obtains control over the purchased entity. The control requires exposure or rights onto the variable results of the entity invested in, as well as the capacity to influence those results by exercising authority on that entity.

The Group evaluates goodwill as at the purchase date as follows:

- the fair value of the counterperformance transferred, including
- the value of non-controlling interests in the entity purchased, including
- if that combination is performed in stages, the fair value as at the acquisition date of the participation in the equity held by the purchased entity, less
- the net value recognised (in general, the fair value) of the identifiable assets acquired and of the liabilities assumed

The profit from a purchase under advantageous conditions is immediately recognised in the profit and loss account when the fair value of the transferred counterperformance is higher than the recognised net value of the identifiable assets acquired. The transferred counterperformance does not include the amounts related to the cessation of some pre-existing relations between the Group and the purchased entity. These amounts are generally recognised in the profit and loss account. The trading costs, other than those related to the issuance of bonds or shares, related to combinations of entities are recognised in the profit and loss account when incurred.

Any contingent counterperformance owed is evaluated at fair value as at the purchase date. If the contingent counterperformance is classified as equity, then it is not re-evaluated, and the discounting is accounted for in equity. Alternatively, the subsequent changes of fair value of the contingent counterperformance are recognised in the profit or loss account.

(ii) Branches

Branches are entities controlled by the Group. The financial statements of the branches are included in the consolidated financial statements from the date when control starts to be exercised until the date when it ceases.

(iii) Loss of control

Upon the loss of control, the Group derecognizes the assets and liabilities of the branch, any non-controlling interests and other equity items attributable to the branch. Any surplus or deficit arising out of the loss of control is recognised on the profit and loss account. If the Group maintains any interest in the former branch, then this interest is evaluated at fair value as at the date when control is lost. Subsequently, this interest is accounted for through the equity method or as a financial asset, according to the degree of influence maintained.

(iv) Transactions removed from consolidation

The balances and the transactions within the Group, as well as any unachieved revenues or expenses resulting from transactions within the Group are entirely removed from the consolidated financial

Notes to the consolidated financial statements*for the financial year ended on December 31st, 2017**(all the amounts are expressed in lei, unless otherwise stated)*

statements. The unachieved losses are removed in the same way as the unachieved revenues, but only to the extent that there are no indications of impairment of the transferred value.

3. Significant accounting policies (continued)*(v) Non-controlling interests*

The Group has chosen as an accounting policy to apply the anticipated acquisition method in relation to the acquisition of Rom Paper S.R.L., where non-controlling interests have access to the benefits associated with their ownership.

Under the anticipated acquisition method, non-controlling interests of shareholders holding put options are cancelled and a liability with regard to put options is recognized. Therefore, non-controlling interests are presented as if they were already controlled by the Group, both in the consolidated statement of financial position and in the consolidated statement of comprehensive income, even though legally they remain non-controlling interests.

(b) Transactions in foreign currencies

The operations expressed in foreign currencies are recorded in lei at the official exchange rate on the date of discounting of the transactions. Monetary assets and liabilities recorded in foreign currencies on the date of preparation of the balance sheet are converted into the functional currency at the currency exchange rate of that day.

The gains or losses from their discounting and from the conversion using the currency exchange rate at the end of the financial year of the monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

The currency exchange rates of the main foreign currencies were:

Currency		December 31st, 2017	December 31st, 2016	Variation
Euro (EUR)		4.6597	4.5411	+2,61%
American dollars (USD)		3.8915	4.3033	-9,57%

(c) Accounting of the effect of hyperinflation

In accordance with IAS 29 “Financial reporting in hyperinflationary economies”, the financial statements of an entity whose functional currency is the currency of a hyperinflationary economy shall be presented in the current measurement unit on the balance closing date (non-monetary elements are restated using a general price index on the date of purchase or contribution).

According to IAS 29, an economy is considered as hyperinflationary if, besides other factors, the cumulated rate of inflation for a period of three years exceeds 100%.

The Romanian economy ceased being hyperinflationary, with an effect onto the periods of the financial statements starting from January 1st, 2004.

Thus, the values expressed in the current measurement unit as at December 31st, 2003 are treated as the basis for the accounting values reported in the individual financial statements and do not represent evaluated values, replacement costs or any other measurement of the current value of the assets or prices at which the transactions would take place now.

Vrancart S.A.

Notes to the consolidated financial statements

for the financial year ended on December 31st, 2017

(all the amounts are expressed in lei, unless otherwise stated)

For the purpose of drafting its individual financial statements, the Company adjusted its share capital to be expressed in the current measurement unit as at December 31st, 2003.

3. Significant accounting policies (continued)

(d) Financial instruments

Non-derivative financial instruments

The group recognises initially the financial assets (loans, receivables and deposits) on the date when they were initiated. All the other financial assets are initially recognised on the date of trading, when the Group becomes part of the contractual conditions of the instrument.

The classification depends on the nature and purpose of the financial instruments and is determined at the time of the initial recognition. All the standard purchases or sales of financial assets are recognised and de-recognised on the trading date. Standard purchases or sales are purchases or sales of financial assets that require the delivery of the assets within a time interval established through a market regulation or convention.

The Group derecognises a financial asset only when the contractual rights on the cash flows generated by the assets expire or it transfers the financial asset and substantially all the rights and benefits of ownership of the asset to another entity. If the Group neither transfers, nor retains substantially all the risks and benefits related to the ownership and continues to control the transferred asset, the Group recognises its interest retained in the asset and the related liability for the amounts that it would have to pay. If the Group does not retain substantially all the risks and benefits related to the ownership of a transferred financial asset, then the Group will continue recognising the financial asset and also, will recognise the collateralised indebtedness for the collections received.

Upon the entire derecognising of a financial asset, the difference between the book value of the asset and the amount of the equivalent value received and to be received and the cumulated gains or losses that have been recognised in other comprehensive income items and cumulated in equity are recognised at profit or loss.

On the derecognising of a financial asset other than entirely (e.g. when the Group does not retain an option for the redemption of a part of a transferred asset or retains a residual interest that does not result in the retaining substantially of all the risks and benefits related to the ownership and the Group does not keep the control), the Group will allot the previous book value of the financial asset between the part that it continues to recognise under continuous implication and the part that it no longer recognises based on the fair values corresponding to those parts as at the transfer date.

The difference between the book value allotted to the part that is no longer recognised and the amount of the equivalent value received for the part that is no longer recognised and any cumulated gains or losses allotted that were recognised in other comprehensive income items are recognised at profit or loss. A cumulated gain or loss that was recognised in other comprehensive income items is allotted between the part that continues to be recognised and the part that is no longer recognised, based on the fair value corresponding to those parts.

A financial asset is classified at fair value through the profit and loss account if it is classified as held for trading or if it is assigned as such at the original recognition. Financial assets are assigned as evaluated at fair value through the profit and loss account if the Group manages these investments and makes purchase or sales decisions based on fair value in accordance with the investment and risk management strategy described in the Group's documentation. The attributable trading costs are recognised in the profit and loss

Vrancart S.A.

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(all the amounts are expressed in lei, unless otherwise stated)

account when incurred. The financial instruments at fair value in the profit and loss account are evaluated at fair value and the subsequent changes that consider any income from dividends is recognised in the profit and loss account.

3. Significant accounting policies (continued)

If the Group has the intention and the capacity to keep the debt instruments until the maturity date, then these financial assets can be classified as investments held until the maturity date. The financial assets held until the maturity date are initially recognised at fair value plus the directly attributable trading costs. Subsequently to the recognition, the financial assets held until the maturity are evaluated at amortised cost using the actual interest method, less the value of impairment losses.

The financial assets held until the maturity date include debt instruments.

Derivative financial instruments

Derivative financial instruments included in contracts are separated from the contracts and separately accounted for if the contract in question is not a financial asset and certain criteria are met.

Derivative financial instruments are initially recorded at fair value. Subsequently to their initial recognition, these are measured at fair value and the changes in this value are recognised in the profit and loss account.

Receivables

Receivables are financial assets with fixed or determinable payments that are not traded on an active market. Such assets are initially recognised at fair value plus any directly attributable trading costs. Subsequently to the initial recognition, the receivables are evaluated at amortised cost using the effective interest rate method less the value of impairment losses.

Receivables include trade receivables and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, current accounts and reimbursable deposits with maturities of up to three months from the date of purchase, and are subject to an insignificant risk of change in their fair value and are used by the Group to manage short-term commitments.

Financial assets available for sale

Financial assets available for sale are the non-derivative financial assets that are designated as available for sale. The financial assets available for sale are initially recognised at fair value plus any directly attributable trading costs.

Subsequently to the initial recognition, these are evaluated at cost less any depreciation losses.

Share capital – ordinary shares

Ordinary shares are classified as part of equity. The additional costs directly attributable to the issue of ordinary shares and share options are recognized as a reduction of equity at value net of tax effects.

Financial liabilities

Financial liabilities include financial leasing liabilities, interest-bearing bank loans, loans from bond issues, overdrafts and trade liabilities and other liabilities. For each item, the accounting policies related to recognition and measurement are presented in this note.

Notes to the consolidated financial statements

for the financial year ended on December 31st, 2017

(all the amounts are expressed in lei, unless otherwise stated)

3. Significant accounting policies (continued)

Loans are initially recognised at fair value less the costs incurred in relation to the operation in question. Subsequently, these are recorded at amortised cost. Any difference between the input value and the reimbursement value is recognised in the profit and loss account during the loans period, using the actual interest method.

Financial instruments are categorised as liabilities or equity according to the substance of the contractual arrangement. Interests, dividends, gains or losses related to a financial instrument categorised as liability are reported as expense or income. The distributions to the holders of financial instruments categorised as equity are recorded directly at equity. Financial instruments are offset when the Company has an applicable legal right to offset and intends to discount either on a net basis, or to achieve the asset and to extinguish the liability simultaneously.

(e) Tangible assets

(i) Recognition and evaluation

Tangible assets recognised as assets are initially evaluated at cost by the Group. The cost of a tangible assets element is formed of the purchase price, including non-recoverable taxes, after the deduction of any price reductions of commercial nature and any costs that can be directly attributable to bringing the asset to the location and under the conditions necessary for it to be used for the purpose intended by the management, such as: employee-related expenses resulting directly from the construction or purchase of the asset, the costs of site preparation, the initial delivery and handling costs, the costs related to erection and assembly, professional fees.

