

*Compania Națională Administrația Porturilor Maritime S.A.  
Constanța*

REGISTERED OFFICE - MARITIME RAILWAY STATION 900900  
Constanța (Incinta Port, Gara Maritimă). Romania

Trade Registry: J13/2308/1998; TAXPAYER ID: 11062831;

TAXPAYER ID: RO11062831

Share capital: 132,906,430 lei

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**MANAGEMENT REPORT**  
**C.N. ADMINISTRAȚIA PORTURILOR MARITIME S.A. CONSTANȚA**  
*FY: 2019*



## I. LEGAL FRAMEWORK

The 2019 Management Report was prepared pursuant to the provisions of the Government Emergency Ordinance no. 109/2011 on corporate governance of state-owned enterprises, as approved and amended by Law no. 111/2016.

The **general legal framework** applicable includes:

- Company Law no. 31/1990, as republished and further amended and supplemented;
- Government Ordinance no. 26/2013 on strengthening the financial discipline of economic operators in which the state or administrative-territorial units are single or majority shareholders or directly or indirectly hold a majority stock, as subsequently amended and supplemented;
- Emergency Ordinance no. 109/2011 on corporate governance of state-owned enterprises, as subsequently amended and supplemented;
- Law no. 235/2017 amending and supplementing Government Emergency Ordinance no. 22/1999.
- Law no. 227/2015 on the Fiscal Code.
- Ordinance no. 64/2001 on the distribution of profits in national enterprises, national companies and fully or majority State-owned companies, as well as to *regies autonomes*, as subsequently amended and supplemented;
- Order of the Minister of Public Finance no. 1802/2014 approving the Accounting Regulations regarding the individual annual financial statements and the consolidated annual financial statements, as subsequently amended and supplemented.

## II. SUMMARY

### **Compania Națională Administrația Porturilor Maritime SA Constanța - brief presentation**

	2018	2019	%
Turnover (thou. lei)	327,276	349,944	106.9
EBITDA (thou. lei)	132,700	163,488	123.2
Gross profit (Thou. Lei)	99,316	130,448	131.3
Profit rate (%)	30.35	37.28	122.8
Total Assets (thousand lei)	1,140,797	1,249,705	109.5
TOTAL EQUITY (thou. lei)	616,069	705,642	114.5
Total liabilities (Thou. Lei)	367,959	344,442	93.6
Total assets / total liabilities	3.10	3.63	117.0
Investment (thou. lei):	46,278	196,188	423.9
Equity/total assets (%)	54.00	56.46	104.6

	2018	2019	%
Rate of indebtedness (%)	19.01%	15.93%	83.8

### III. COMPANY PRESENTATION

Company name: *C.N. ADMINISTRAȚIA PORTURILOR MARITIME SA CONSTANȚA*

Registered Office: PRECINCTS OF CONSTANTA PORT, MARITIME RAILWAY STATION, CONSTANTA, ROMANIA (*INCINTA PORT, GARA MARITIMĂ, CONSTANTA, ROMÂNIA*)

Phone/fax number: 0241.611.540 / 0241.619.512

Taxpayer ID

11062831

Registration number with

Trade Registry in county Constanța: J13/2308/1998

Subscribed and paid-up share capital lei 132,906,430

Business purpose: SERVICE ACTIVITIES ANCILLARY TO WATER TRANSPORTATION

NACE CODE 5222

*Compania Națională Administrația Porturilor Maritime S.A. Constanța* is a joint stock company, which carries out mainly activities of national public interest; the Company is organised and operates on the basis of economic management and financial autonomy, pursuant to the legislation in force and to the articles of association included in the Annex to Government Decision 517/1998, amended and supplemented by Government Decision no. 464/2003 and supplemented by Government Decision 597/2009.

*Compania Națională Administrația Porturilor Maritime S.A. Constanța* is port authority for the Romanian seaports - Constanța, Midia and Mangalia and for the tourist port Tomis. Consequently, the goal of the Company is to develop these seaports, with a focus on efficiency, safety and sustainability. These three components are integrated in the objectives pursued by CN APM SA: to ensure efficient use of infrastructure, the best conditions for access to and from ports, a healthy investment climate, to attract international logistics chains, etc.

CN APM SA has the following subordinated branches:

- Port Energy Branch: Precincts of Constanța Port, berth 16, no. 11.10.1010, Constanța County
- Port Services Branch: Precincts of Constanța Port, administrative building, no. 11.17.004, Constanța County
- Port Technical Ships Branch: Precincts of Constanța Port, berth 0, no. 11.12.078, Constanța County

- Free Zone Branch Constanța South and Basarabi Precincts of Constanța Port, administrative building, MOL I South, Constanța County

In carrying out the object of the Company, CN APM SA uses both Company assets and assets belonging to the public domain of the state, based on a concession contract. The leased assets consist mainly of the infrastructure of the Romanian seaports. The property covered by the concession contract concluded with the Ministry of Transport, registered by the Company under no. MM/2714/2001 (until 31.10.2008), and of the contract no. LO/4113/31.10.2008, is located within the seaports at the Black Sea. For such purposes, the Company pays royalties to the state, representing 3% of the revenues earned from the exploitation of property belonging to the public domain of the state.

The 2019 report was drafted based on the financial statements prepared pursuant to the Romanian accounting regulations aligned with European Directives, as approved by Order of Minister of Public Finance no. 1802/2014.

#### IV. ECONOMIC ACTIVITY

The economic activity of CN APM SA was positive in 2019, which is reflected in the main economic indicators recorded, and detailed in the following:

**1. The total income** of the Company, consisting of operating income and financial income, reached the amount of 389,340 thou. lei in 2019, with a 9.1% increase compared to the previous year and a 5.1% increase compared to the budget (*see Table 1*):

	Realised in 2018	Planned for 2019	Realised in 2019	% year	% programme
Total income (thou. lei), of which:	356,765	370,374	389,340	109.1	105.1
Operating income	345,232	353,877	368,950	106.9	104.3
Financial income	11,533	16,497	20,390	176.8	123.6

**Table No. 1 – Total income**

**1.1. Operating income** (*see Table 2*):

	Done 2018	Planned 2019	Done 2019	% year	% programme
Operating income (thou. LEI)	345,232	353,877	368,950	106.9	104.3
Turnover	318,370	327,276	349,944	109.9	106.9
Income on penalties	8,123	8,000	7,878	97.0	98.5
Amortisation of investment subsidies	14,190	14,722	8,422	59.4	57.2
Other operating income	3,380	2,329	2,245	66.4	96.4
Income from European projects	1,169	1,550	461	39.4	29.7

**Table 2 – Operating income**

The operating income earned in 2019 is 368,950 thou. lei, with an 6.9% increase compared to

the 345,232 thou. lei in 2018 and has the following structure:

- revenues from the core business (turnover), amounting to 349,944 thou. lei, compared to 318,370 thou. lei in 2018, consisting of supply of services for ships (access, quay, basin, etc.), leases (land, administrative facilities, warehouses, platforms, etc.), utilities (electricity, heating, water);
- other operating income, which includes income from fines and penalties (7,878 thou. lei), investment subsidies (8,422 thou. lei), etc.

The total operating income of the company includes income from European funds, amounting to 461 thou. lei, according to the Annual Financial Statements.

### 1.1.1. Turnover

Turnover holds the most significant share (94.8%) in the total operating income in 2019, reaching the amount of 349,944 thou. lei.

Compared to 2018, the turnover is 9.9% higher and compared to the 2019 budget, we have noticed a 6.9% increase, as reflected by *Table 3*:

	Realised in 2018	Planned for 2019	Realised in 2019	% year	% planned
Turnover (thou. lei)	318,370	327,276	349,944	109.9	106.9

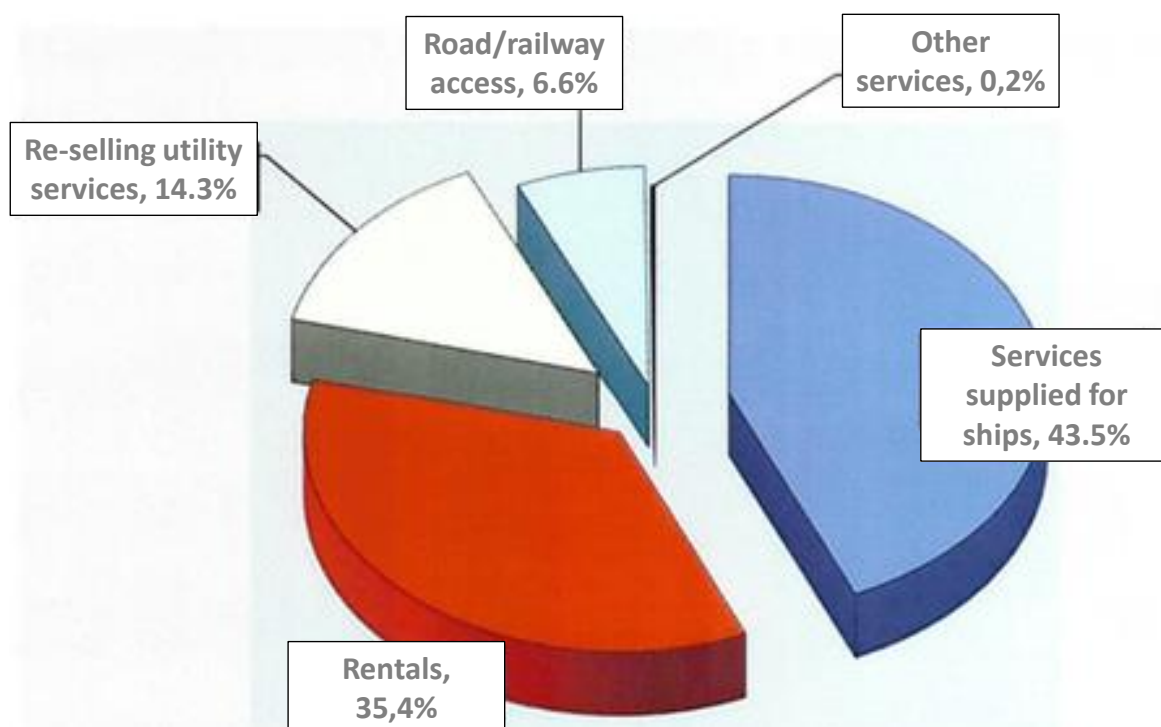
*Table 3 – Turnover*

In 2019, each major category of income that contributes to the turnover records higher values than in 2018, with a dominant share held by income from ship services and income from rental of goods (*Table 4*):

	2018	2019	%
Turnover (thou. lei)	318,370	349,944	109.9
Supply of services for ships	142,053	151,981	107.0
lease	114,651	124,012	108.2
Re-supply of utilities	38,867	50,123	129.0
Road access, Railways	21,582	23,275	107.8
Other services	1,217	553	45.4

*Table 4 – Turnover structure*

The chart below shows the share of each income category in total income from supply of services:



#### Monthly evolution of turnover over 2018-2019 (Table 5):

	2018	2019
Turnover - year (thou. lei)	<b>318,370</b>	<b>349,944</b>
January	27,448	28,297
February	23,652	26,408
March	24,554	28,413
April	23,686	27,085
May	24,998	28,599
June	24,081	28,090
July	28,236	30,663
August	27,904	30,071
September	27,527	31,545
October	27,012	31,701
November	25,472	29,279
December	33,800	29,793

Table 5 – Monthly evolution of turnover

As noticeable, in the second half of 2019 the turnover was higher than other months, closely linked to the increase in freight traffic in those months.