The cost of a tangible assets item built by the Group includes:

- the cost of materials and direct personnel-related expenses;
- other costs directly attributable to bringing the assets to the state necessary for the intended use;
- when the Group has the obligation to move the asset and to restore the corresponding space, an estimate of the costs for the disassembly and movement of items and for the restoration of the area where they have been capitalized

When certain components of a tangible asset have different useful lifetime durations, they are accounted as different elements (major components) of tangible assets.

Tangible assets are classified by the Group in the following classes of assets of the same nature and with similar uses:

- land;
- constructions;
- equipment, technical installations and machines;
- means of transport;
- other tangible assets.

The land, constructions and equipments are highlighted at re-evaluated value and this represents the fair value on the date of re-evaluation less any amortisation accumulated previously and any accumulated impairment losses.

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Notes to the consolidated financial statements

for the financial year ended on December 31st, 2017

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Fair value is based on market prices quotations, adjusted, if necessary, so as to reflect the differences related to the nature, location or condition of that asset, except for the equipment for which fair value was determined based on the replacement cost.

3. Significant accounting policies (continued)

The re-valuations are performed by specialised assessors, members of the National Association of Authorized Assessors of Romania (ANEVAR).

The re-evaluations of tangible assets are made with sufficient regularity, so that the book value does not differ substantially from the one that would be determined using the fair value as at the balance sheet date.

The expenses related to the maintenance and repairs of tangible assets are recorded by the Group in the statement of comprehensive income upon their occurrence, and the significant improvements brought to tangible assets, that increase their value or lifetime duration or that increase to a significant extent their capacity to generate economic benefits are capitalised.

(ii) Subsequent expenses

Subsequent expenses are capitalised only when they increase the value of the future economic benefits incorporated into the asset they are intended for. The expenses related to repairs and maintenance are recognised in the profit and loss account as they are incurred.

(iii) Amortisation

Tangible assets items are amortised from the date when they are available for use or are in operating condition and for the assets built by the entity, from the date when the asset is completed and ready for use.

Amortisation is calculated using the linear method throughout the estimated useful lifetime of the assets, as follows:

– Buildings	30-60 years
– Equipment	2-16 years
– Means of transport	4-8 years
– Furniture and other tangible assets	4-10 years

Land is not subject to amortisation.

Amortisation is usually recognised in the profit and loss account, except for the case when the amount is included in the book value of another asset.

The amortisation methods, the estimated useful lifetimes and the residual values are revised by the Group's management on every reporting date and are adjusted, if necessary.

(iv) The sale/ cassation of tangible assets

The tangible assets that are quashed or sold are removed from the balance sheet together with the corresponding cumulated amortisation. Any profit or loss resulting from such operation are included in the current profit or loss.

Notes to the consolidated financial statements

for the financial year ended on December 31st, 2017

(all the amounts are expressed in lei, unless otherwise stated)

3. Significant accounting policies (continued)

(f) Intangible assets and goodwill

(i) Recognition and evaluation

The intangible assets purchased by the Group that have determined useful lifetimes are evaluated at cost less the cumulated amortisation and the cumulated impairment losses. Goodwill is not depreciated, and this is regularly tested, at least on an annual basis, for impairment indicators, and recognised at initial value, less the cumulated impairment losses. Impairment losses recognised in relation to goodwill cannot be subsequently reversed.

(ii) Research and development

The expenses related to the research activities, performed for the purpose of gaining knowledge or for new scientific or technical interpretations are recognised in the profit and loss account when incurred.

The development activities involve a plan or project aimed at new or substantially improved products or processes. The development costs are capitalized only if they can be reliably measured, the product or process is technically and commercially feasible, the future economic benefits are probable and the Group intends and has sufficient resources to complete the development and to use or sell the asset. The capitalized expenditures include the cost of materials, the direct personnel-related costs and the administrative costs that are directly attributable to preparing the asset for its intended use and the capitalized borrowing costs. Other development costs are recognized in the profit or loss account when they are incurred.

(iii) Brands and commercial relations

Brands and commercial relations are registered in the intangible assets accounts at contribution value or purchase cost, as applicable. These are recognised on the date of purchase of the branches, based on their fair value estimate on the date of purchase of the branch by authorised assessors.

(iv) Subsequent expenses

Subsequent expenses are capitalised only when they increase the value of the future economic benefits incorporated into the asset they are intended for. All the other expenses, including the expenses related to goodwill and the internally generated brands, are recognised at profit or loss when incurred.

(v) Amortisation of intangible assets

Amortisation is calculated for the cost of the asset less the residual value. Amortisation is recognised at profit or loss using the linear method throughout the estimated useful lifetime for intangible assets, other than goodwill, from the date of availability for use.

Amortisation is calculated using the linear method throughout the estimated useful lifetime of the assets, as follows:

– Customer relations	2-10 years
– Brands	7-10 years
– Other intangible assets	2-4 years

The amortisation methods, the useful lifetime durations and the residual values are revised at the end of each financial year and are adjusted if necessary.

Notes to the consolidated financial statements

for the financial year ended on December 31st, 2017

(all the amounts are expressed in lei, unless otherwise stated)

3. Significant accounting policies (continued)

(g) Financial assets

Financial assets include the shares held in affiliated entities, the loans granted to affiliated entities, the shares held in associated entities and jointly-controlled entities, the loans granted to associated entities and jointly-controlled entities, other investments held as assets, other loans.

The initial evaluation – The financial assets recognised as assets are evaluated at purchase cost.

The evaluation as at the balance sheet date – The financial assets are presented in the balance sheet at input value less the cumulated value adjustments for impairment.

(h) Inventories

Inventories are evaluated at the minimum value between cost and the net achievable value.

The net achievable value represents the estimated sale price during the normal performance of the activity less the estimated costs for completion and the costs necessary to perform the sale.

The cost of inventories is based on the first-in-first-out (FIFO) principle and includes the expenses incurred for the purchase of inventories, the production or converting costs and other costs incurred to bring the inventories in the current form and location.

In case of inventories manufactured by the Group and the production in progress, the cost includes the corresponding share of the administrative expenses related to production based on the normal operating capacity.

(i) Impairment of assets

The book values of the Group's assets of non-financial nature, other than the assets of the type of deferred taxes, are revised on each reporting date in order to identify the existence of impairment indicators. If there are such indicators, the recoverable value of those assets is estimated.

An impairment loss is recognised when the book value of the asset or of its unit generating cash exceeds the recoverable value of the asset or of the unit generating cash. A unit generating cash is the smallest identifiable group that generates cash and that has the ability to generate cash flows independently from other assets or groups of assets. Impairment losses are recognised in the statement of comprehensive income.

The recoverable value of an asset or of a unit generating cash represents the maximum amount between the usage value and its fair value, less the costs for the sale of that asset or unit.

To determine the usage value, the future cash flows forecasted are updated using an update rate before taxation, reflecting the current market conditions and the specific risks of that asset.

Impairment losses recognised during the previous periods are evaluated on each reporting date in order to determine whether they have decreased or ceased to exist. Impairment loss is reproduced if a change in the estimated uses to determine the recoverable value has occurred.

Impairment loss is reproduced only if the book value of the asset does not exceed the book value that would have been calculated, net of amortisation and depreciation, if the impairment loss had not been recognised.

The Group has defined impairment adjustment policies for trade receivables and inventories, as follows:

Notes to the consolidated financial statements

for the financial year ended on December 31st, 2017

(all the amounts are expressed in lei, unless otherwise stated)

3. Significant accounting policies (continued)

Impairment adjustments for trade receivables

The Group analyses on an individual basis the need to record an impairment adjustment for the customers whose balances at the year end exceed 100.000 lei and that have either started court proceedings to recover their balances, or that have invoices overdue for more than one year, calculated for the oldest invoice of the balance. Also, the Group calculates a collective impairment adjustment for the risk of non-collection of receivables, using the impairment adjustment percentages established based on historical data.

For the customers whose balances do not meet the individual analysis criteria, a collective impairment adjustment is calculated, based on the division of their balances by length intervals, according to the maturity date for the oldest invoice of the balance. A percentage calculated based on the Group's historical experience on the degree of recoverability of overdue balances from each length interval used for analysis is allotted to each length interval.

Impairment adjustments for inventories

By the nature of its object of activity, the Group does not hold any perishable inventories or inventories posing a short term expiry risk. The risk of impairment of inventories consists mainly of their destruction or deterioration as a result of unforeseen events, but may also result from inventories with a low market demand. The Group performs a regular assessment of inventories in order to identify the existence of any indications of their impairment, taking into consideration the following aspects:

- For inventories older than 180 days, impairment adjustment is established after an individual analysis, for each product, performed by a commission formed of representatives of the marketing-sales and production departments;
- For all finished products, the Group compares the cost of inventories with the sale prices less the distribution costs for the immediately following period, to present the inventories remained in balance at the minimum value between the production cost and the sale price less the distribution costs, according to the provisions of the policy (g).

(j) Dividends to be distributed

Dividends are treated as a distribution of profit during the period when they were declared and approved by the General Meeting of the Shareholders. The dividends declared before the reporting date are registered as liabilities as at the reporting date.

(k) Re-evaluation reserves

Re-evaluations are made with sufficient frequency, so that the book value is not substantially different from the value that would be determined using the fair value as at the balance sheet date. To this respect, the Group has performed the re-evaluation of land, buildings and special constructions and technological equipment using independent assessors as at December 31st, 2017.

The difference between the value resulting from re-evaluation and the net book value of tangible assets is presented in the re-evaluation reserve, as a distinct sub-element of "Equity".

If the result of re-evaluation is an increase from the net book value, then it shall be treated as follows: as an increase of the re-evaluation reserve presented in equity, if there was not a previous reduction recognised as expense related to that asset or as an income that would compensate the expense by the decrease previously recognised for that asset.

Notes to the consolidated financial statements

for the financial year ended on December 31st, 2017

(all the amounts are expressed in lei, unless otherwise stated)

3. Significant accounting policies (continued)

If the result of re-evaluation is a decrease of the net book value, it is treated as an expense for the entire amount of depreciation when an amount relating to that asset (re-evaluation surplus) is not recorded in the re-evaluation reserve or as a reduction of the re-evaluation reserve by the minimum value between the amount of that reserve and the amount of reduction, and the potential difference remained uncovered shall be recorded as an expense.

The re-evaluation surplus included in the re-evaluation reserve is transferred to retained earnings when this surplus represents an income achieved. The income is considered to be achieved upon the decommissioning of the fixed asset as a result of its sale or cassation. No part of the re-evaluation reserve can be distributed, either directly or indirectly, except for the case when the re-evaluated asset has been capitalized, in which case the re-evaluation surplus represents an actually achieved income.

Starting from May 1st, 2009, as a result of the changes occurred in the fiscal legislation, the re-evaluation reserves recorded after January 1st, 2004 become taxable as the fixed asset is amortised. Therefore, the Group recorded a liability related to deferred tax related to this re-evaluation difference that is included in the fixed asset amount.

(l) Legal reserves

The legal reserves of each Group entity are established in a proportion of 5% of the gross profit as at the year end until the total legal reserves reach 20% of the paid-up nominal share capital in accordance with the legal provisions. These reserves are deductible at the calculation of the profit tax and are not distributable except for the case of the entities' liquidation.

(m) Affiliated parties

Branches are entities controlled by the Group. Control is obtained where the parent-company holds the power to govern the financial and operating policies to obtain benefits from its activities. The consolidated financial statements include the financial statements of the parent-company and of the entities controlled by the parent-company (its branches) from the time when control starts being exercised until its cessation.

The parties are considered to be affiliated if one of the parties has the possibility to control either directly or indirectly or to influence to a significant extent the other party by ownership or based on contractual rights, family relationships or other kind of relationships. Affiliated parties also include the persons that are the main shareholders, the management and the members of the Board of Administrators and their family members.

(n) Employee benefits

(i) Short-term benefits

The liabilities related to short term benefits given to employees are not updated and are recognised in the statement of comprehensive income as the related service is provided.

Short term benefits of employees include salaries, premiums and social security contributions.

Notes to the consolidated financial statements

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(all the amounts are expressed in lei, unless otherwise stated)

3. Significant accounting policies (continued)

(ii) Determined contribution plans

The Group makes payments on behalf of its own employees to the pension system in Romania, to the health insurance fund and to the unemployment fund during the progress of normal activity.

All of the Group's employees are members of the pensions system in Romania (a determined contribution plan of the State) and also have the legal obligation to contribute to it (by means of social contributions). All the related contributions are recognised in the profit or loss for the period when incurred. The Group has no additional liabilities.

The Group is not engaged in any independent pensions systems, therefore it has no liabilities in this respect. The Group is not engaged in any other system for post-retirement benefits. The Group does not have the obligation to provide subsequent services to former or current employees.

(iii) Long-term benefits of employees

The Group's net liability in relation to the benefits corresponding to long-term services is represented by the amount of future benefits that the employees have earned in exchange of the services provided by them during the current period and in the previous periods.

The parent-company has the obligation to grant benefits to employees upon retirement, in accordance with the collective employment agreement.

(o) Provisions

A provision is recognised if, after a previous event, the Group has a current legal or implied liability that can be credibly estimated and is likely that an outflow of economic benefits is required to extinguish the liability. Provisions are determined by updating the future forecasted cash flows using a rate before taxation that reflects the current market evaluations in relation to the value of money over time and the risks specific to the liability. The amortisation of the update is recognised as a financial expense.

(p) Income

(i) The sale of goods

The revenues from the sale of goods during the current activities are evaluated at the fair value of the counterperformance collected or to be collected, less the returns, trade discounts and rebates for volume. The revenues are recognised when there is convincing evidence, usually in the form of a sales contract concluded and the risks and advantages arising out of the ownership of the goods are transferred to a significant extent to the buyer, the recovery of counterperformance is likely, the related costs and the possible returns of goods can be credibly estimated, the entity is no longer involved in managing the goods sold and the amount of revenues can be credibly evaluated.

If it is likely that some discounts or rebates are granted and their value can be credibly evaluated, then they are recognised as a reduction of revenues as the sales are recognised.

Notes to the consolidated financial statements

for the financial year ended on December 31st, 2017

(all the amounts are expressed in lei, unless otherwise stated)

3. Significant accounting policies (continued)

(ii) Provision of services

The revenues from the provision of services are stated in the accounting records as they are incurred. The provision of services includes the performance of works and any other operations that cannot be considered as deliveries of goods.

The stage of execution of the work is determined based on work progress reports that accompany the invoices, the reception protocols or other documents certifying the stage of completion of the services provided.

(q) Financial revenues and expenses

Financial revenues include the interest-related revenues corresponding to the funds invested and other financial revenues. Interest-related revenues are recognised at profit or loss based on accrual accounting, using the actual interest method.

Financial expenses include the expense related to the interest for loans and other financial expenses.

The currency exchange gains or losses related to the financial assets and liabilities are reported on a net basis, either as financial revenues or as financial expenses depending on currency exchange fluctuations: net profit or loss.

The borrowing costs that are directly attributable to the purchase, construction or generation of eligible assets, that require a significant period of time to be ready for use or sale, are added to the cost of those assets until the assets are significantly ready for use or sale.

The revenues from the temporary investment of the specific loans obtained for the purchase or construction of eligible assets are deducted from the costs of loans that can be capitalised.

All the other borrowing costs are recognised in the consolidated profit or loss, where they are incurred.

(r) Profit tax

The expenses related to profit tax include the current and deferred tax.

Profit tax is recognised in the statement of comprehensive income or in other items of comprehensive income if the tax is related to equity elements.

(i) Current tax

The current tax is the tax to be paid related to the profit achieved during the current period, determined based on the percentages applied on the reporting date and on all the adjustments related to the previous periods.

For the financial year ended on December 31st, 2017, the profit tax rate was 16% (December 31st, 2016: 16%).

(ii) Deferred tax

Deferred tax is determined by the Group using the balance sheet method for those temporary differences occurring between the tax base for the calculation of tax for assets and liabilities and their book value, used for reporting purposes in the consolidated financial statements.

Deferred profit tax is not recognised for the temporary differences occurring on the initial recognition of goodwill.

Notes to the consolidated financial statements

for the financial year ended on December 31st, 2017

(all the amounts are expressed in lei, unless otherwise stated)

3. Significant accounting policies (continued)

Deferred tax is calculated based on the taxation percentages that are expected to be applicable to the temporary differences at their resumption, under the legislation in force on the reporting date.

Deferred tax receivables and liabilities are offset only if there is the legal right to offset the current liabilities and receivables by the tax and if they are related to the tax collected by that tax authority for the same entity subject to taxation or for different tax authorities that want to discount the current tax-related receivables and liabilities by the tax using a net basis or the assets and liabilities in question are to be achieved simultaneously.

The receivables related to deferred tax are recognised by the Group only to the extent that it is likely to achieve future profits that can be used to cover the fiscal loss.

The receivables related to deferred tax are revised at each financial year end and are reduced to the extent that the related fiscal benefit is unlikely to be achieved. Additional taxes occurring out of the distribution of dividends are recognised on the same date as the obligation to pay the dividends.

(iii) Fiscal exposures

To determine the amount of the current and deferred tax, the Group takes into consideration the impact of the uncertain fiscal positions and the likelihood of occurrence of additional taxes and interests.

This evaluation is based on estimates and hypotheses and may involve a series of judgements on the future events. New information may become available, thus leading the Group to change its reasoning in reference to the accuracy of the estimation of the existing financial liabilities; such changes of the fiscal liabilities have effect onto the tax-related expenses in the period during which such determination is made.

(s) Earnings per share

The Group presents the base earnings per share and the diluted earnings per ordinary shares. The base earnings per share are determined through the distribution of the profit or loss attributable to the Group's ordinary shareholders to the weighted average number of ordinary shares for the reporting period. The diluted earnings per share are determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares with the dilution effects generated by the potential ordinary shares.

(t) Government subsidies

Government subsidies for investments are initially recognised as deferred revenues, at fair value when there is the certainty that they will be received and the Group will meet the related conditions. The subsidies that compensate the Group's expenses related to the cost of an asset are recognised in the statement of comprehensive income in "Other income" systematically throughout the useful lifetime of the asset, as the subsidised asset is amortised. The subsidies that compensate the expenses incurred by the Group are recognised in the statement of comprehensive income, in "Other income" systematically during the same periods when the expenses are recognised.

Notes to the consolidated financial statements

for the financial year ended on December 31st, 2017

(all the amounts are expressed in lei, unless otherwise stated)

3. Significant accounting policies (continued)

(u) Contingent assets and liabilities

Contingent liabilities are not recognised in the financial statements. They are presented, except for the case when the likelihood of a resource outflow that represents economic benefits is removed. A contingent asset is not recognised in the financial statements, but is presented when an inflow of economic benefits is likely.

(v) Subsequent events

The financial statements reflect the events subsequent to the year end, that provide additional information on the Group's position on the reporting date or those indicating a potential breach of the business continuity principle (events leading to adjustments). The events subsequent to the year end that do not represent events leading to adjustments are presented in notes when considered significant.

(w) Comparative statements

The financial statements drawn up as at December 31st, 2017 are comparable to the financial statements for the previous financial year. In the event that the figures related to the previous period are not comparable to those related to the current period, this aspect is presented and argued in the explanatory notes, without changing the comparative figures related to the previous year.

(x) New standards and interpretations, that are not in force yet

The European Union adopted a series of standards the application of which is not mandatory yet, for the year ended on December 31st, 2017, that were not applied in the drafting of these individual financial statements:

IFRS 9 Financial Instruments

This standard replaces the provisions of IAS 39, *Financial instruments: Recognition and evaluation* without the exception of IAS 39 related to hedging against the risks of exposure to interest rate of the fair value of a portfolio of financial assets or financial liabilities in order to protect the fair value of a rate exposure, and the entities also have the possibility to choose as the accounting policy the application of the requirements of hedging accounting in IFRS 9 or to continue applying the requirements of hedging accounting existing in IAS 39 for all risk hedging accounting, until the effectiveness of the standard resulting from the IASB project in the field of hedging macroeconomic accounting.

Although the bases for evaluation admitted for financial assets – amortised cost, fair value, through other comprehensive income items (FVOCI) and fair value through the profit and loss account (FVTPL) – are similar to IAS 39, the criteria for categorisation under the adequate evaluation category are different to a significant extent.

A financial asset is evaluated at amortised cost if the following two conditions are met:

- the assets are held in a business model whose objective is to hold assets for the purpose of collecting contractual cash flows; and,
- its contractual terms give rise to the stated times to cash flows representing exclusively the payment of principal and of the interests related to the unpaid principal.

Notes to the consolidated financial statements

for the financial year ended on December 31st, 2017

(all the amounts are expressed in lei, unless otherwise stated)

3. Significant accounting policies (continued)

Otherwise, for example in case of equity instruments of other entities, a financial asset will be evaluated at fair value.

Gains and losses from the revaluation of financial assets at fair value are recognised in the profit and loss account, except for the assets held within a business model whose objective is reached both through the collection of the contractual cash flows and through the sale of financial assets – these revaluation gains or losses are recognised in other comprehensive income items.