Graphic representation of the monthly evolution of the turnover in the 2018-2019:

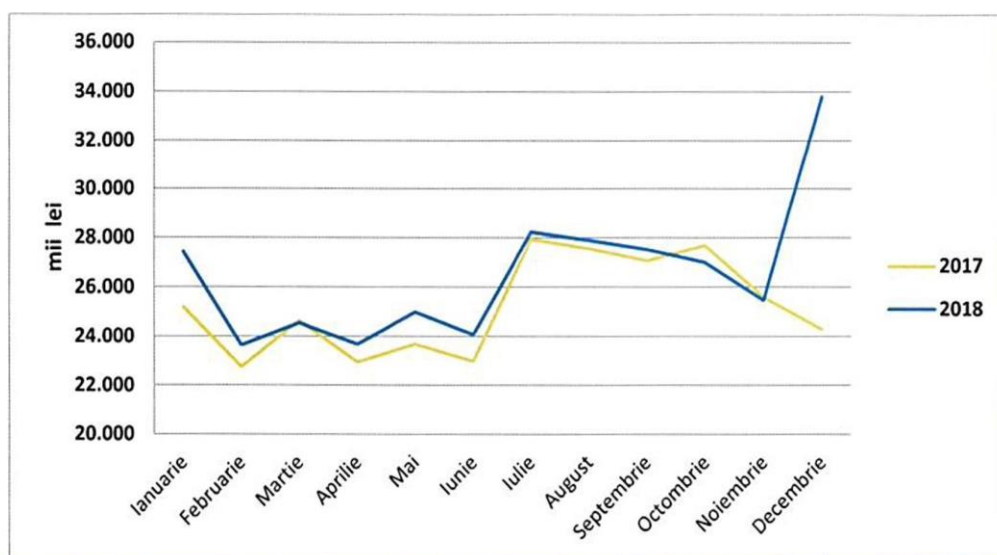


Chart 2 – Monthly evolution of turnover

- 1.2. **Financial revenues** realised in 2019 are amounting to 20,390 thou. lei, with the highest share (92.4%) reported for revenues from favorable exchange rate differences. Foreign exchange transactions were influenced by a multitude of financial and commercial factors, but careful management of deposit structure ensured a balance in financial revenues (see Table 6):

	Realised in 2018	Planned for 2019	Realised in 2019	% year	% programme
Financial revenues (thou. lei)	11,533	16,497	20,390	176.8	123.6
Interest income	1,757	1,750	1,535	87.4	87.7
Foreign exchange earnings	9,633	14,600	18,842	195.6	129.1
Other revenues	143	147	13	9.1	8.8

Table 6 – Financial revenues

	Realised in 2018	Planned for 2019	Realised in 2019	% year	% programme
Total expenditures (thou. lei)	257,449	267,265	258,892	100.6	96.9
Operating costs	249,394	261,239	251,968	101.0	96.5
Financial expenses	8,055	6,026	6,924	86.0	114.9

Table 7 – Total expenditure

	Realised in 2018	Planned for 2019	Realised in 2019	% year	% programme
Operating expenses (thou. lei)	249,394	261,239	251,968	101.0	96.5
Expenses related to inventories	30,789	46,918	42,011	136.4	89.5
Third-party services	52,308	75,256	66,160	126.5	87.9
Taxes and fees	8,095	9,195	19,344	239.0	210.4



Staff-related expenses	79,400	93,574	85,102	107.2	90.9
Other operating costs	77,633	34,746	38,890	50.1	111.9
European projects	1,169	1,550	461	39.4	29.7

Table 8 – Operating expenses

**2. Total expenditure** registered in 2019 represents 258,892 thou. lei, showing a slight increase compared to 2018 (+1,443 thou. lei), falling within the 2019 budget (see Table 7):

### 2.1. Operating expenses

**Operating expenses** incurred in 2019 are in absolute value of 251,968 thou. lei, registering an increase by 1.0% compared to 2018, falling within the budget of the year and have the following structure (see Table 8):

As can be noted in the table above, all but two categories of expenditure fall within the 2019 budget:

“taxes and fees”, which recorded expenditure overruns with the royalty related to the revenues realised by pilotage operators, carried in expenses on 31.12.2019 (amounting to lei 10,392,866.63) and reversed in revenues in account 7814.

- “other operating expenses”, with a budget overrun by 11.9% influenced by adjustments for depreciation or impairment losses and provisions (+24.983 thou. lei).

**Inventory costs** include raw materials, consumables, inventory items, energy and water expenses and amount to 42,011 thou. lei, an increase by 36.4% compared to 2018, and fall within the 2018 budget.

We mention higher consumption of various raw materials (cement, lime, plaster, autoclaved aerated concrete, sand, concrete, etc.), materials, etc. necessary to carry out repairs and investments using the Company’s own resources in 2019.

**Third-party expenses** posted in 2019, amounting to 66,160 thou. lei, increased by 26.5% in 2018 and fall within the 2019 budget, with *third-party repairs* holding a significant share (42.9%) in the overall third-party expenses.

Table 9 lines up the **repairs** carried out in 2019 compared to 2018 and compared to the budget:

The same category includes expenses for facility protection, maintenance, security, IT services related to the port facilities (25,013 thou. lei), sanitation costs (1.266 thou. lei), cleaning services for administrative, special and general service facilities (916 thou. lei), representation expenses (562 thou. lei), participation in and organisation of conferences and exhibitions (733 thou. lei) etc.

**Taxes and fees** amount to 19,344 thou. lei and consist of royalty for the concession of public goods and mineral resources (16,480 thou. lei) and other local taxes and duties (2,864 thou. lei).



**Personnel expenses** at the end of 2019 amount to 85,102 thou. lei, which includes salary expenses, contract of mandate expenses and insurance and social protection expenses, special funds and other legal obligations.

**Other operating expenses** reached 38,890 thou. lei in 2019 and include: surcharges and penalties (24 thou. lei), fixed assets (197 thou. lei), revaluation of fixed assets (559 thou. lei), depreciation of tangible assets and amortisation of intangible assets (33,182 thou. lei), adjustments/impairments and provisions (38,007 thou. lei), etc.

The total operating expenses of the Company include the expenses with European funds projects, amounting to 461 thou. lei, according to the Annual Financial Statements.

	<b>Done 2018</b>	<b>Done 2019</b>	<b>Planned 2019</b>	<b>% year</b>	<b>% programme</b>
Third-party repairs (thou. lei)	13,755	30,452	28,406	206.5	93.3
Maintenance dredging holds an important share in third-party repairs.					

*Table 9 – Repairs*

## 2.2 Financial expenses

The financial expenses amounting to 6,924 thou. lei are mainly represented by unfavourable exchange rate differences and register a decrease by 14.0% compared to 2018 and an increase by 14.9% compared to the 2019 budget.

The foreign exchange market volatility had a decisive influence on the financial result. The Company management carefully managed the structure of the deposits and ensured the payment of the main costs in the contract currency (*see Table 10*):

	<b>Done 2018</b>	<b>Planned 2019</b>	<b>Done 2019</b>	<b>% year</b>	<b>% programme</b>
Financial expenses (thou. lei)	8,055	6,026	6,924	86.0	114.9
Foreign exchange losses	8,050	6,020	6,921	86.0	115.0
Other financial expenses	5	6	3	60.0	50.0

*Table 10 – Financial expenses*

## 3. Gross result

*Table 11* presents the volume of activity carried out in 2019 by CN APM SA, as reflected in economic indicators: revenues, expenses and gross result, compared to 2018.

	Done 2018	Planned 2019	Done 2019	% year	% programme
Total income (thou, LEI)	356,765	370,374	389,340	109.1	105.1
Total expenditures (thou. lei)	257,449	267,265	258,892	100.6	96.9
Gross profit (Thou. Lei)	99,316	103,109	130,448	131.3	126.5

Table 11 – Revenues, expenditure and gross result

Graphic representation:

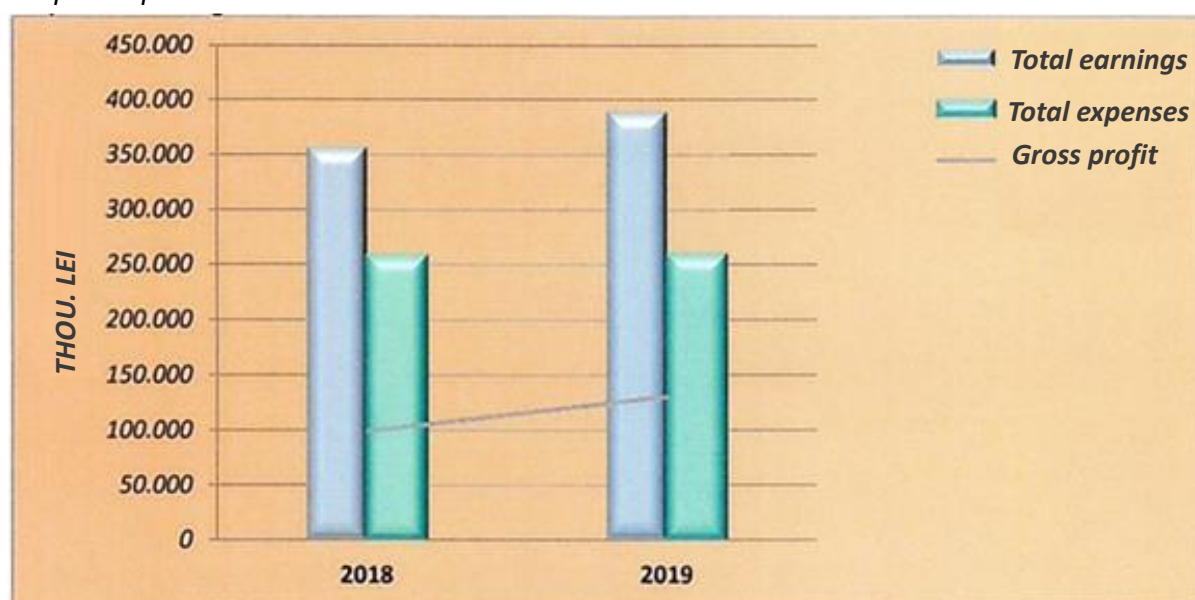


Chart 3 – Revenues, expenditure and gross profit

The Company registered a gross result of 130,448 thou. lei in 2019, which was 31.3% higher than in 2018, and by 26.5% larger than the budgeted one, positively influenced by the total revenues of the Company which increased by 9.1% compared to the previous year.

Structure of Gross Profit (see Table 12)

	Done 2018	Planned 2019	Done 2019	% year	% programme
Gross profit (Thou. Lei)	99,316	103,109	130,448	131.3	126.5
Operating Profit	95,838	92,638	116,982	122.1	126.3
Financial profit	3,478	10,471	13,466	387.2	128.6

Table 12 – Gross profit structure

#### 4. Analysis of the main economic indicators

##### 4.1. EBITDA

Realised EBITDA in 2019 registers an increase by 23.2% compared to the previous year (163,488 thou. lei), and the gross profit rate increased by 19.5% (Table 13):

	Realised in 2018	Realised in 2019	%
NET PROFIT	76,920	108,214	140.7
Corporate tax	22,396	22,234	99.3
Interest rates	0	0	
Adjustments & Amortisations	33,384	33,040	99.0
EBITDA	132,700	163,488	123.2
Revenues from production sold	318,370	349,944	109.9
Gross profit	99,316	130,448	131.3
Gross profit rate	31.2%	37.3%	119.5

Table 13 – Economic indicators

#### 4.2. Liquidity

The accounts receivable aging report for 2018 and 2019 is presented in Table 14:

Year	Indicators	BALANCE	Age categories [days]				
			1-30	31-60	61-90	91-120	more than 120
2018	Trade receivables (thou. lei)	82,139	19,356	2,943	919	1,511	57,410
	Current receivables (thou. lei)	19,356	19,356				
	Outstanding receivables (thou. lei)	62,783		2,943	919	1,511	57,410
	Adjustments *) (thou. lei)	16,027					
	Trade receivables (thou. lei)	92,306	20,509	3,674	2,324	2,348	63,451
2019	Current receivables (thou. lei)	20,509	20,509				
	Outstanding receivables (thou. lei)	71,797		3,674	2,324	2,348	63,451
	Adjustments **) (thou. lei)	10,796					

Table 14 – Accounts receivable statements

\*) in 2018, of the total receivables amounting to 82,139 thou. lei, outstanding receivables amount to 62,783 thou. lei; following accounts receivable adjustments amounting to 16,030 thou. lei, which represent easy instalment plans, the level of outstanding receivables was 46,756 thou. lei.