Moreover, for a non-traded equity instrument, a company may choose to present irrevocably the subsequent changes in fair value (including the gains and losses caused by currency exchange) in other comprehensive income items. These are not reclassified in the profit and loss account in any case.

In case of debt instruments evaluated at FVOCI, interest income, expected impairment losses and currency exchange gains or losses are recognised in the profit or loss account the same way as in case of assets measured at amortised cost. Other gains and losses are recognised in other comprehensive income items and are reclassified in the profit and loss account at the time of derecognition.

The impairment model in IFRS 9 replaces the “incurred losses” model of IAS 39 by a model of “expected credit losses” (ECL), which means that it will no longer be necessary for a loss event to occur before the recognition of an impairment adjustment.

The new impairment model will apply to the financial assets measured at amortised cost or FVOCI, except for investments in equity instruments and contractual assets.

In accordance with IFRS 9, provisions for losses will be measured according to one of the following bases:

- 12 months ECL: these ECL result from the possible non-payment events within 12 months from the reporting date;
- lifetime ECL: these ECL result from all the possible non-payment events throughout the expected lifetime of a financial instrument.

IFRS 9 includes a general new model of hedging accounting, that brings closer hedging accounting to risk management. The types of hedging relations – fair value, cash flows and net investments in foreign activities – remain unchanged, but an additional professional reasoning will be required.

The Standard comprises new requirements to achieve, continue and discontinue the hedge accounting and allows for additional exposures to be designated as covered items. Also, additional information is required on the entity's risk management and hedging activities.

The Company does not consider that the new requirements, if applied on 31 December 2017, would have had a significant impact onto the financial statements.

IFRS 15 Income from contracts with customers

The new standard provides a framework that replaces existing income recognition provisions in IFRS. Entities will adopt a five-step model to determine when to recognize revenue, and to what value. The new model specifies that revenue should be recognized when (or as) an entity transfers control over goods or services to a customer at the amount the entity expects to be entitled to. If certain criteria are met, revenue is recognized:

- over time, in a manner that describes the performance of the entity; or
- at a given time, when control over the goods or services is transferred to the client.

Notes to the consolidated financial statements

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(all the amounts are expressed in lei, unless otherwise stated)

3. Significant accounting policies (continued)

IFRS 15 also sets out the principles that an entity will apply in order to provide qualitative and quantitative information useful to users of the financial statements regarding the nature, amount, planning and uncertainty of cash flows and income associated with a contract with a client.

The Company intends to adopt IFRS 15 in the financial statements for the year ended on December 31st, 2018 using the retrospective approach. Therefore, the Company will apply all IFRS 15 requirements for each comparative period presented and will adjust its financial statements. The Company has begun a detailed analysis of the impact of applying IFRS 15.

Following the initial assessment of the potential impact of IFRS 15 onto the financial statements as at December 31st, 2017, it resulted that the new standard, when applied for the first time, will not have a material impact onto the Company's financial statements due to the nature of the operations performed by the company and the types of revenue it obtains.

IFRS 16 Leasing

IFRS 16 replaces IAS 17 Leasing and the related interpretations. The standard eliminates the current accountancy model for lessees and instead requires companies to bring most of the leasing agreements into the balance sheet within a single model, eliminating the distinction between operating and financial leasing. IFRS 16 is applicable for annual periods starting on or after January 1st, 2019, early adoption being permitted for entities that apply IFRS 15 on or before the date of the initial application of IFRS 16.

In accordance with IFRS 16, a contract is or contains a lease if it transmits the right to control the use of an asset identified for a period of time, in return for a mandatory payment. For this type of contracts, the new model requires a lessee to recognize an asset with the right of use and a lease liability. The asset with the right of use is depreciated and debt accrues interest. This will result in a higher payment model at the beginning of the lease term for most leases, even when the lessee pays constant annual rents.

The new standard introduces a number of exceptions from the scope for users that include:

- lease agreements with a lease period of 12 months or less and which do not include acquisition options, and
 - lease agreements where the underlying asset has a low value ("low-value" leasing transactions).

The Company has reviewed all existing operating leases for vehicles concluded with leasing companies and considers that for all of these contracts, IFRS 16 does not apply, based on the exception for underlying assets of a low value.

The Company also reviewed all rental contracts for the rental of machinery (containers and presscontainers), storage facilities held for waste paper collection and logistic warehouses for finished product delivery. The contracts are considered to have a rental period of more than 12 months, although they usually include clauses allowing them to be terminated within less than 12 months by either party. The company considers that a possible termination of the lease contract is unlikely.

If IFRS 16 were adopted during the current financial year, the asset with right of use thus recognized would increase the total amount of assets by a certain amount not yet determined, while lease liabilities would increase the total liabilities by the same amount. The company is in the process of determining the impact of applying the new standard onto the assets, liabilities and net income.

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(all the amounts are expressed in lei, unless otherwise stated)

3. Significant accounting policies (continued)

Amendments brought to IAS 12

The recognition of deferred tax assets for unrealized losses. It will become applicable for annual periods beginning on or after January 1st, 2018; it is applicable prospectively and it is allowed to be applied before that date. This finding is not yet endorsed by the EU.

The amendments clarify how and when to record deferred tax assets in certain situations and clarify how future taxable income should be determined for the purpose of measuring and recognizing deferred tax assets. The entity expects that the amendments, when applied for the first time, will not have a material impact onto the presentation of the entity's financial statements as the entity already assesses the future taxable profit in accordance with the Amendments.

4. Fair value determination

Certain accounting policies and requirements for the submission of information by the Group require the determination of the fair value for financial and non-financial assets and liabilities.

The Group has an established control framework on the evaluation at fair value. This includes an evaluation team that is responsible for the supervision of significant fair value evaluations, including the 3rd level fair values, and reports directly to the financial manager.

The evaluation team revises on a regular basis the unobservable entry data and the significant evaluation adjustments. If data provided by third parties, for example quoted prices, provided by brokers or by price establishment services is used, the evaluation team assesses whether this data complies with the requirements imposed by the International Financial Reporting Standards, including the level in the hierarchy of fair values where these evaluations should be categorised.

Upon the evaluation of assets or liabilities at fair value, the Group uses to the maximum extent possible observable market information. The hierarchy of fair value classifies the entry data for the evaluation techniques used to evaluate the fair value on three levels, as follows:

- 1st level: quoted (unadjusted) price on identical active markets for assets or liabilities that the Group can access at the evaluation date;
- 2nd level: entry data, other than quoted prices included in 1st level, that is observable for assets or liabilities, directly or indirectly;
- 3rd level: unobservable entry data for assets or liabilities.

If the entry data for the fair value evaluation of an asset or liability can be classified on several levels of the fair value hierarchy, the evaluation at fair value is classified entirely at the same level of fair value hierarchy as the entry data with the lowest level of uncertainty that is significant for the entire evaluation.

The Group recognises the transfers between the levels of fair value hierarchy at the end of the reporting period when the modification took place.

Additional information on the hypotheses used for the evaluation at fair value are included in Note 3 (d) (i) for tangible assets.

Vrancart S.A.

Notes to the consolidated financial statements

for the financial year ended on December 31st, 2017

(all the amounts are expressed in lei, unless otherwise stated)

5. Tangible assets

	Land and land improvements	Special buildings and constructions	Equipment and other fixed assets	Tangible assets in progress	Total
<i>Cost or re-evaluated value</i>					
As at January 1st, 2016	10.067.600	34.347.012	157.563.937	4.683.621	206.662.170
Purchases	314.685	-	740.745	42.923.991	43.979.421
Gross values on the acquisition of the company	-	-	-	-	-
Transfers from fixed assets in progress	-	9.306.682	34.934.543	(44.241.225)	-
Transfers to intangible assets	-	-	-	(110.195)	(110.195)
Outflows	-	-	(1.020.263)	-	(1.020.263)
Revaluations	-	-	-	-	-
As at December 31st, 2016	10.382.285	43.653.694	192.218.962	3.256.192	249.511.133
<i>Cumulated amortisation and impairment losses</i>					
As at January 1st, 2016	437.503	2.458.943	45.186.131	-	48.082.577
Depreciation expenses	218.752	1.318.591	16.494.057	-	18.031.400
Cumulated amortisation on the acquisition of the company	-	-	-	-	-
Outflows	-	-	(762.163)	-	(762.163)
Revaluations	-	-	-	-	-
As at December 31st, 2016	656.255	3.777.534	60.918.025	-	65.351.814
<i>Net book value</i>					
As at December 31st, 2016	9.726.030	39.876.160	131.300.937	3.256.192	184.159.320

Vrancart S.A.

Notes to the consolidated financial statements

for the financial year ended on December 31st, 2017

(all the amounts are expressed in lei, unless otherwise stated)

5. Tangible assets (continued)

	Land and land improvements	Special buildings and constructions	Equipment and other fixed assets	Tangible assets in progress	Total
<i>Cost or re-evaluated value</i>					
As at January 1st, 2017	10.382.285	43.653.694	192.218.962	3.256.192	249.511.133
Purchases	-	-	907.184	45.265.022	46.172.206
Fair values at the acquisition of Rom Paper S.R.L.	2.164.762	7.441.433	13.206.867	-	22.813.062
Transfers from fixed assets in progress	931.155	2.999.349	30.265.347	(34.195.851)	-
Transfers to intangible assets	-	-	-	(54.742)	(54.742)
Outflows	-	(14.382)	(1.449.311)	(279.265)	(1.742.958)
Revaluations	631.473	6.245.432	15.571.750	-	22.448.655
Cumulated amortisation reduced according to revaluated value	1.189.895	(7.876.923)	(54.387.798)	-	(61.074.826)
As at December 31st, 2017	15.299.570	52.448.603	196.333.001	13.991.356	278.072.530
<i>Cumulated amortisation and impairment losses</i>					
As at January 1st, 2017	656.255	3.777.534	60.918.025	-	65.351.814
Depreciation expenses	256.894	2.215.856	19.943.668	-	22.416.418
Outflows	-	(14.382)	(1.234.512)	-	(1.248.894)
Revaluation expenses/ (revenues)	(2.097.246)	2.491.803	(593.090)	-	(198.533)
Cumulated amortisation reduced according to revaluated value	1.189.895	(7.876.923)	(54.387.798)	-	(61.074.826)
As at December 31st, 2017	5.798	593.888	24.646.293	-	25.245.979
<i>Net book value</i>					
As at December 31st, 2017	15.293.772	51.854.715	171.686.708	13.991.356	252.826.551

Tangible assets include the down-payments made for tangible assets related to the investment projects for the production divisions, whose balance as at December 31st, 2017 was 10.311.604 lei

Notes to the consolidated financial statements*for the financial year ended on December 31st, 2017**(all the amounts are expressed in lei, unless otherwise stated)***5. Tangible assets (continued)**

The total value (cost) of the fixed assets purchased through government subsidies received until December 31st, 2017 is 114.187 thousand lei (see note 17) (December 31st, 2016: 99.763 thousand lei).

As at December 31st, 2017, based on some reports drafted by authorised appraisers, the Group recorded a revaluation surplus for land and land improvements, constructions and special buildings and production lines amounting to 20.193.835 lei and a net increase amounting to 198.533 lei (in revenues). The fair value of the fixed assets that were subject to revaluation was determined by applying the market comparison method, where market information is available, respectively through the net replacement cost method. Prior to this revaluation, the latest revaluation of those categories of tangible assets had been performed as at December 31st, 2013 for Vrancart S.A.

In the case of Giant Prodimpex S.R.L. and Rom Paper S.R.L., the assets were taken at their fair values as at their purchase dates based on some purchase price allocation reports drafted by authorised appraisers. Considering the fact that the acquisition of Rom paper S.R.L. took place at the beginning of 2017, the Group decided not to perform the revaluation of the abovementioned categories of tangible assets on December 31st, 2017 as well, as it considered that there were no major changes in circumstances to indicate that the net book value as at the end of 2017 does not approximate the fair value of those assets as at the same date.

A part of the Group's tangible assets are mortgaged or pledged to guarantee the bank loans. The net book value of these mortgaged or pledged assets amounts to 147.253 thousand lei as at December 31st, 2017 (December 31st, 2016: 115.187 thousand lei). The net book value of the assets purchased through financial leasing is 1.022 thousand lei as at December 31st, 2017 (December 31st, 2016: 3.262 thousand lei).

6. Intangible assets and goodwill

<i>in lei</i>	Customer relations	Brands	Other intangible assets	Total intangible assets	Goodwill
<i>Cost</i>					
As at January 1st, 2017	565.662	745.462	954.113	2.265.237	3.380.811
Purchases	-	-	14.554	14.554	-
Fair values on the acquisition of Rom Paper S.R.L.	6.133.926	3.094.411	8.712	9.237.049	5.145.580
Transfers from assets in progress	-	-	54.742	54.742	-
Outflows	-	-	(2.103)	(2.103)	-
As at December 31st, 2017	6.699.588	3.839.873	1.030.018	11.569.479	8.526.391
<i>Cumulated amortisation and impairment losses</i>					
as at January 1st, 2017	163.077	156.455	581.398	900.930	-
Depreciation expense	765.864	419.880	254.902	1.440.646	-
Outflows	-	-	(2.103)	(2.103)	-
As at December 31st, 2017	928.941	576.335	834.197	2.339.473	-
<i>Net book value</i>					
As at December 31st, 2017	5.770.647	3.263.538	195.821	9.230.006	8.526.391

Notes to the consolidated financial statements*for the financial year ended on December 31st, 2017**(all the amounts are expressed in lei, unless otherwise stated)***6. Intangible assets and goodwill (continued)***Intangible assets*

The increase in the net book value of intangible assets as at December 31st, 2017 as compared to the previous financial year is due to the customer relations and brands resulting from the acquisition of Rom Paper S.R.L. (see Note 1).

Customer relations and brands have been recognized on the basis of an acquisition price report drawn up by an authorized appraiser contracted by Vrancart S.A. The fair value of these intangibles is based on detailed business plans of Rom Paper S.R.L., which include estimates of the future evolution of key indicators such as customer income and margins or brand royalty rates, as well as the choice of an adequate update rate.

The duration of customer relations recognized as a result of the acquisition of Rom Paper S.R.L. range between 6 and 10 years. These are estimated on the basis of the remaining duration of deliveries to these, and correlated with the turnover generated by those customers (customers with higher shares in turnover will collaborate for a longer period with Rom Paper S.R.L. compared those with lower shares), as well and by reference to the lifetime of brands.

The lifetime of the purchased brands is 10 years, estimated on the basis of the analysis of the following determinants: (1) market demand for products made and sold under these brands; (2) the average period of license agreements for brands used in paper production; (3) the remaining useful lifetime of the machinery used for paper production and of other underlying assets; and (4) the legal protection period of the brand, which may be renewed for a further period of 10 years from expiry.

These lifetimes are based on the Group's estimate related to the period during which these intangible assets are expected to generate future economic benefits.

Goodwill

Goodwill was recognised following the acquisition of the two branches of Vrancart S.A., Giant Prodimpex S.R.L. and Rom Paper S.R.L. (see Note 1).

Goodwill related to the acquisition of Rom Paper S.R.L. was recognised on the finalising of the acquisition of 70% of the shares in Rom Paper S.R.L., on January 20th, 2017, as follows:

1	Payment made by Vrancart S.A. on the acquisition date		18.630.018
2	Payment made by Giant Prodimpex S.R.L. on the acquisition date		1.767
3=1+2	Total payments made by the Group		18.631.785
4	Book value of the existing net assets		(16.640.576)
5	Customer relations recognised on the acquisition date		(6.133.926)
6	Brands recognised on the acquisition date		(3.094.411)
7	Debts related to deferred profit tax		2.461.229
8=5+6+7	Total net asset adjustments at fair value		(6.767.108)
9	Value of put options acquired	Note 1	10.444.225
10	Value of call options acquired	Note 1	(522.746)
11=3+4+ 8+9+10	Goodwill		5.145.580

Notes to the consolidated financial statements*for the financial year ended on December 31st, 2017**(all the amounts are expressed in lei, unless otherwise stated)***6. Intangible assets and goodwill (continued)**

On July 19th, 2017, Vrancart S.A. exerted its option to purchase an additional stake of 15% of the shares in Rom Paper S.R.L., for which it paid the amount of 5.160.670 lei.

The total payments made by the Group in 2017 for the acquisition of 85% of the shares in Rom Paper S.R.L. is 23.792.455 lei.

As at December 31st, 2017, the Group analysed the need to make an impairment adjustment on the goodwill recognised in the relation between the two branches, based on a business plan for the period between 2018 - 2027. Following this analysis, the Group considers that such adjustments are not necessary.

7. Inventories

	December 31st, 2017	December 31st, 2016
Raw materials and consumables	28.531.274	16.697.873
Finished products and commodities	8.446.905	4.728.307
Production in progress	5.706.999	6.924.908
Advances paid for inventories	661.573	-
Adjustments for the impairment of inventories	(401.651)	(371.222)
Total	42.945.100	27.979.866

8. Trade receivables

	December 31st, 2017	December 31st, 2016
Customers	70.221.887	47.108.884
Suppliers - debtors for goods/ services	1.047.820	1.580.871
Customers – invoices to be issued	290.460	-
Other receivables	100.658	80.554
Adjustments for the impairment of receivables – customers	(5.644.197)	(9.078.186)
Total	66.016.628	39.692.123

9. Cash, cash equivalents and restricted cash

	December 31st, 2017	December 31st, 2016
Current accounts at banks and other values	3.188.562	24.911.595
Petty cash	30.579	21.270
Total cash and cash equivalents	3.219.141	24.932.865
Letters of credit	4.130	-
Escrow account for the purchase of financial assets	-	8.899.753
Total restricted cash	4.130	8.899.753

The letter of credit in the amount of 2.384.000 Euro was issued on November 23rd, 2015, to guarantee the payment to an Italian equipment supplier, in relation to the project financed with non-reimbursable funds from Norway Grants 2. The expiry date of the letter of credit was April 30th, 2016.

Notes to the consolidated financial statements*for the financial year ended on December 31st, 2017**(all the amounts are expressed in lei, unless otherwise stated)*

The escrow account in the amount of 2.000.000 Euro was opened based on the agreement for the purchase of 70% of the shares of Rom Paper S.R.L. Braşov, a purchase that was finalised in 2017 (Note 29).

10. Other receivables

	December 31st, 2017	December 31st, 2016
Other personnel-related receivables	111.816	18.123
Sundry debtors	336.097	427.459
VAT to be recovered	315.156	-
Suppliers – debtors	-	389.768
Call 2 option (Note 1)	136.310	-
Adjustments for the impairment of other receivables	(482.722)	(434.541)
Total	416.657	400.809

11. Share capital**Group's shareholding structure**

December 31st, 2017	Number of shares	Amount (lei)	(%)
SIF Banat Crişana	774.416.054	77.441.606	75.06%
Other shareholders	257.267.493	25.726.749	24.94%
Total	1.031.683.547	103.168.355	100%

December 31st, 2016	Number of shares	Amount (lei)	(%)
SIF Banat Crişana	774.416.054	77.441.606	75.06%
Other shareholders	257.267.493	25.726.749	24.94%
Total	1.031.683.547	103.168.355	100%

There were no changes in the share capital in 2017.

In 2016, the parent-company's share capital was increased by 16.796.563 lei. A number of 167.965.627 shares with a nominal value of 0,10 lei/share were issued.

Dividends

Through the Decision no. 4 dated April 26th, 2017, the Ordinary General Meeting of the Shareholders decided to distribute dividends from the net profit of the financial year ended on December 31st, 2016, amounting to 14.030.896 lei, respectively a gross amount of a dividend of 0,0136 lei/share.

Other reserves

Other reserves from the statement of changes in equity include legal reserves and reserves established from tax facilities. In 2017, the Company benefited of an exemption of the reinvested profit tax, according to the provisions of the Fiscal code (art. 22). The amount of the reserve related to reinvested profit as at December 31st, 2017 is 22.721.149 lei (December 31st, 2016: 13.387.875 lei).

Notes to the consolidated financial statements*for the financial year ended on December 31st, 2017**(all the amounts are expressed in lei, unless otherwise stated)***11. Share capital (continued)**

According to the legal requirements, the Group establishes legal reserves amounting to 5% of the profit recorded up to 20% of the share capital. The amount of the legal reserve as at December 31st, 2017 was 8.259.654 lei (December 31st, 2016: 6.625.176 lei). Legal reserves cannot be distributed to the shareholders. Other reserves include reserves from the tax related to reinvested profit and other reserves established according to the legal provisions in force.

Reserves from the revaluation of tangible assets

These reserves include the cumulated net changes of the fair values of the land, buildings, special constructions and of the technological equipment. Revaluation reserves are presented at value net of the related deferred tax (16%).