\*) in 2019, of the total receivables amounting to 82,139 thou. lei, outstanding receivables amount to 62,783 thou. lei; following accounts receivable adjustments amounting to 16,030 thou. lei, which represent easy instalment plans, the level of outstanding receivables was 46,756 thou. lei.

The level of outstanding receivables registered in the reporting period is caused by the difficulties in their recovery, due to the systematic payment refusals by some customers of C.N. APM S.A., to ongoing litigations and to cases of insolvency and bankruptcy.

**Accounts receivable turnover ratio** increased by approx. 2 day, indicating an increase in the account receivable collection period, and the supplier turnover ratio remained approximately the same as during the previous year (see Table 15):

	Done 2018	Done 2019	%
Client turnover (days)	88.19	90.98	103.2
Supplier turnover (days)	10.33	10.56	102.2

Table 15 – Accounts receivable, supplier turnover

**Liquidity** was maintained within reasonable parameters, well above the minimum safety limits (Current liquidity safety ratio = 2 and Immediately-available liquidity or acid-test safety ratio = 1), as presented in Table 16:

	Realised in 2018	Realised in 2019	%	Minimum safety level
Current Liquidity	11.26	10.42	92.6	2.0
Immediately-available liquidity	11.17	10.35	92.7	1.0

Table 16 - Liquidity indicators

It is also important to mention that CN APM SA Constanța does not register arrears.

#### 4.3 Risk indicators

Company indebtedness decreased by 16.2% compared to 2018, reaching 16%, compared to the minimum safety level of 30% (see Table 17):

	Realised in 2018	Realised in 2019	%	Minimum safety level
Indebtedness (%)	0.19	0.16	83.8	30.0

Table 17: Indebtedness

#### 4.4. Labour productivity

Labour productivity expressed in value units obtained by the Company in the financial year 2019 increased by 8% compared to 2018, due to the judicious use of human resources and to the special focus on maintaining this indicator within budget (Table 18):

	Realised in 2018	Realised in 2019	%
Labour productivity (thou. lei/person)	391.43	422.58	108.0

Table 18 - Labour productivity

## V. DEVELOPMENT ACTIVITY

Investments play a crucial role in the rehabilitation, modernisation and development of existing facilities.

For 2019, the company scheduled investments amounting to 196,188 thou. lei and realised 129,971 thou. lei, with Company own sources realised in proportion of 50.9%, and budgetary allocations in proportion of 80.1%, as indicated by *Table 19*:

### Investment (thou. lei):

	Realised in 2018	Planned for 2019	Realised in 2019	Achievement %
<b>Sources of investment financing (thou. lei), of which:</b>	46,278	196,188	129,971	66.2
Own sources	11,227	92,829	47,214	50.9
Budgetary allocations, of which:	35,051	103,359	82,757	80.1
European Regional Development Fund - ERDF	342	527	0	0.0
Large Infrastructure Operational Programme - LIOP	1,851	61,239	55,783	91.1
Connecting Europe Facility - CEF	11,955	18,082	3,464	19.2
Transfers for rehabilitation (instalments, interest)	20,862	22,023	22,022	100.0
Budgetary allocations for investments	41	1,488	1,488	100.0

*Table 19 Investments in 2019*

The projects implemented using European Funds hold an important place in the development activity in 2019; we present below these projects:

### LIOP - PROJECTS UNDER IMPLEMENTATION

#### 1. Modernisation of port infrastructure, by providing deeper approach channels and basins and by increasing navigation safety in the port of Constanta

##### A. *Dredging works to bring the basins and channels in the Port of Constanta to the design quota*

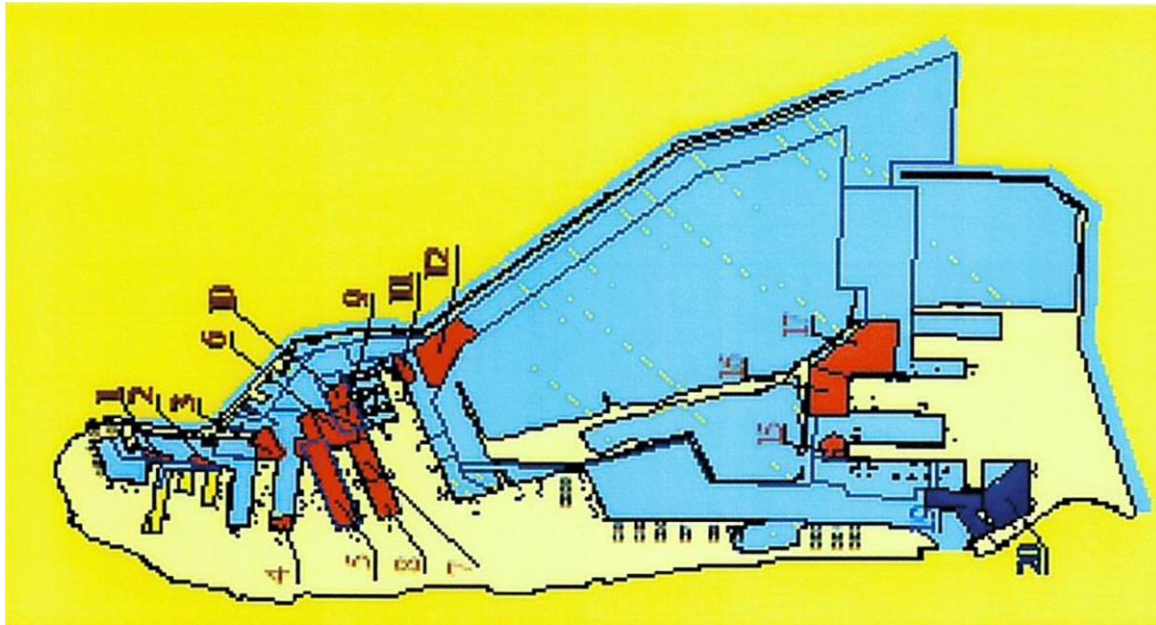
Current status: 35%

Acceptance upon completion of works for sectors Z01, Z02, Z03, Z17 and Z19 Dredging decision for areas: 4, 5, 6, 7, 8, 9, 10, 11, 12, 15, 16.

Quantity dredged until 31.12.2019: 930,320 m<sup>3</sup>.

Dredging will be completed by the end of February 2020.

Dredging building permit no. 755/15.05.2019



## **B. Quay works in the working port**

### **Current status**

The Design for obtaining the Building Permit was developed; the works entail consolidation works at the foundation of the existing quays and the extension of the canopy with the facing beam; it was approved by the Technical-Economic Committee on 31.07.2019.

The Building Permit no. 1330/19.08.2019 was obtained.

- The Technical Design is being studied by CN APM SA, to be submitted for approval to the Technical-Economic Committee of Constanta Port Administration.
- The Building Permit for OS no. 1199/30.07.2019 was obtained

## **C. Hydrographic system (including the research vessel)**

### **Current status**

A contract was concluded with the Association SC NAVTRON SRL and SC ELECTROSCOICA MAR SRL. On 10.01.2020, the Provider will present the technical design approved by the Romanian Naval Authority (ANR).



## 2. Implementation of Deep Water Berth (Berth 80)

### Project Objectives:

#### A. Hydrotechnical works:

To modernise berth 80 on a 305 m length.

To install new equipment for berths (shock absorbers, bollards, etc.), suitable for high capacity ships.

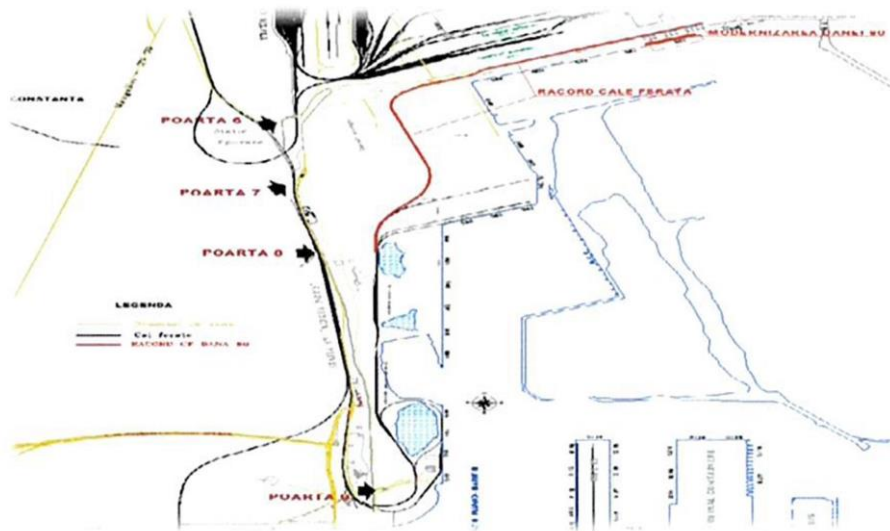
#### B. Railway works:

To extend the railway infrastructure to the new Cereal Terminal by 4,114 m, adding to the industrial railway extension built under the project “Development of railway capacity in the river-maritime area” (*Dezvoltarea capacitatii feroviare in zona fluvio-maritime*) under the transport operational programme “SOP-T 2007-2014”.

Current status: 88%

Financial status: 39.31%





## CEF Transport - PROJECTS IN IMPLEMENTATION

### PROTECT: Infrastructure for safe operations and environmental protection in the Port of Constanta

#### Project Objectives:

- A. To modernise the signalling system in the port basins and on the waterway
- B. Procurement and commissioning of a technical vessel
- C. Technical ship berthing infrastructure and platform arrangement (equipment + utilities) for technical ship related services



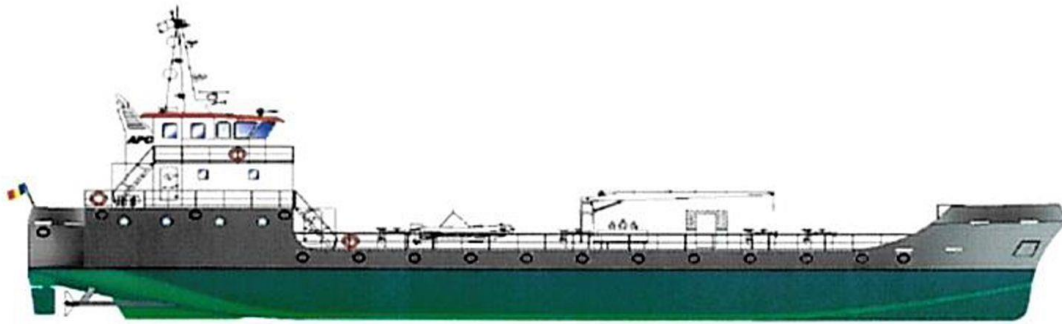
#### A. To modernise the signalling system in the port basins and on the waterway

Current status: 100% The project included:

- [illegible]

Vessel characteristics:

- Maximum Length approx: 44.57 m
- Width approx: 8.90 m
- Moulded depth 3.90 m
- Draught: 2.90 m
- Navigation area - limited 2R (in compliance with ANR rules)
- Gross tonnage: 600-650 GRT
- Speed: 11 knots
- Autonomy: 800 NM
- Accommodation facilities on board for a crew of 6 members
- Storage capacity (3 compartments): 60 m<sup>3</sup> (goods) 475 m<sup>3</sup> (goods) 247 m<sup>3</sup> (ballast)



**Vessel use:**

- To collect waste and bilge water for orders exceeding 100 m<sup>3</sup>
- To collect wastewater from passenger ships and military ships, which usually stay in the port for a limited time, when they have to solve issues related to bilge delivery, garbage supply, etc.