12. Trade liabilities**(a) Short-term trade liabilities**

	December 31st, 2017	December 31st, 2016
Trade liabilities	38.217.294	17.542.462
Advances received	575.854	295.633
Total	38.793.148	17.838.095

13. Other liabilities

	December 31st, 2017	December 31st, 2016
Debts to the state budget	4.401.443	3.126.714
Dividends to be paid	565.508	371.225
Amounts owed to employees	4.586.947	3.054.281
Sundry creditors	185.029	8.065
Put 2 option	4.453.130	-
Other short-term liabilities	14.192.057	6.560.286
Options related to bonds issued (Note 14)	1.017.200	-
Other long-term liabilities	1.017.200	-

Put 2 option is a derivative financial instrument recognised following the contract for the acquisition of the shares of Rom Paper S.R.L. (see Note 1).

As at December 31st, 2017, its value represented the estimate of the current net value of the Company's future payment obligation in the event that the sellers of Rom Paper S.R.L. exert this option, calculated based on the formula for price determination included in the agreement, by using the most recent estimates on the amount of EBITDA achieved by Rom Paper S.R.L. in 2017.

Notes to the consolidated financial statements*for the financial year ended on December 31st, 2017**(all the amounts are expressed in lei, unless otherwise stated)***14. Loans**

	December 31st, 2017	December 31st, 2016
Bank loans	38.064.304	32.733.289
Loans from bond issue	37.232.800	-
Debts related to financial leasing agreements	1.138.161	1.885.879
Total long-term loans	76.435.265	34.619.168

	December 31st, 2017	December 31st, 2016
Bank loans	36.791.348	40.965.444
Debts related to financial leasing agreements	763.590	797.316
Total short-term loans	37.554.938	41.762.760

The Group has agreed through the bank loans contracted to comply with a series of financial and non-financial conditions. The failure to comply with these conditions in case of the long-term loans can lead to the declaring of early maturity and other sanctions. All the financial and non-financial conditions related to the existing loan agreements as at December 31st, 2017 were complied with and there is no risk of early reimbursement.

No.	Date of granting of the loan	Currency	Type of interest (fixed/variable)	Nature	Final maturity date	Principal in balance as at December 31 st , 2017 – lei equivalent	Principal in balance as at December 31 st , 2016 – lei equivalent
1	31.07.2017	EUR RON	variable	overdraft	30.07.2018	15.722.236	17.252.315
2	22.10.2007	RON	variable	short-term	20.10.2017	-	711.601
3	15.03.2017	RON	variable	overdraft	15.03.2018	2.399.461	815.599
4	28.10.2010	EUR RON	variable	long-term	31.05.2010	-	8.531.336
5	25.02.2014	RON	variable	short-term	31.01.2017	-	328.211
6	18.04.2014	EUR RON	variable	long-term	28.02.2019	-	3.472.645
7	08.07.2017	RON	variable	overdraft	08.07.2018	245.047	6.303.905
8	18.09.2014	RON	variable	long-term	14.09.2018	872.718	2.036.298
9	23.05.2016	RON	variable	long-term	30.04.2021	3.743.054	2.307.333
10	26.03.2015	RON	variable	long-term	31.12.2020	6.230.768	8.307.692
11	30.08.2016	RON	variable	long-term	31.08.2021	12.519.372	7.473.276
12	09.08.2016	RON	variable	long-term	31.07.2020	2.906.250	4.031.250
13	27.07.2016	RON	variable	long-term	27.07.2023	14.154.530	11.969.946
14	03.11.2017	RON	variable	long-term	29.11.2023	6.948.763	-

Notes to the consolidated financial statements*for the financial year ended on December 31st, 2017**(all the amounts are expressed in lei, unless otherwise stated)***14. Loans (continued)**

No.	Date of granting of the loan	Currency	Type of interest (fixed/ variable)	Nature	Final maturity date	Principal in balance as at December 31 st , 2017 – lei equivalent	Principal in balance as at December 31 st , 2016 – lei equivalent
15	11.06.2007	EUR	variable	short-term	05.07.2017	-	157.326
16	16.09.2010	RON	variable	short-term	09.09.2017	4.157.157	-
17	27.03.2015	RON	variable	short-term	26.03.2018	92.579	-
18	29.09.2015	RON	variable	short-term	28.09.2020	1.024.311	-
19	29.09.2015	RON	variable	short-term	28.09.2020	1.638.800	-
20	28.09.2016	RON	variable	short-term	27.09.2019	550.606	-
21	02.10.2017	RON	variable	short-term	01.10.2020	700.000	-
22	15.11.2017	RON	variable	short-term	10.11.2020	950.000	-
	Total					74.855.652	73.698.733

The interest rate for loans in RON is determined as ROBOR + the margin that ranges between 1% - 4%. The interest rate for loans in EUR is determined as Euribor + the margin ranging between 1% - 4%.

To guarantee the loans, the Group established in favour of the banks the following security interests: onto the inventories of raw materials, finished products and semi-finished products, onto the balances of the accounts opened at banks, onto the rights of claims arising from current and future agreements and onto the rights resulting from the insurance policies whose subject is represented by the goods brought as guarantee. Also, as at December 31st, 2017, tangible assets are mortgaged in favour of banks (see Note 5).

Bonds

During the first months of 2017, the Company issued a number of 382.500 bonds with a nominal value of 100 lei/bond. The bond issuance was entirely subscribed and the Company collected 38.250.000 lei from the bondholders.

The bonds were issued in two stages:

- in the first stage, to the Company's shareholders, proportionally to their shareholding in relation to the total number of shares;
- in the second stage, only the bonds not subscribed during the first stage, to qualified investors.

The interest rate is ROBOR 3 months, to which a margin of 2% p.a. is added, the interest payment being made on a quarterly basis. The bonds reach maturity on March 17th, 2024. The bonds can be reimbursed in advance by the Company at any time after 2 years from their issuance. Bonds can be converted into shares by the bondholders in each of the years between 2019 – 2023 at a price equal to the average share price in the past 12 months previous to the date when the conversion price is determined. Reimbursement can only be initiated if at least 10% of the bonds issued are requested to be converted into shares.

Notes to the consolidated financial statements*for the financial year ended on December 31st, 2017**(all the amounts are expressed in lei, unless otherwise stated)***14. Loans (continued)**

As at December 31st, 2017, SIF Banat-Crişana holds 96.4% of the bonds.

Reimbursement and conversion options are recognised as a single composed derivative financial instrument. This financial instrument is evaluated separately from bonds according to IAS 39, as none of the options are strictly connected to the bond contract .

15. Provisions

	December 31st, 2017	December 31st, 2016
Balance as at the beginning of the period	291.803	1.861.178
Provisions established during the period	276.263	2.041.130
Provisions used during the period	(119.658)	(3.610.505)
Balance as at the end of the period	448.408	291.803

Provisions are established for:

- Disputes: 40.608 lei as at December 31st, 2017 (December 31st, 2016: 40.608 lei)
- Benefits given to employees: 407.800 lei as at December 31st, 2017 (December 31st, 2016: 251.195 lei)

Provisions are estimated according to the likelihood that some economic resources need to be consumed in the future to extinguish this liability.

16. Debts or receivables related to deferred profit tax

Deferred tax as at December 31st, 2017 is generated by the elements detailed in the following tables:

	Liabilities	Assets	Net
Tangible assets	46.647.765	-	46.647.765
Provisions and impairment adjustments (inventories, clients)	-	9.226.306	(9.226.306)
	47.647.765	9.226.306	37.421.459
Net temporary differences - 16% level			37.421.459
Debts related to deferred profit tax			5.987.434

Deferred tax as at December 31st, 2016 is generated by the elements detailed in the following tables:

	Liabilities	Assets	Net
Tangible assets	9.244.080	-	9.244.080
Provisions and impairment adjustments (inventories, clients)	-	11.917.116	(11.917.116)
	9.244.080	11.917.116	(2.673.036)
Net temporary differences - 16% level			(2.673.036)
Receivables related to deferred profit tax			427.686

Deferred profit tax is mainly generated by the re-evaluation of fixed assets that is not recognised for tax purposes, impairment adjustments for inventories, customers and provisions for benefits granted to employees.

Notes to the consolidated financial statements*for the financial year ended on December 31st, 2017**(all the amounts are expressed in lei, unless otherwise stated)***17. Deferred revenues**

Deferred revenues categorised as short terms liabilities represent the part of the government subsidies received that are to be recognised as income the following financial year. Deferred revenues categorised as long term liabilities represent the part of the government subsidies received that will be recognised in periods of over 1 year.

The investment subsidies received, remained in balance are presented in the table below:

	December 31st, 2017	December 31st, 2016
The Ministry of Economy and Research II	9.869.021	11.495.901
The Environmental Fund Administration	3.239.378	3.416.680
Innovation Norway 1	3.475.959	4.383.543
Innovation Norway 2	4.019.033	4.300.051
The European Bank for Reconstruction and Development	304.190	339.360
The National Agency for SMEs	28.816	39.766
Non-reimbursable loans - CCE 146	191.044	-
Non-reimbursable loans - MINIMIS 2160	354.175	-
Non-reimbursable loans - 5IMM/213/6/2015	2.524.622	-
Total	24.006.238	23.975.301

The subsidies received from the Ministry of Economy and Research aim at financing the upgrade and development of the technological line for paper manufacturing and the non-reimbursable eligible amount is initially 18.500.000 lei. The parent-company has completed the stage for the project implementation and is currently in the project monitoring phase, until January 2017. The financing agreement includes a series of indicators that must be met by the end of the monitoring period. If, on that date, the indicators are not entirely met, the non-reimbursable financing in the amount of 18.500.000 lei can be proportionally withdrawn, except for technically justified cases. Although the indicator related to the number of employees was not met as at the end of 2016 and 2015, the company considers that it will be able to meet this indicator entirely by the end of the monitoring period.

The subsidy received from the Environmental Fund Administration is granted for endowments for the technological waste burning boiler and had an initial value of 4.509.517 lei. The monitoring period of this project was completed in 2013. The subsidy received from EBRD is granted for energetic efficiency and was in the amount of 477.767 lei. The subsidy from Innovation Norway 1 refers to the extension of the collection centres and the subsidy from Innovation Norway 2 was granted for the increasing of the corrugated cardboard converting capacity. The parent-company requested and received through the Innovation Norway 2 project reimbursements in the amount of 3.111.923 lei as at December 31st, 2016, representing 70% of the total grant amount.

The 5IMM/213/6/2015 subsidy represents European funds allotted in 2015 by means of the Central regional Development Agency for the purchase of equipment by Rom Paper S.R.L., amounting to a total of 6.324.932 lei, out of which 3.794.959 lei represents the amount of the subsidy received. The financing agreement includes a series of indicators that must be met at the end of the 5 years monitoring period. The management considers that it will not have any difficulties meeting all the conditions related to the subsidy agreement until the end of the monitoring period.

Notes to the consolidated financial statements*for the financial year ended on December 31st, 2017**(all the amounts are expressed in lei, unless otherwise stated)***18. Income from turnover**

	2017	2016
Income from the sale of finished products	302.768.000	221.223.866
Income from the sale of goods	14.367.742	5.778.801
Income from services provided	7.599.069	5.240.777
Income from royalties, locations under management and rents	20.647	16.630
Income from various activities	225.557	21.185
Total	324.981.015	232.281.259

19. Other income

	2017	2016
Income from investment subsidies	3.232.236	2.799.833
Income from compensations, fines and penalties	204.967	742.038
Net income from the sale of tangible assets	(135.054)	151.125
Other operating revenues	111.321	99.805
Total	3.413.470	3.792.801

20. Expenses related to raw materials and consumables

	2017	2016
Expenses related to raw materials	108.885.500	66.637.436
Expenses related to consumables and auxiliary materials	29.233.144	23.574.255
Expenses related to fuels	16.530.934	15.916.477
Expenses related to water and electricity	15.366.624	14.838.114
Expenses related to spare parts	2.293.711	3.571.845
Total	172.309.913	124.538.127

21. Other expenses

	2017	2016
Expenses related to commissions and fees	838.360	2.065.243
Operating expenses related to provisions	72.393	-
Expenses related to royalties, locations under management and rents	1.683.841	1.600.020
Expenses related to bank services and similar	577.043	576.952
Expenses related to insurance premiums	1.096.631	975.368
Other taxes, duties and similar payments	1.981.786	859.027
Expenses related to donations made	633.649	849.673
Expenses related to travels, secondments and transfers	501.264	362.357
Postage and telecommunications fees	264.353	217.991
Expenses related to entertainment, advertising and publicity	322.632	162.388
Expenses related to compensations, fines and penalties	42.408	86.078
Value adjustments on stocks	80.468	(78.339)
Value adjustments on receivables	(1.624.569)	1.050.856
Other operating expenses	728.202	239.496

Notes to the consolidated financial statements*for the financial year ended on December 31st, 2017**(all the amounts are expressed in lei, unless otherwise stated)*

Total	7.198.461	8.967.110
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22. Personnel-related expenses

	2017	2016
Salary expenses	46.222.399	31.642.013
Expenses related to insurance and social protection	10.685.299	7.384.960
Expenses related to luncheon vouchers given	2.958.736	2.110.754
Total	59.866.434	41.137.727

In 2017, the average number of Employees of the Group was of 1.247 (2016: 978).

23. Financial revenues and expenses

	2017	2016
Interest revenues	(3.198)	6.274
Currency exchange (gains)/ losses, net	(173.509)	(78.411)
Other financial revenues	1.206.000	-
Total revenues	1.035.689	(72.137)
Interest-related expenses	2.317.774	1.431.746
Other financial expenses	754.954	-
Total expenses	3.072.728	1.431.746

24. Profit tax expense

	2017	2016
Current profit tax expenses	2.292.961	2.810.324
Deferred profit tax income/ (expense)	331.912	(571.655)
Total	2.624.873	2.238.669

	2017	2016
Loss/ Profit before taxation	28.063.827	22.723.699
Tax according to the statutory taxation rate of 16% (2016: 16%)	4.490.212	3.635.792
The effect onto the profit tax of:		
The legal reserve	(214.430)	(180.570)
The non-deductible expenses	3.422.607	3.243.923
The fiscal amortisation	(3.367.728)	(2.465.302)
Exemptions for sponsorships	(465.781)	(665.257)
The recording of temporary differences	331.913	(571.655)
Reinvested profit – tax credit	(1.571.920)	(758.262)
Profit tax	2.624.873	2.238.669

Notes to the consolidated financial statements*for the financial year ended on December 31st, 2017**(all the amounts are expressed in lei, unless otherwise stated)***25. Earnings per share**

The calculation of basic earnings per share was made based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares:

	2017	2016
Profit attributable to ordinary shareholders	25.438.954	20.485.031
Weighted average number of ordinary shares	1.031.683.547	877.715.056
Basic earnings per share	0,025	0,023

The diluted earnings per share equal to the basic earnings per share, as the Group has not issued any potential ordinary shares.

26. Affiliated parties

The persons that are part of the Management Board and the Board of Administrators, as well as SIF Banat-Crisana, which is the main shareholder, along with the other companies controlled by it are considered as affiliated parties.

In 2017, there were no changes of the Board of Administrators.

The list of persons that were part of the Board of Administrators of the parent-company as at December 31st, 2017:

Ciucioi Ionel-Marian	General Manager and Chairman of the Board of Administrators
Bîlteanu Dragoş-George	Member of the Board of Administrators
Najib El Lakis	Member of the Board of Administrators
Drăgoi Bogdan Alexandru	Member of the Board of Administrators
Avrămoiu Octavian	Member of the Board of Administrators

The shareholdings in the company related to the key management personnel are presented below:

As at December 31st, 2017: not applicable.

As at December 31st, 2016: not applicable.

The director of the branch Giant Prodimpex SRL is Mr. Ciucioi Ionel-Marian. The Board of Administrators of the branch Rom Paper S.R.L. is formed of the following members:

Puchin Claudiu	General Manager and Chairman of the Board of Administrators
Bîlteanu Dragoş-George	Member of the Board of Administrators
Ciucioi Ionel-Marian	Member of the Board of Administrators

Transactions with the key management personnel:

	2017	2016
The remuneration of the members of the Board of Administrators	1.584.300	1.100.000

Notes to the consolidated financial statements*for the financial year ended on December 31st, 2017**(all the amounts are expressed in lei, unless otherwise stated)***26. Affiliated parties (continued)**

Transactions with affiliated parties:

Affiliated party		Transactions* 2017	Transactions* 2016	Balance 2017	Balance 2016
Napomar S.A.	Supplier	-	174	-	174
Somplast S.A.	Client	10025	24.600	-	-
SIF Banat Crisana S.A.	Supplier	2.055	-	-	-
Uniteh S.A.	Supplier	93.462	98.941	2.223	2.379
Biofarm S.A.	Client	65.599	77.058	15.511	67.562
Biofarm S.A.	Supplier	2.032	2.439	128	419
Semtest Craiova S.A	Supplier	74.631	138.566	7.258	11.365
Sifi CJ Logistic S.A.	Supplier	84.104	99.033	2.111	1.798
Administrare Imobiliare S.A.	Supplier	14.034	18.056	1.379	-
Industrial Energy	Supplier	14.217.075	8.037.148	1.520.869	1.264.657
Industrial Energy	Supplier-debtor	840.336	-	840.336	-

*Note: The values include VAT.

Other operations:

Affiliated party		Transactions 2017	Transactions 2016	Balance 2017	Balance 2016
SIF Banat Crişana SA	the payment of the dividends distributed during the year	10.532.058	10.325.547	-	-
ARIO Bistriţa	Debtor	-	-	300.000	300.000

27. Commitments

As at December 31st, 2017, the Group had concluded payment commitments for future purchases of fixed assets in the amount of 15.167.324 lei, that is the equivalent of 3.255.000 euro.

28. Contingent assets and liabilities

The Group did not have any contingent assets or liabilities as at December 31st, 2017 (December 31st, 2016: zero).

29. Events subsequent to the balance sheet date

There are no major events to report until this date.

Notes to the consolidated financial statements*for the financial year ended on December 31st, 2017**(all the amounts are expressed in lei, unless otherwise stated)***30. Financial risk management****Overview**

The Group is exposed to the following risks related to the use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

These notes provide information on the Group's exposure to each of the abovementioned risks, the Group's objectives, policies and processes for the assessment and management of risk and the procedures used for capital management. Also, other quantitative information is included in these financial statements.

The Group's policies for risk management are defined so as to provide the identification and analysis of the risks that the Group is facing, the establishment of adequate limits and controls, as well as the monitoring of risks and the compliance with the limits established. The risk management policies and systems are regularly reviewed so as to reflect the changes occurred in the market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims at developing an orderly and constructive control environment where all the employees understand their roles and obligations.

(a) Credit risk

Credit risk is the risk that the Group incurs a financial loss as a result of a customer's failure to comply with its contractual obligations and this risk results mainly from the company's trade receivables.

The book value of the financial assets represents the maximum exposure to credit risk. The maximum exposure to credit risk was:

Book value	December 31st, 2017	December 31st, 2016
Trade receivables and other receivables	66.433.285	40.092.932
Cash and cash equivalents	3.219.141	24.932.865
Restricted cash	4.130	8.899.753
Total	69.956.556	73.925.550

The Group's exposure to credit risk is mainly influenced by the individual characteristics of every customer.

The management has established a credit policy according to which every new customer is analysed on an individual basis in terms of its trustworthiness before being granted the Group's standard payment and delivery conditions. Purchase limits are established for each individual customer. The customers that fail to meet the conditions established by the Group can make transactions with it only after making an advance payment.

The goods are sold with a title retention clause, so that in case of the customer's failure to make the payment, the Group benefits from a guarantee for the amounts claimed. The Group does not request any security interests for trade receivables and other receivables.

Notes to the consolidated financial statements*for the financial year ended on December 31st, 2017**(all the amounts are expressed in lei, unless otherwise stated)***30. Financial risk management (continued)**

The Group establishes an impairment adjustment that represents its estimates on the losses related to trade receivables, other receivables and investments. The main components of this adjustment represent a specific loss component related to the significant individual exposures and a collective loss component established for similar groups of assets corresponding to the losses that were incurred, but have not been yet identified. The adjustment related to collective losses is determined based on historical data on the payments made for similar financial instruments.

Impairment losses

Analysis of the number of days of delay for trade receivables and other receivables:

December 31st, 2017	Gross value	Impairment
Current and outstanding receivables between 0 and 30 days	64.646.213	533.320
Outstanding receivables between 31 and 60 days	1.420.080	18.113
Outstanding receivables between 61 and 90 days	658.352	12.895
Outstanding receivables between 91 and 180 days	987.922	666.774
Outstanding receivables between 181 and 360 days	677.461	677.461
Outstanding receivables for more than 360 days	4.170.237	4.218.417
Total	72.560.265	6.126.980

December 31st, 2016	Gross value	Impairment
Current and outstanding receivables between 0 and 30 days	33.688.790	1.366.451
Outstanding receivables between 31 and 60 days	5.041.992	526.724
Outstanding receivables between 61 and 90 days	392.495	6.266
Outstanding receivables between 91 and 180 days	3.607.805	1.137.014
Outstanding receivables between 181 and 360 days	874.918	797.925
Outstanding receivables for more than 360 days	5.999.528	5.678.347
Total	49.605.528	9.512.726

(b) Liquidity risk

Liquidity risk is the Group's risk to face difficulties in meeting its obligations related to financial liabilities that are discounted in cash or through the transfer of another financial asset.