To ensure the collection of wastewater from ships in the harbor, in case these ships do not enter the port.

**Current status:**

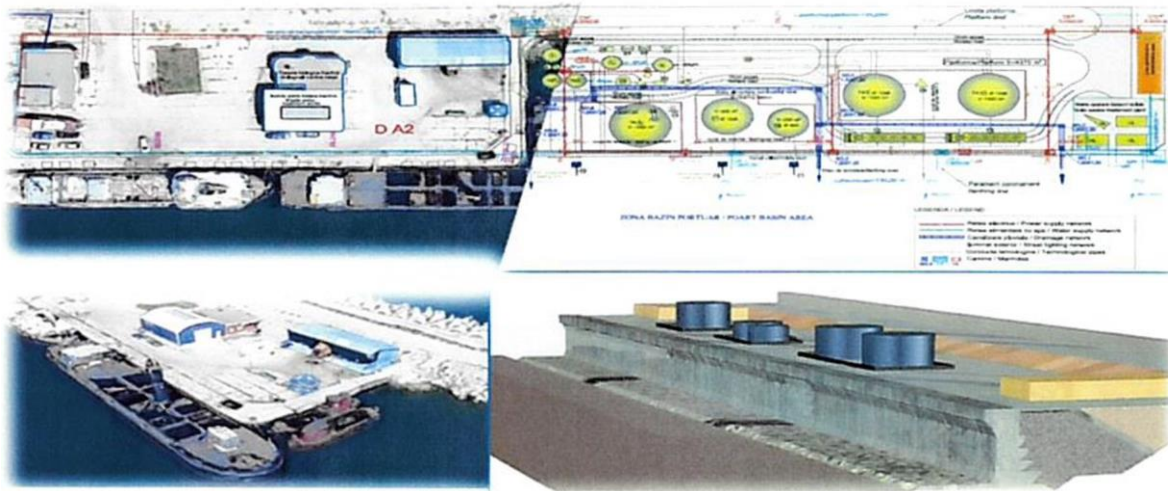
- Ship hull construction works are in progress. The ship hull launching took place on 16 December 2019.
- The Contractor reported delays in the approval of the technical design by Bureau Veritas, which caused delays in the performance of construction works and failure to comply with the ship delivery deadline; thus, the Supplier notified the Beneficiary in order to postpone the works performance period until July 2020.

**Financial status:** 20% (keel) + 30% (stage II - ship hull launching).

**C. Technical ship berthing infrastructure and platform improvement (equipment + utilities) for technical ship related services**

**Project Objectives:**

- A. Technical ship berthing infrastructure
- B. Platform improvement
- C. Technical ship berthing infrastructure and platform improvement (equipment + utilities) for technical ship related services



### *C. Technical ship berthing infrastructure and platform improvement (equipment + utilities) for technical ship related services*

#### *C.1. Technical ship berthing infrastructure*

##### **Objective:**

Construction of a new mooring quay by extending the existing DA2 berths with a length of approx. **130 m.**

##### **Current status:**

Site Organisation works are completed.

The Building Permit no. 1945/29.10.2019 was obtained and the works commencement notice was issued starting with 19.11.2019, but works performance will commence after the completion of the technical design by the Contractor and its approval by the Engineer and by the Beneficiary. The Contractor submitted the technical design for infrastructure at the end of December 2019. Currently, the Contractor is implementing the Engineer's comments, and the documentation will be completed as soon as possible, in order to obtain the Engineer's approval and documentation endorsement by within the Technical-Economic Committee of Constanta Port Administration.

#### *C.2. Platform improvement*

##### **Objective:**

Superstructure works, more specifically the development of a platform of approx. **4,370 sqm** behind the new mooring quay and the construction of a terminal for the collection, storage, treatment of wastewater (according to the MARPOL 73 Convention) from ships.

**Current status:**

The Urban Planning Certificate was obtained; design services are in progress. The Preliminary Technological Report was completed. The Report was approved by the Engineer, and the Contractor will prepare the documentation for the Environmental Agreement procedures.

The Contractor reported delays in design completion and commencement of construction works, which may impact on the contract completion deadline.

**Financial status infrastructure + superstructure: 10%** (advance payment)

**OWN INVESTMENTS**

Some of the more important investment objectives in the total investments financed from own sources:

Indicators (thou. lei)	Planned for 2019	Realised in 2019	%
<b>Own investments, of which:</b>	<b>92,829</b>	<b>47,214</b>	<b>50.86</b>
Civil engineering works connection point 20 (6) kV and Transformation Point 20(6)/0.4kV in the river-maritime area, berths 85-89 - Design and execution / C2	1,684	1,686	100.12
Technical Design + Works performance - Construction of outdoor street lighting electrical networks - Modernisation and extension of the Maritime Berths Monitoring System - North Zone of Constanta Port and extension of berth monitoring system South Zone of Constanta Port	1,160	1,034	89.14
Co-financing for "Implementation of Deep Water Berth (Berth 80)"	1,940	1,800	92.78
Shock absorber replacement berth 79	3,261	1,291	39.59
Constanta and Midia dam repair works	2,870	2,889	100.66
	10,627	9,180	86.38

**VI. COMMERCIAL ACTIVITY****1. Freight traffic**

Freight traffic is the main source of income that generates a close correlation between the core activities of the Company.

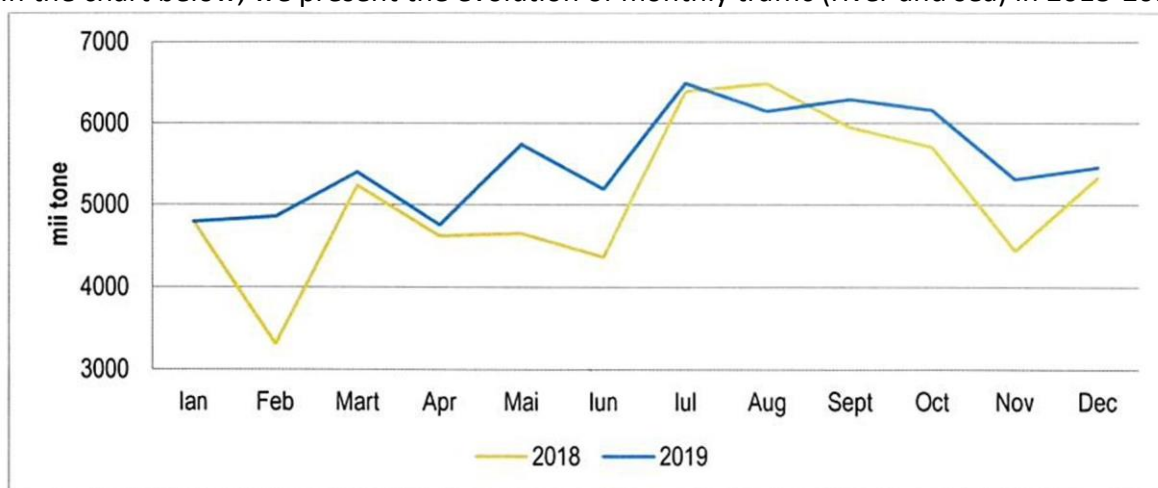
In 2019 freight traffic increased by 5,298 thousand tons (108.6%) compared to 2018.

**Freight traffic evolution (Table 20):**

	THOU. TONS	
	2018	2019
<b>Total traffic (river and sea)</b>	<b>61,304</b>	<b>66,602</b>
Jan	4,797	4,792
<b>February</b>	3,314	4,855
March	5,238	5,400
April	4,620	4,761
May	4,654	5,743
June	4,366	5,193
July	6,392	6,497
<b>August</b>	6,488	6,146
September	5,952	6,291
October	5,708	6,158
November	4,440	5,311
December	5,335	5,455

**Table 20 – Freight traffic evolution 2018-2019**

In the chart below, we present the evolution of monthly traffic (river and sea) in 2018-2019:

**Chart 4. Monthly freight traffic evolution (river and sea) 2018-2019**

Freight traffic in 2019 vs 2018, by main categories of freight (liquid bulk, solid bulk, containers, general cargo) (see Table 21):

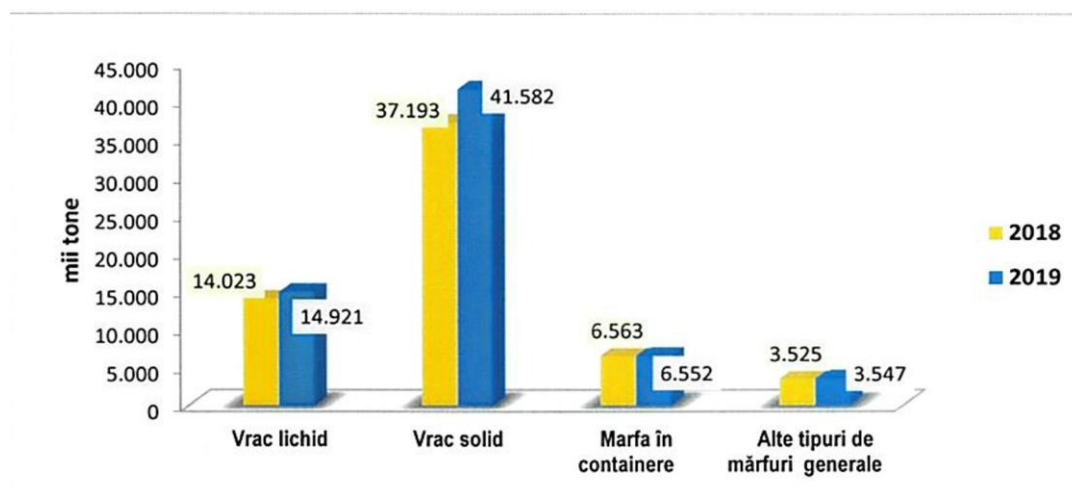
	Thou. tons		
	2018	2019	%
Total traffic (river and sea), of which:	61,304	66,602	108.6
Liquid bulk cargo	14,023	14,921	106.4
Solid bulk cargo	37,193	41,582	111.8
Containerised cargo	6,563	6,552	99.8



Other types of general cargo	3,525	3,547	100.6
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**Table 21 – Comparative total traffic analysis**

**Graphic representation of traffic by types of freight:**

*Chart 5 Traffic by types of freight in 2018-2019*

**Freight traffic structured by main types of freight (see Table 22):**

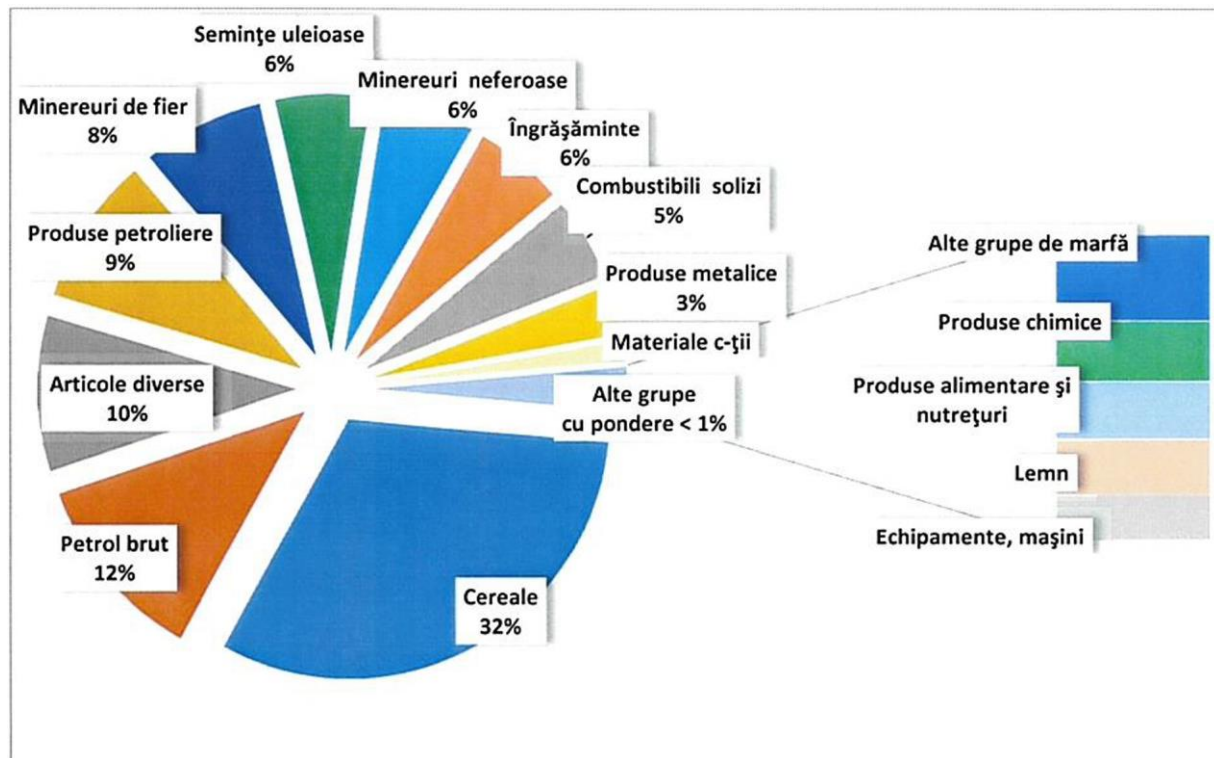
**Thou. tons**

	2018	2019	%
Total cargo handled	61,304	67,602	110.3
Grains	17,964	21,329	118.7
Crude oil	7,475	8,027	107.4
Miscellaneous articles	6,567	6,561	99.9
Petroleum products	5,898	6,296	106.7
Iron ore	4,522	5,190	114.8
Oily seeds	3,262	4,023	123.3
Nonferrous ores	3,976	3,862	97.1
Fertilisers	3,008	3,835	127.5
Solid fuels	3,770	3,529	93.6
Metal products	2,287	2,141	93.6
Other freight	762	538	70.6
Chemical products	590	376	63.7
Food and fodder	167	364	218.0
Wood	315	350	111.1
Equipment, machinery	535	290	54.2
Cement, lime, construction materials	206	891	432.5

**Table No. 22 – Total cargo handled, per cargo categories**



### Share of main cargo groups



**Chart 6 Share of main cargo groups in total traffic**

Freight traffic analysis by cargo group highlights that in 2019, compared to 2018, there is an increase in traffic for certain cargo groups that have a significant share in total traffic, more specifically:

- the cereal group, accounting for 32% the total freight traffic, registers an increase by 3,365 thousand tons;
- the crude oil group, accounting for 12% the total freight traffic, registers an increase by 552 thousand tons;
- the petroleum products group, accounting for 9% the total freight traffic, registers an increase by 398 thousand tons;
- the iron ores group, accounting for 8% the total freight traffic, registers an increase by 668 thousand tons;
- the oily seeds group, accounting for 6% the total freight traffic, registers an increase by 761 thousand tons;
- the chemical fertilisers group, accounting for 6% the total freight traffic, registers an increase by 827 thousand tons.

## Share of main operators in total traffic of the Port of Constanța

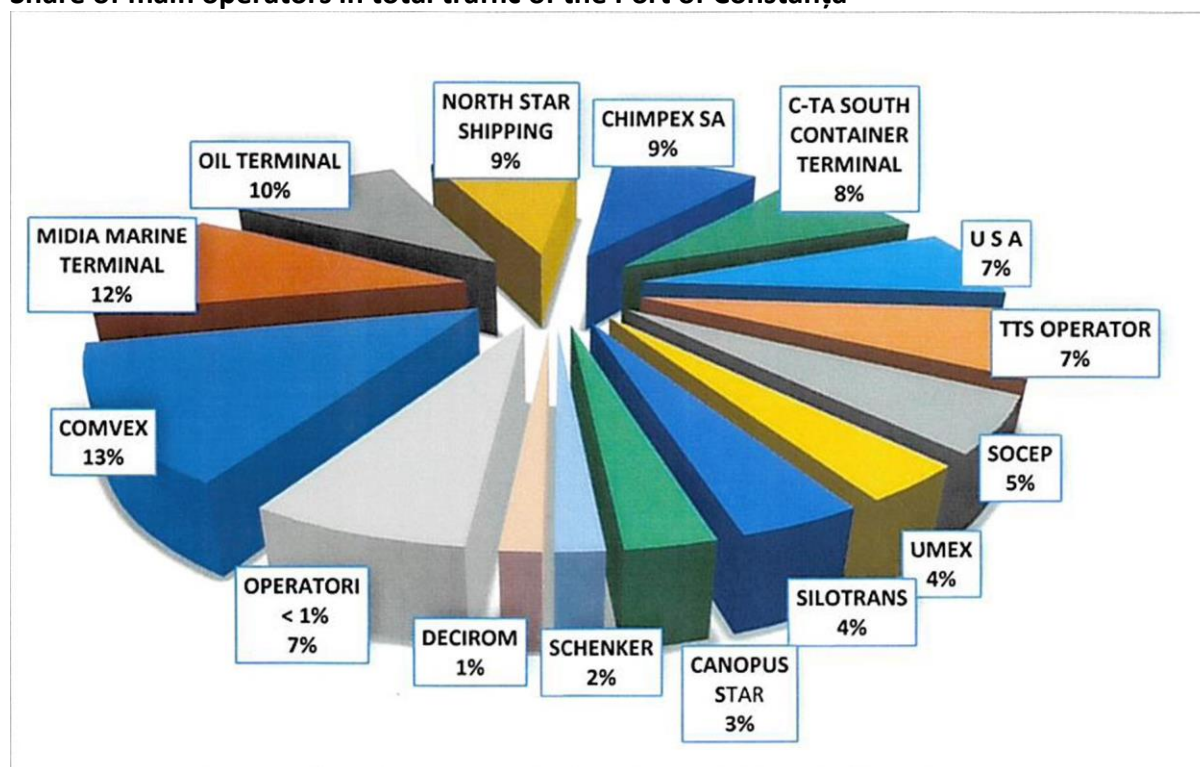


Chart 7 – Traffic breakdown by port operators in 2019

Freight traffic in the Port of Constanța is closely correlated with the number of sea and river transport ships that stop in this port for operations (loading/unloading); this is reflected by Table 23 and Chart 7:

Vessels operated (number of vessels)	2018	2019
Sea vessels operated (number of vessels)	3,795	3,776
River vessels operated (number of vessels)	8,131	8,873

Table 23 – Number of vessels operated

## Comparative evolution of the number of vessels operated

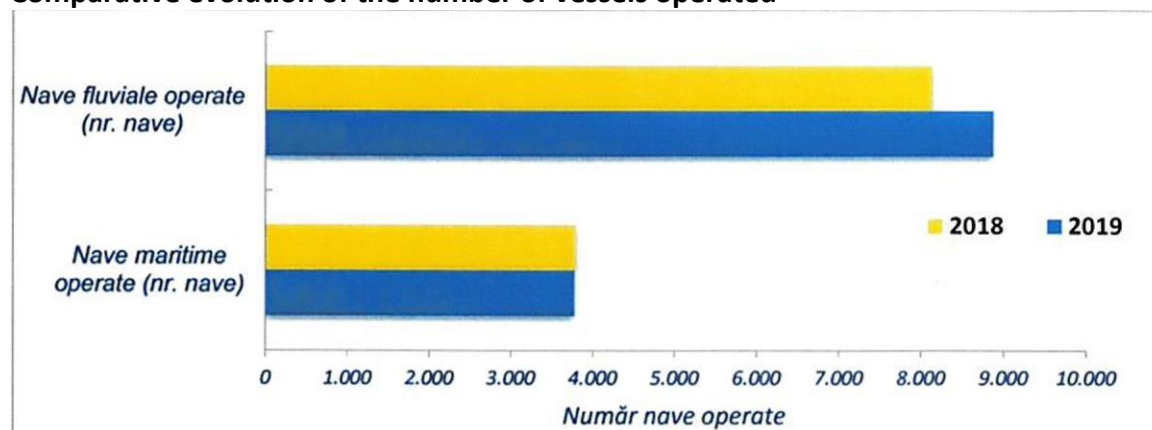


Chart 8 Comparative evolution of the number of ships operated

## **2. Analysis of ship service activity**

A share of the Company's income is generated by the provision of services to ships flying the Romanian flag and foreign flags and calling at/docking in Romanian seaports, according to agency and shipowner agreements.

**A. Agency Agreements** enable CN APM to ensure:

- the use of port infrastructure in Constanța, Mangalia, Midia and Basarabi for the entry/exit and parking of vessels represented by the Agent, pursuant to the domestic and international legal provisions in force and to the provisions of the Agreement, using the tariffs and conditions provided by Annex 1 to the Agreement;
- for the vessels represented by the Agent, the services expressly indicated by Annex 1 to this Agreement, using the tariffs and conditions provided therein for the vessels represented by the Agent;
- for the vessels represented by the Agent, safety services for vessel pilotage and towing by means of specialised Agents, authorised by CN APM to deliver such services. Any vessel in the naval ship classification benefits from security services.

**190** Agency Agreements were in progress in the period of 01.01 - 31.12.2019, as follows:

- ✓ **3** agreements were extended by law
- ✓ **90** agreements were extended by Addendum
- ✓ **97 new** agreements were concluded during the reporting period;

98 Agency Agreements were terminated in the period of 01.01 - 31.12.2019, consequently, 92 Agency Agreements were in progress as at 31.12.2019.

**B. Shipowner Agreements** enable CN APM to ensure:

- the use of port infrastructure in Constanța, Mangalia, Midia and Basarabi for the entry/exit and parking of vessels represented by the Agent, pursuant to the domestic and international legal provisions in force and to the provisions of the Agreement, using the tariffs and conditions provided by Annex 1 to the Agreement;
- for the Shipowner's ships, the services expressly mentioned by Annex 1 to this Agreement, using the tariffs and conditions provided by the Agreement;
- for the Shipowner's ships, safety services for vessel pilotage and towing by means of specialised Agents, authorised by CN APM to deliver such services. Any vessel in the naval

ship classification benefits from security services.

111 Shipowner Agreements were in progress in the period of 01.01 - 31.12.2019, as follows:

- ✓ contracts were extended by law
- ✓ 51 agreements were extended by Addendum
- ✓ 56 Agreements were concluded in 2019, and 58 Agreements were terminated, consequently, 53 Shipowner Agreements were in progress as at 31.12.2019.

**C. Through the fishing vessel pricing agreement**, CN APM ensures for a fee, the use of port infrastructure within the port of Constanța - Midia area, for the entry / exit and parking of fishing vessels, with a length not exceeding 20 m, pursuant to the domestic and international legal provisions in force.

22 fishing vessel pricing agreements for fishing vessels parked within the port of Constanța - Midia area were in progress in the period of 01.01 - 31.12.2019, as follows:

- ✓ 8 agreements were extended by law
- ✓ 0 agreements were extended by Addendum
- ✓ 14 agreements were concluded during the reporting period

8 Agreements were terminated in 2019, consequently, 14 fishing vessel pricing agreements were in progress as at 31.12.2019.

**D. Through the contract of pilotage services on seagoing ships**, CN APM grants operators the non-exclusive right to perform safe pilotage services on seagoing ships in the ports of Constanța, Midia and Mangalia.

4 contracts of pilotage services on seagoing ships were in progress in the period of 01.01 - 31.12.2019, as follows:

- ✓ 4 contracts were extended by law
- ✓ 0 contracts were extended by Addendum
- ✓ 0 contracts were concluded during the reporting period

No contract was terminated in 2019, consequently, 4 contracts of pilotage services on seagoing ships were in progress as at 31.12.2019.