The Group's approach in managing liquidity consists of making sure, as far as possible, that it always has sufficient liquidities to pay its outstanding debts, both under normal conditions and under stress conditions, without bearing unacceptable losses or endangering the Group's reputation.

In general, the Group makes sure that it has sufficient cash to cover the operating expenses.

Notes to the consolidated financial statements*for the financial year ended on December 31st, 2017**(all the amounts are expressed in lei, unless otherwise stated)***30. Financial risk management (continued)**

The following table provides a presentation of the residual contractual maturities of financial liabilities as at the end of the reporting period, including the estimated payments of interests:

December 31st, 2017	Book value	Contractual cash flows	less than 1 year	1 - 5 years	over 5 years
Loans	76.757.403	78.598.435	38.615.082	39.983.352	-
Trade liabilities and other liabilities	54.054.100	54.054.100	53.036.900	1.017.200	-
Total	130.811.503	132.652.535	91.651.982	41.000.552	-

Financial liabilities include the loans from bond issuance described in Note 14. These were not included in the table above, as the company cannot anticipate the time when the reimbursement options, namely their conversion options could be exerted.

December 31st, 2016	Book value	Contractual cash flows	less than 1 year	1 - 5 years	over 5 years
Loans	76.381.928	78.389.592	42.879.462	35.510.130	-
Trade liabilities and other liabilities	24.914.355	24.914.355	24.914.355	-	-
Total	101.296.283	103.303.947	67.793.797	35.510.130	-

(c) Market risk

Market risk is the risk that the variation of market prices, such as the currency exchange rate, the interest rate and the price of equity instruments affect the Group's revenues or the value of the financial assets held. The purpose of market risk management is that of managing and controlling the exposures to market risk within acceptable parameters and at the same time of optimizing the profitability of investment.

Interest rate risk***(i) Risk exposure profile***

As at the reporting date, the profile of exposure to the interest rate risk related to the interest bearing financial instruments held by the Group was:

Instruments with variable rate	December 31st, 2017	December 31st, 2016
Bank loans	74.855.652	73.698.733
Loans from bond issuance	37.232.800	-
Debts related to leasing agreements	1.901.751	2.683.195
Total	113.990.203	76.381.928

(ii) Fair value sensitivity analysis for fixed interest rate instruments

The Group does not account for fixed interest rate financial assets and liabilities at fair value through the profit or loss account or availabilities for sale. Therefore, a change in the interest rates on the reporting date would not affect the profit or loss account or the Group's equity.

Notes to the consolidated financial statements*for the financial year ended on December 31st, 2017**(all the amounts are expressed in lei, unless otherwise stated)***30. Financial risk management (continued)***(iii) Cash flows sensitivity analysis for variable interest rate instruments*

A 1% increase of the interest rates on the reporting date would have led to a profit or loss reduction by 1.139.902 lei (763.819 lei as at December 31st, 2016). This analysis requires that all the other variables, in particular the foreign currency exchange rates, remain constant.

A depreciation of the interest rates by 100 base points as at December 31st would have led to the same effect, but in the opposite sense, onto the amounts presented above, considering that all the other variables remain constant.

Fair values

Fair value is the price that would be received following the sale of an asset or the price that would be paid to transfer a liability through a normal transaction between the market participants as at the evaluation date. Financial instruments that are not accounted for at fair value in the statement of financial position include the trade receivables and other receivables, cash and cash equivalents, loans, trade liabilities and other liabilities. The book values of the abovementioned financial instruments are approximates of their fair values.

(d) Currency risk

The Group is exposed to the currency risk due to sales, purchases and other loans that are expressed in a currency other than the functional currency, mainly Euro, but also American dollars.

The Group's exposure to currency risk is presented in the following tables:

December 31st, 2017	TOTAL	RON	EUR	USD	Other currencies
Trade receivables and other receivables	66.433.285	50.725.205	15.629.864	78.216	-
Restricted cash	4.130	4.130	-	-	-
Cash and cash equivalents	3.219.141	2.474.219	79.813	662.720	2.389
Financial assets	69.656.556	53.203.554	15.709.677	740.936	2.389
Loans	113.990.203	104.664.261	9.325.942	-	-
Trade liabilities and other liabilities	38.793.148	29.707.713	9.085.435	29.304	5.096
Financial liabilities	152.783.352	134.371.974	18.411.377	29.304	5.096
Total net financial assets/ (liabilities)	(83.126.796)	(81.168.420)	(2.701.701)	711.632	(2.707)

Notes to the consolidated financial statements*for the financial year ended on December 31st, 2017**(all the amounts are expressed in lei, unless otherwise stated)***30. Financial risk management (continued)**

December 31st, 2016	TOTAL	RON	EUR	USD	Other currencies
Trade receivables and other receivables	40.092.932	36.382.351	3.272.489	438.093	-
Restricted cash	8.899.753	8.899.753	-	-	-
Cash and cash equivalents	24.932.865	21.904.114	2.874.598	151.276	2.877
Financial assets	73.925.550	67.186.218	6.147.087	589.369	2.877
Loans	76.381.928	66.342.742	10.039.186	-	-
Trade liabilities and other liabilities	24.914.355	21.141.880	3.752.076	20.398	-
Financial liabilities	101.296.283	87.484.622	13.791.262	20.398	-
Total net financial assets/ (liabilities)	(27.370.733)	(20.298.404)	(7.644.175)	568.971	2.877

Sensitivity analysis

An appreciation by 10 percentage points of RON as at December 31st compared to the currencies presented would have led to an increase (reduction) of profit or loss as follows: December 31st, 2017: -199.277 lei; (December 31st, 2016: -707.233 lei). This analysis assumes that all the other variables, particularly the interest rates, remain constant.

A depreciation by 10 percentage points of EURO as at December 31st, 2017 compared to the other currencies would have led to the same effect, but in the opposite sense, of the amounts presented above, assuming that all the other variables remain constant.

e) Risk related to taxation

The Romanian tax system is under consolidation and constantly changing, and there can be different interpretations of the authorities in relation to the fiscal legislation, that can generate additional taxes, duties and penalties. In the event that the state authorities find any violations of the Romanian legal provisions, these can lead, according to case, to: the confiscation of the relevant amounts, the imposing of additional tax obligations, the charging of fines, the charging of delay penalties (applied to the amounts to be paid). Therefore, the fiscal sanctions resulting from the violation of the legal provisions can result in significant amounts to be paid to the State.

The Romanian government has a great number of agencies authorised to perform the inspections of the companies operating on the Romanian territory. These inspections are similar to fiscal audits in other countries and may cover not only tax aspects, but other legal and regulatory aspects as well, that are of interest to these agencies. The Group may be subjected to tax inspections as new tax regulations are issued.

The amounts declared to the state for taxes and duties remain open for tax audit for five years. The Romanian tax authorities performed controls related to the calculation of taxes and fees until December 31st, 2014 for the Company, until May 31st, 2014 for the branch Giant ProdimpeX and until October 31st, 2016 for the branch Rom Paper S.R.L.

All the amounts owed to the State for taxes and duties were paid or registered as at the balance sheet date. The Group considers that it has paid in due time all the taxes, duties, penalties and penalty interests, when necessary.

Notes to the consolidated financial statements

for the financial year ended on December 31st, 2017

(all the amounts are expressed in lei, unless otherwise stated)

30. Financial risk management (continued)

f) Transfer price

In accordance with the relevant fiscal legislation, the fiscal evaluation of a transaction with affiliated parties is based on the market price concept related to the transaction in question. Based on this concept, transfer prices must be adjusted so as to reflect the market prices that would have been established between non-affiliated entities that act independently, based on “normal market conditions”.

It is likely that the tax authorities perform future verifications of the transfer prices, in order to determine whether those prices comply with the “normal market conditions” principle and that the taxable base of the Romanian taxpayer is not distorted

Business environment

The risk re-evaluation process performed during the period between 2007 and 2010 on the international financial markets affected to a significant extent the performance of these markets, including that of the financial market in Romania and led to the occurrence of an increasing uncertainty related to the future economic development.

The global credit and liquidity crisis that started in mid 2007 caused, among others, a reduced level and the difficult accession of capital market funds, a reduced level of the liquidity in the entire banking sector in Romania and high values of instalments of inter-bank loans. The significant losses incurred on the international financial market could affect the Group’s ability to obtain new loans and to refinance its existing loans under the terms and conditions corresponding to previous transaction.

The Group’s debtors can also be affected by the low level of liquidity, that could impair their ability to reimburse the outstanding debts. The worsening of the financial conditions under which the debtors conduct their business might also have an impact onto the management of cash flow forecasts and onto the evaluation of financial and non-financial assets depreciation. To the extent that the information was available, the management included revised estimates of future cash flows in its depreciation policy.

The fears that the worsening of the financial conditions might contribute in the future to the lowering of trust have led to common efforts from governments and central banks to adopt some measures to counteract the vicious circle of increasing risk aversion and to help in the reduction of financial crisis effects and, finally, to reinstate the operation under normal market conditions.

The management cannot foresee all the events that would have an impact onto the financial sector in Romania and therefore, what are the effects that they would have onto these financial statements, if the case.

The management cannot estimate credibly the effects of any future decrease in financial market liquidity, of the depreciation of financial assets influenced by the low level of liquidity of loan market, of the increase in currency volatility of the currency and of the stock markets onto the Group’s financial statements.

The management considers that it is taking all the measures necessary to support the sustainability and development of the Group’s businesses, under the current conditions, by:

- constantly monitoring liquidity;
- preparing short term forecasts on net liquidity;
- monitoring the cash inflow and outflow (on a daily basis), assessing the effects onto debtors, of limited access to financing and onto the development of businesses in Romania.

Notes to the consolidated financial statements

for the financial year ended on December 31st, 2017

(all the amounts are expressed in lei, unless otherwise stated)

30. Financial risk management (continued)

h) Capital adequacy

The Group's policy is to maintain a sound capital basis necessary in order to maintain the trust of investors, creditors and of the market and in order to support the company's future development.

The Group's equity includes the share capital, various types of reserves and the retained earnings. The Groups is not subject to any capital requirements imposed from the exterior.