**E. Through the contract of towage**, CN APM grants operators the non-exclusive right to

perform safe towage services in the ports of Constanța, Midia and Mangalia.

4 contracts of towage were in progress in the period of 01.01 - 31.12.2019, as follows:

- ✓ **3** contracts were extended by law
- ✓ **0** contracts were extended by Addendum
- ✓ **1** contract was concluded during the reporting period;

No contract was terminated in 2019, consequently, 4 contracts of towage services were in progress as at 31.12.2019.

For all the above mentioned contracts, the payment of services was guaranteed by performance guarantees (letter of bank guarantee; guarantee deposited in the current account of CN APM guarantees; deposit in collateral account available to CN APM), according to the contractual clauses. Agents / shipowners who did not comply with this clause were notified and the contracts for which a performance guarantee was not provided were terminated.

### **3. Lease activity analysis**

In 2019 we continued implementing the new legal provisions laid down by Law 235/2017 which amended and supplemented the Emergency Ordinance 22/1999 in December 2017.

Thus, the framework agreements were published on the CN APM SA website on 03.01.2019, following the legislative amendments laid down by Law no. 235/2017, after completing all phases of developing the draft lease and sub-concession framework agreements. Then, all companies which have the legal obligation to conclude such agreements were notified.

following the public procurement procedure, for the purposes of accurate fulfilment of the commitments assumed by CN APM SA before the Competition Council by Decision no. 21/2018, the Agreement for the valuation of land plots, platforms and other assets owned by CN APM SA was concluded in order to establish their lease price.

The "Database" Service Agreement was concluded so as to enable access to economic, financial and legal information on the Company's business partners; such information may be necessary to provide an accurate picture of the companies which carry out activities in the port community.

Based on Article 40<sup>1</sup> of Law 235/2017, we commenced the process of amending existing agreements pursuant to the provisions of Law 235/2017.

The direct award procedure for public land was initiated for the legal users of port

infrastructure who do not have contracts for public land. During the year, the direct award procedure was applied for all companies falling under this category.

Upon completion of all phases, the lease agreements were submitted for execution, and the procedure was finalised as follows:

There were 33 applications for public land lease, and the outcry bidding option was analysed (internal correspondence with specialised and external departments, lease opportunity analysis). 10 tender procedures were organised for 9 plots which were awarded and for which leases were concluded. A lease opportunity analysis is in progress for the other applications, and will be submitted for approval.

31 lease applications were registered for facilities/warehouses owned by CN APM SA. Following tender procedures, 14 leases were concluded, and 9 applications turned into contracts as a result of the direct award procedure.

88 valuation reports were commissioned by tender procedure and direct award (prepared by the ANEVAR expert approved by CN APM SA) under award procedures for public land.

As at 31.12.2019, there were 460 contracts in progress (lease, concession and association) and 45 cases where companies use property owned by CN APM SA or by the state without contract rules, as the companies are in different stages of negotiation, litigation (including evictions) or bankruptcy.

During 2019, 629 addenda to the ongoing contracts and 48 leases were concluded, of which 17 short-term contracts (contract valid for less than 5 years) and 31 long-term contracts (between 5 and 20 years). Of these, 24 regulate the lease of public land, and 24 are real estate leases for property owned by CN APM SA.

The completion negotiations for the extension of the contract with CSCT and the addendum to the lease contract dated 31.01.2019 had a positive and relevant impact on the revenues realised in 2019. The addendum included a positive lease renegotiation.

## **VII. HUMAN CAPITAL**

### **EMPLOYEES AND SALARY FUND**

The human resources policy aims at the professional development of the employees, their continuing training, and acquisition of the advanced knowledge they need in their professional activity, the enhancement of their individual and collective performance, of work quality, targeting excellence and professional recognition; the goal is to motivate employees, to attract the right workforce to implement the strategy of rejuvenating our human resources capital, and to reduce the average age at Company level.

In 2019, the human resources policy of CN APM SA Constanța mainly focused on employee motivation, by performance recognition, by means of bonuses, as provided by the collective labor agreement, of individual share of profit, according to the personal contribution each employee had to the profit for the previous year, and by means of salary negotiation that took place in August; the employees had the opportunity to negotiate their base salary with their superiors, managers and with the general manager of the Company. In this context, each party had the opportunity to support their views and present their arguments for salary increase.

as part of the motivational strategy, CN APM SA Constanța also granted merit bonuses to all employees of the Company, in December 2019, on a case-by-case basis, depending on their professional performance in the reporting year.

More specifically, the staff employment and distribution by functional departments was carried out in compliance with the organisational chart approved by the Board of Directors and with the personnel structure budgeted in the Income and Expenditure Budget. The number of employees decreased during this period, from 906 employees at the end of 2018 to 905 employees as at 31.12.2019; this decrease was influenced by the number of employees who terminated their employment with CN APM SA.

In 2019, we focused on the process of selecting and hiring younger personnel, and the average age of new employees was 43 years old.

Also, in 2019 we focused on staff upskilling, development of procedures for the activities carried out by the Company, and on specific occupational health and safety activities.

## **PROFESSIONAL TRAINING**

To enhance labour quality, the Company deemed it necessary to invest in the professional training of the human resources capital through the numerous training courses followed by employees, through team building activities organised by functional structures, which aimed at training provision on certain topics of interest for those structures, relying on teamwork, team cohesion, etc.

A number of 358 employees participated in the training programmes delivered 2019 on topics such as: the development of the internal/management control system; corruption prevention and combating, avoiding abuse of power - the implementation of the anti-fraud control system, ethics and integrity; integrated quality-environmental-occupational health management system; internal audit; public procurement; finance courses - accounting, rectification of income and expenditure budget; commercial, IT; compliance with competition rules; implementation of the General Data Protection Regulation; professional certification/re-certification of supervisors for traffic safety on industrial railways; training



and authorisation of staff in charge with maintenance and operation of electrical installations; International Maritime Organization courses, security manager, etc.

The Company provided development support for the port platform personnel and for the employees of the municipality of Constanța and fostered cooperation between local institutions and authorities, through partnership agreements for internships for the Maritime University of Constanța students: Faculty of Naval Electromechanics (specialisations: Electromechanics and Electrical Engineering, Engineering and Environmental Protection in Industry); Faculty of Navigation and Naval Transport (Engineering Economics).

## **INTEGRATED MANAGEMENT SYSTEM**

177 documents related to the Integrated Management System were developed and reviewed in 2019. The documents were prepared so as to be introduced in the system in order to regulate those activities, and the document review activity was underpinned by the need for continuous improvement of the integrated management system. Given the special importance attached by the executive management team to the high quality of the services provided and the publication of the SR EN ISO 45001 standard (replacing the OHSAS 18001: 2008 standard), the commenced the implementation of the requirements according to the new standard to ensure that the transition audit is carried out at the beginning of 2021, as part of supervisory audit No. 2 was contemplated in 2019.

As regards the objectives and indicators related to the SMI processes for the first and second semesters of 2019, the process indicators related were achieved, which highlights the applicability and effectiveness of the system.

the renewal audit for the certification of the environmental management system and of the occupational health and safety management system was conducted in May 2019 by the company S.C. SRAC CERT S.R.L.; the audit mission ended with the maintenance of the ISO 14001: 2015 and OHSAS 18001: 2008 certification. In the same month, the company C.C. SUN CERT S.R.L. conducted the second supervisory audit of the quality management system, also resulting in the maintenance of the ISO 9001: 2015 quality management system certification.

## **OCCUPATIONAL HEALTH AND SAFETY**

In terms of prevention and protection activities, the Company complies with occupational health and safety legal provisions and requirements. In 2019, the goal was to continuously improve occupational health and safety performance. In order to keep the risks of accidents and occupational diseases under control, action plans were developed for the specific activities of each branch, as well as the OSH management programme, the prevention and protection plan and the occupational health and safety training and testing plan.

The occupational health and safety objective was “To reduce the number of accidents at work,

which has the indicator  $h = 0$  (zero) accidents at work with permanent disability registered with the Territorial Labour Inspectorate". The value of the "h" indicator for 2019 is  $h = 0$ .

In 2019, no work accident causing permanent disability occurred in CN APM SA Constanța; nevertheless, a work accident occurred on 27.01.2019, resulting in temporary incapacity to work of 89 days, of which five hospitalisation days, according to the mentions included in the Annex to the Workplace Accident Registration Form.

#### RELATIONSHIP WITH TRADE UNIONS

In 2019, CN APM SA Constanta had very good employer-trade union relationships; the Company management and the representatives of the two existing trade unions, more specifically the Trade Union within CN APM SA Constanța and the Trade Union Port Authority Constanța focused on safeguarding the interests of CN APM SA Constanța employees.

The employer-trade union relationship involved meetings of the joint commission, meetings of the fund management committee for the payment of benefits granted to CN APM SA employees, and meetings of the sponsorship committee to evaluate sponsorship applications received whenever applicable, in order to identify the best solutions for Company employees, pursuant to the legal provisions in force.

Negotiations took place over June-August 2019 between the representatives of CN APM SA Constanța who had been appointed under a decision of the General Manager of the Company, and the representatives of the Trade Union of CN APM SA Constanța and of *Port Authority Constanța* Trade Union to conclude a new collective bargaining contract, as the previous contract was effective until 01.07.2019.

There were 12 negotiation sessions to debate the proposals promoted by all three parties involved, the employer and the two trade unions; the final decisions entailed detailed analyses on compliance with legal provisions, with the limitations established by the Income and Expenditure Budget of the Company, and with the mandate granted by the Board of Directors to the General Manager.

The new collective bargaining contract was registered with the Territorial Labour Inspectorate Constanta under no. 644/30.08.2019; it is effective for the period of 01.09.2019-01.07.2021, and it provides new rights to Company employees.

#### IMPLEMENTATION OF THE NATIONAL ANTI-CORRUPTION STRATEGY 2016-2020:

The integrity plan at Company level, the declaration of adherence to the fundamental values, principles, objectives, measures and deadlines provided by the National Anti-Corruption Strategy for 2016-2020 adopted at Company level were updated and the anti-corruption policy at Company level was developed.

In order to comply with the measures in the integrity plan, compliance with the legal provisions (Annexes no. 4 and 5 of Government Decision no. 583/2016) on the publication of information of public interest was monitored.

At the same time, the implementation of the set of measures for institutional transparency and corruption prevention was carried out and monitored - Annex no. 3 to Government Decision 583/2016.

Corruption prevention at Company level was regulated by General Manager decisions approving the integrity plan and appointing: the integrity plan coordinator, the contact person for the implementation of the integrity plan, the ethics advisor, the integrity advisor, the persons responsible with ensuring access to public-interest information, the structure responsible with petition management, the working group, the persons responsible with the receipt and centralisation of whistleblower notices, the committee for gift inventory, the working group for the implementation of the standard corruption risk assessment methodology. The following working instructions were reviewed and integrated in the IMS Guide: 1. Systematic collection of data necessary for the self-assessment of the implementation of anti-corruption preventive measures included in the Integrity Plan, monitoring and reporting on issues related to corruption prevention and combating; 2. Whistleblower notices; 3. Identification of corruption risks and vulnerabilities; 4. Integrity incidents assessment.

in order to raise awareness, the Company disseminated on the internet and in printed format anti-corruption materials and guides on corruption risks and consequences and on integrity incidents, and permanently updated the National Anti-Corruption Strategy section in the Company intranet network. Participation in training and upskilling training programmes on anti-corruption topics was ensured for the staff responsible with the coordination and implementation of the integrity plan and training was provided for employees responsible with the implementation of ethics and conduct rules. At the same time,

staff information and awareness-raising activities on methods to prevent and combat acts of corruption were delivered by the County Anti-Corruption Unit of Constanța.

## **VIII. IT**

In 2019, IT activities focused on the following:

### **1. Ensuring IT security in the operation of the integrated IT system of the Company.**

Monitoring the IT threats to the IT infrastructure revealed a number of threats propagated mainly by e-mails through Office document attachments which had used the exploits of Office applications (Exploit.CVE-2017- 11882, Exploit.RTF-ObfsObjDat.Gen, Exploit.RTF-ObfsStrm.Gen, Exploit.CVE-2017- 8570.Gen, Exploit.MathType-Obfs.Gen).

Some of the threats identified include: Trojan-type malware (RAT - remote administration tool - Pony, jRAT), infostealer (Lokibot, Fareit, Trojan.PasswordStealer.GenericKDS), keylogger (Hawkeye, Agent Tesla, AIT: Trojan.Nymeria).

Such threats mainly aimed at collecting credentials for e-mail and ftp accounts, information on the web pages visited (history, cookies), keystroke and printscreen logging or PC control for other malware activities.

Scans and tests of exploits of the network area exposed to the Internet were performed using specialised tools such as: Masscan.Scanner, DFind.Vulnerability.Scanner,

WebRTC. Local. IP.Addresses.Disclosure, udp\_flood, Zeroaccess.Botnet,

Nmap.Script.Scanner, Xtreme.R

AT.Botnet.MS.Windows.HTTP.sys.Request.Handling.Remote.Code.Execution.ZmEu.Vulnerability.Scanner.TCP.Split.Handshake,

MS.Windows.MSCOMCTL.ActiveX.Control.Remote.Code.Execution.

These threats were countered by using the antivirus and firewall available provided along with the IT security policies implemented.

## **2. Ensuring the optimal and uninterrupted operation of the existing IT infrastructure**

in the activity of monitoring software behavior and user requests during the reporting period, we note the large share held by technical support intended to obtain from IT system the necessary data to perform analysis and statistical reports in dedicated modules for commercial activity (Agents and Shipowner Agreements, lease and concession contracts, pilotage and towage contracts), port activity - freight traffic reports), implementation of legislative changes (payroll, human resources, financial accounting) or to extend functionalities etc.

Consequently, we may conclude that the IT system needs to be modernised so as to ensure its harmonisation with the new business requirements of the Company and to enable continuous and real-time monitoring of economic activity, through reporting and analysis functions, and to provide the necessary elements to substantiate decisions and control.

As regards the hardware infrastructure (workstations and printers), following the completion of procurement procedures, some of the equipment affected by moral and physical wear and tear or for which support is no longer provided by the software manufacturer (PC with Ms Windows XP or Vista) was replaced. Computer network extension and repair works were performed for 125 network outlets.

## **3. Modernisation of the integrated IT system of the Company and extension of relevant functionalities for the port community in order to align the port of Constanța with the**

**requirements of European ports and to ensure compatibility with the services provided by them, harmonisation with European legislation on transport activities.**

Although the Neptun IT System is functional, the outdated technology brings many limitations, which impact both on the flexibility and on the time needed to implement new requirements or features:

- the modules are difficult to interface with other systems, both technically and legally;
- the client-server technology (specific to the '90s) has serious shortcomings in terms of process execution time, as it is not adapted for a large number of users.
- long intervention/error correction times, and long processes for the development of new functionalities (according to legislative changes or ad-hoc requirements).

Also, the CN APM Constanța Portal, which is both an instrument for information and for promoting the activity of the Constanța Port Company and of the companies operating in the port perimeter, and an integrated platform providing access to the applications included so far, which involve the authorities (APMC, ANR, Border Police) and the companies involved in transport activities (agency companies, cargo operators, pilotage companies, towage companies, etc.), covers only in part the business requirements.

Economic globalisation, trade liberalisation initiatives, free trade agreements, and continued technological advancement in IT&C have major implications for maritime freight transport and place ports as key points in the supply chain.

The complexity of the port operational activities, determined by the numerous parties involved, the multiple modes of transport that interfere with the port, the specific processes, require dedicated information exchange systems which bring major benefits to the port community.

All these underpinned the actions undertaken together with the European Projects Unit to identify technical and financial solutions for the implementation of an integrated IT system dedicated to the management of activities and information flows on the Constanța port platform "Port Community System".

Thus, a first phase was completed by conducting a market research, to obtain information on the preparation and implementation of the project: functionality, duration and sources of funding.

## **IX. RISK MANAGEMENT**

Various risks were identified, of which we mention:

- The volume of demand for services that depends on multiple factors beyond the control of the Company, including climate and economic conditions;
- The Company assets may be affected by natural disasters or by human errors;
- Operating results may be adversely affected by disputes;
- The tax authority may impose additional tax obligations related to previous periods with implications for the Company results;
- The Company must comply with specific legal and regulatory requirements, and is subject to significant penalties in case breaches are identified.

The following risk factors were monitored in 2019:

*Liquidity risk*

The Company maintains sufficient liquidity to meet its maturity obligations under both normal and stressful conditions, to avoid reputational damage or financial loss.

Actions were taken to reduce this type of risk as follows:

- termination of services to non-paying customers; establishment of performance guarantees and their collection in case of late payment or signs of imminent insolvency; additional efforts to expedite claims recovery.

*Exchange rate risk*

The business model of the Company provides natural hedging to exchange rate fluctuations (fx). Part of the Company revenue is collected directly in a foreign currency. Additionally, depending on cash needs, the Company maintains cash available in both lei and foreign currency deposits.

***Economic risk***

The operating activity depends to a large extent on the management of internal and external factors, mainly on the evolution of sales prices, on the cost-price ratio, quality-price ratio, on the change in the structure of expenses in relation to the volume of activity.

*Financial risk*

The Company management constantly monitors the liquidity level and the liquidity analysis coefficients.

Foreign exchange risk is managed by foreign currency deposits. Payment risk is managed by

monitoring overdue receivables and by applying corrective actions as soon as signs of customer solvency issues are detected. The payment reschedules are at the due date, and in case of non-compliance, the contract is terminated.

The Company has no external debt, and the Company solvency ratios are well above the “2” limit.

#### *Operational risk*

Operational risk is managed through insurance companies. All Company assets are insured; additionally, pursuant to law and regulations, both port operators and ships are insured for any damage they may cause (including pollution / environmental damage).

### **X. LEGAL ISSUES**

In 2019, the Company was involved in 438 case files pending before the courts, of which:

- 267 case files in which CN APM SA has the legal standing of plaintiff for recovery of receivables from invoices;
- 85 case files in which CN APM SA has the legal standing of plaintiff for other receivables;
- 86 case files in which CN APM SA has the legal standing of respondent.

145 new files were reported in 2019.

**Legal representation in court proceedings** entails different activities, depending on the legal standing of CN APM SA in the proceedings: either as defendant, or as plaintiff.

in the category *“Litigations filed by Economic Agents against the Company”*, motions to initiate proceedings are filed by economic agents for legal/business/economic considerations, by which the latter ask the court to rule on the annulment of decisions issued by the Company on damages or penalties arising from contracts in progress or on the Company obligation to pay various amounts.

in the category *“Litigations filed by Economic Agents against the Company”*, we mention the following:

- in the litigation with Rompetrol Rafinare on damages resulting from the non-performance of dredging obligations by the Company, the court of first instance partially admitted the request, and obliged the defendant CN APM SA to pay the amounts of EUR 1,570,000 and lei 73,173.27 representing court fees. Both parties filed an appeal against this court decision, and the court rejected Rompetrol’s appeal and admitted the appeal lodged by CN APM SA; the appeal proceedings resulted in the amendment of the initial court judgment, more specifically, the writ of summons was



rejected. Rompetrol Rafinare filed a second appeal, which was suspended on 09.05.2019 until a judgment is ruled on the plea of unconstitutionality.

- In the litigation against Comvex, whereby this company requested that the court should ascertain ownership rights for platforms covering 50,000 sqm, the court of first instance admitted the action, and obliged the defendant CN APM SA to give the plaintiff full ownership and possession for the following property - concrete platform behind the ore storage quay, covering 17,618 sqm; platform behind the ore storage quay (macadam), covering 21,611 sqm, assembly platform at the ore berths (macadam), covering 10,000 sqm. The court ordered that the defendant pay the plaintiff the amount of lei 69,030.39 representing court fees. CN APM SA filed an appeal, and the court rejected this appeal by decision no. 362/04.07.2018, and obliged the defendant to pay the amount of lei 24.000 representing court fees. By decision no. 957/16.05.2019, the High Court of Cassation and Justice rejected the appeal filed by CN APM SA as unfounded, and obliged the appellant to pay the amount of lei 23,800 as court fees.
- in the litigation against Port Prest Services on the absolute nullity of the lease contract, the court of first instance ruled in favour of the Company. Port Prest filed an appeal, which was rejected as unfounded by decision no. 426/19.09.2018. Port Prest Services filed a petition for annulment, which was rejected as unfounded, and a petition for review, which was rejected as unfounded by decision no. 255/22.05.2019.
- In the dispute with Van Oord, arbitration file no. 3/2017 brought before the Commercial and Maritime Arbitration Court attached to the Chamber of Commerce, Industry, Agriculture and Navigation of Constanta (CCINA), the claimant Van Oord Dredging and Maritime Contractors Bv lodged final claims against the respondent CNAPM SA for the amount of lei 154,376,979.28, resulting from the execution of the FIDIC works contract Red Book no 3973/01.02.2013. The Arbitration Award no. 16 of 26.11.2019 rendered in the case file no. 3/2017, established total payment obligations for CN APM SA in the amount of lei 25,411,056.76, plus interest according to contract provisions running from the invoice date (*for the cumulative amount of lei 19,320,509.33 and the cumulative amount of lei 1,913,339.52*), which resulted in an exemption from payment for CN APM SA in an estimated total amount of lei 126,350,685.65, plus the difference in interest according to contract provisions related to the correlative amount exempted from payment (*lei 35,973,296 and lei 38,972,862.70 respectively*). The following actions followed:
- **A request for annulment filed by Van Oord Dredging and Maritime Contractors Bv** in the case file no. 4/36/2020 brought before Constanța Court of Appeals. In this case file, Van Oord Dredging and Maritime Contractors Bv filed a request for annulment,

and CN APM SA, through S.C.A. Roș submitted a statement of response. The case file is pending preliminary procedures before the first hearing.

- **A request for stay of execution by CN APM SA**, case file No. 663/36/2019 brought before Constanța Court of Appeal. The request for stay of execution was rejected.
- **A request for annulment filed by CN APM SA** in the case file no. 662/36/2019 brought before Constanța Court of Appeal. In this case file, CN APM SA, through S.C.A. Roș and associates, filed a request for annulment, Van Oord Dredging and Maritime Contractors Bv filed a response to the request, and the preliminary procedures preceding the first hearing are in progress.
- The disputes with Romcargo, regarding the claims filed by this company amounting to lei 16,058,241.00 and lei 1,252,636.93, resulting from the alleged non-performance of dredging works, the court admitted the plea on the limitation of the right to file action for the claims prior to 24.10.2014, and dismissed the action as time-barred for these claims. The court dismissed the action as unfounded. The court ordered the plaintiff SC ROMCARGO MARITIME SRL, through insolvency administrator ARTEMIS LEGAL INSOLVENCY SPRL, to pay the amount of lei 4000 representing court fees (expert fee) in favor of the defendant CN APM SA; the court decision may be appealed against within 30 days after its communication.

There are also several litigations brought to court by economic operators, which are in various stages of litigation, generated by the manner of concluding port land leases in previous years.

with regard to disputes arising from the failure to agree by the parties on the conclusion of new port land leases by direct award pursuant to law, after several port land leases were signed in 2019 the legal relationships between the parties have acquired legal certainty, with a positive influence on the collection of current receivables.

The litigation risk generated by the lease of port land by means of direct award was addressed by concluding port land lease contracts (*for litigations related to contract conclusion, on the one hand*) or by litigation/settlement in court (*for litigations arising from the manner in which contracts were concluded, on the other hand*). Also, the risk is adequately addressed following the successful completion of the commitment procedure before the Competition Council, by compliance with the commitments assumed, and following the completion of public consultation procedures, negotiation and approval/clearance of framework agreements, pursuant to Law no. 235/2017.

Exposure risk in company law matters (annulment of decisions adopted by the Ordinary General Meeting of Shareholders and by the Board of Directors) occurs in several litigations, which are either pending before the court of first instance, or before the court of appeal.

Exposure risk in expropriation matters is addressed by solutions ruled by courts in pending case files. In this case, the litigation outcomes depend on the values established by expert reports.

The risk of exposure to labour disputes was reduced as the courts rejected most appeals against Company decisions. However, there are new files pending, regarding appeals against decisions adopted by the employer in labour matters, which should be finalised in 2020, according to our estimates.

It is important to point out that the High Court of Cassation and Justice settled the legal issue of the payment of the end-of-career bonus for 2018, and consequently, payments are made pursuant to law and to the collective bargaining agreement.

The risk of exposure to labour disputes for end-of-career bonuses remains open, as a result of the measure laid down by Art. 41 of the Government Emergency Ordinance 114/2018 stipulating that end-of-career bonuses shall not be granted over 2019-2021.

The risk of exposure to public procurement litigations was mitigated due to favourable rulings in older litigations. We note here the annulment of various financial corrections ordered against the Company by the Managing Authority for the Sectoral Operational Programme Transport, currently pending second appeal procedures. However, the litigation risk persisted in the Van Oord case, and new risks emerged in 2019, for example, the new litigations with Consal Trade SRL (to extend certain public procurement contracts concluded in 2004), currently pending before the court in various procedural stages.

In tax matters, favourable court decisions were ruled on the merits of the case in the disputes against the Constanta South Agigea Customs Directorate (*represented by the Regional Directorate General of Public Finance Galați*), following the issuance of tax decisions on tax liabilities related to customs debt (customs duties) to be paid by the Company as a result of the identification of missing seized property. The case which entails the main obligation to pay customs duties, VAT and excise duties was sent for retrial to the Constanța Court of Appeal with a hearing date on 23.03.2020. The case files on ancillary payment obligations were suspended until a final decision is ruled in the case file no. 395/36/2016\* mentioned above.

Other cases in fiscal matters involve several appeals against tax decisions issued by the National Agency for Fiscal Administration which are still pending, in various procedural stages.

In 2019, an important share of the litigations in which CNAPM SA has the legal standing of plaintiff consisted in actions brought to court to oblige debtors to pay their outstanding debts. These actions in court are aimed at recovering outstanding debts.

In disputes concerning declined payments by economic agents with which CN APM has

commercial relations, the following debts are registered in case files (Table 24):

Declined payment	Total thou. lei
31 Dec. 2018	13.637
31 Dec. 2019	15,550

Table 25 indicates the amounts which are the object of litigations (various procedural stages) in which CNAPM SA has the legal standing of plaintiff as at 31.12.2019:

Amounts representing receivables in lei, case files as at 31.12.2019	Total thou. lei	Total EUR	Total USD
	56,509	967,019,20	1,096,200

Amounts representing other claims in case files as at 31.12.2019	Amount in litigation as at 31.12.2019
	lei 35,499,540.23 EUR 11,983,977.65 USD 652.703,74

Amounts representing claims in case files in which CN APM SA is a defendant as at 31.12.2019	Amount in litigation as at 31.12.2019
	lei 163,175,646.25 EUR 2,271,000 USD 2,590,229

Table 25 - Amounts in litigations

In 2019, we note significantly stronger court representation actions in insolvency/bankruptcy, for which results have become visible since 2018 (*e.g.: Ades, Turbomecanica, Europinvest*) and we expect better results in 2020.

We present below the amounts that are the object of insolvency and bankruptcy files in the records of the Legal and Litigation Department (table no. 26):

Insolvency/bankruptcy	Thou. Lei
31 Dec. 2018	19,068
31 Dec. 2019	18,446

Table 26 - insolvency, bankruptcy

Against the background of adequate procedures in place regulating all debt recovery activities, further lawsuits brought to court against the debtors and the completion of pending litigations, corroborated with the conclusion of the new port land lease contracts, a decrease in receivables is expected in 2020.

Another relevant component is represented by the litigations in which CNAPM SA requests damages due to failure to conclude port land lease contracts and/or litigations to oblige the other party to conclude port land lease contracts. We expect these litigations to be settled in

2020, at least on the merits of the case.

Also, CNAPM brought to court actions as a plaintiff, requesting lessee eviction for failure to pay their obligations and termination of contracts, in order to prevent the increase of outstanding debts. The aim was to evacuate only those lessees who do not pay the rent in bad faith.

The litigation against the Competition Council regarding the appeal against the Competition Council Decision by which the Company was obliged to pay the amount of lei 11,922,385 is still pending before the court of first instance and we expect a solution on the merits of the case in 2020.

In the investigations initiated by the Competition Council regarding the port land lease and the access to the port infrastructure, the Competition Council accepted the Company commitments, thus exempting the Company from the payment of other fines, provided that such commitments are strictly observed in the future.

The success of the commitment procedure, coupled with the conclusion of port land leases with economic operators, pursuant to law, and with the completion of negotiations on new framework agreements may contribute substantially to limiting litigations, reducing claims for 2020 and beyond, while exempting the Company from the payment of other fines and damages equivalent to any amounts claimed by economic operators, resulting from alleged violation of the competition law.

### **Preventive actions**

Procedures on public consultation, framework agreement negotiation and approval, pursuant to Law no. 235/2017 were finalised, so as to adapt them to concrete market requirements and to ensure effective Company protection.

An important component of the preventive approach is represented by fair and accurately guided contract negotiations, starting from the framework agreements approved pursuant to law; such framework agreements may be supplemented by individual negotiations with economic operators, without prejudice to the clauses established by the approved framework agreement.

Contracts can provide an opportunity to prevent future conflicts and ensure legal security, with positive influence on the collection of current receivables.

The principles pursued in achieving this goal were as follows:

**To reduce risk exposure:** The ability to impose a standardised or negotiated contract terminology in all contracts and in all fields of covered by the Company was considered a key

element in contractual practice. The efficient contract management recently established by the Company (especially following the last tender procedures) reduced the degree of exposure, and enabled the Company to avoid missing valuable opportunities as well as losses or delays in the collection of accounts receivable.

**To increase revenue:** The members of the Board of Directors together with the members of the Executive Management identified suitable solutions to increase and secure Company revenues by promoting payment methods appropriate to the nature of the transaction. Here, the goal was to draft contracts so as to guarantee of payment obligations and to shorten, insofar as possible, debt circulation.

**To ensure the performance of contract obligations:** Compliance with the contract clauses is strictly monitored by the members of the executive management in close cooperation with the Company's specialists, who monitor each important commercial partner and all partner's obligations. Accuracy in drafting contracts and performance monitoring helped to avoid disputes and reduced the litigation costs.

**To monitor performance:** The contracts concluded by the Company have been useful diagnostic tools to analyse the profitability and success of each business initiative, and in the long run they enabled the Company to remove less effective contract clauses and to avoid inconsistent business partners.

The principles underpinning the preventive approach applied in 2019 practically put an end to increasing exposure to litigation due to the settlement of historical disputes in parallel with a significant decrease in new exposures. Since 2019 is the baseline year for the Administration and Management Plans, this decrease is an important step as a basis for a gradual reduction of such exposure in the forthcoming years.

For the next period, the main objective is to reduce the exposure to litigation and to reduce accounts receivable by obtaining final court decisions ruled in pending disputes, by amicable pre-litigation settlements, including by concluding contracts pursuant to law, to address correctly and adequately all legal issues faced by the functional departments, to increase involvement in documents/contracts drafting and/or negotiating and in pre-litigation stages, while upskilling the staff by enhancing their knowledge, by ensuring better adaptation to legal amendments.

Another objective is to increase the efficiency of document legality checks by standardising specific activities, by providing consistent communication of legislative novelties and their interpretations and by improved liaison with public institutions and courts.

## **XI. PROMOTION ACTIVITY**

CN APM SA Constanța delegates participated in various events organised in 2019, according

to the *National and international promotion plan for 2019*, building on the business objectives designed to provide a conducive framework for development and supply according to market requirements in 2019.

CN APM SA Constanța was represented in various international event, as follows (Table 27):

No. .	Event name	Location/Dates
<i>Events organised by CN APM SA Constanța using own funds or in cooperation with partners</i>		
1.	Port of Constanta Meets Hungarian Partners	Budapest, Hungary 27 February
2.	Constanța Port Day, <i>Belgrade</i>	Belgrade, Serbia 26 September
<b><i>National and international exhibitions</i></b>		
1.	Logistics Transport	Munich, Germany 4-7 June
2.	Expo Real	Munich, Germany 7-9 October
<b><i>National and international conferences</i></b>		
1.	Danube-Black Sea Canal meets Serbian partners. <b><i>Belgrade</i></b>	Belgrade, Serbia 27 March
2.	Ukrainian Ports Forum	Odessa, Ukraine 30-31 May
3.	Danube-Black Sea Canal meets Hungarian partners <b><i>Budapest</i></b>	Budapest, Hungary 3 September
<b><i>Conferences and meetings as member of various Associations</i></b>		
<b>ESPO - European Sea Ports Organisation</b>		
1.	Executive Committee	Trieste, Italy 24-25 September
2.	Port Governance Committee + Legal Advisory Network	Brussels, Belgium 3 October
3.	Intermodal Committee, Logistics and Industry	Brussels, Belgium 12 November
<b>MedCruise - Association of Mediterranean Cruise Ports</b>		
1.	General Meeting	Kusadasi, Turkey 6-11 May
2.	Black Sea Working Group	Istanbul, Turkey 18 July

Table 27 - Events 2019

In addition to the external travel provided by the ***National and International Promotion Plan*** for 2019, the representatives of CN APM SA Constanța also participated in the following international events (Table 28):

No	Event name	Location/Dates
1.	Pro Danube meeting	Vienna Austria 9-10 January
2.	Regional seminar dedicated to the Common Maritime Agenda for the Black Sea	Istanbul 19 March, Turkey
3.	Seatrade Cruise Global	Miami, USA 8-11 April
4.	Caspian Ports & Shipping	Aktau, Kazakhstan 13-15 May
5.	Blue Highway + working visits to partners from Serbia Croatia Bosnia and Herzegovina	Vukovar, Croatia 28-30 May
6.	The 4th edition of the Grain Conference, Budapest Commodity Exchange	Budapest, Hungary, 6 June
7.	The 13th meeting of the "Rhine-Danube Core Network Corridor Forum" + The first meeting of the Transport Working Group on economic issues "Core Network Corridor Forum OEM and R-D" + Forum Motorways of the Sea - MoS Today and Tomorrow	Brussels, Belgium 19-21 June
8.	The 7th Maritime Congress	Szczecin, Poland 4-6 September
9.	The 6th International Black and Caspian Sea Transport Forum + working visit to Karasu Port	Batumi, Georgia Karasu, Turkey 8-13 September
10.	Trans Expo Odessa	Odessa, Ukraine 18-20 September
11.	Logitrans	Istanbul, Turkey 13-15 November
12.	The 20 <sup>th</sup> edition of the Navigator Conference	Budapest, Hungary 19-20 November
13.	Working Group Meeting of the Rhine-Danube Corridor on Ports and Inland Waterways + The 14th meeting of the Rhine-Danube Core Network Corridor Forum	Brussels, Belgium 20 November

Table 28 - Events 2019

At the same time, in 2019, the representatives of CN APM SA Constanța made trips related to the implementation of European projects in which CN APM SA was/is involved as a partner (Table 29):

## XII. STAKEHOLDER COMMUNICATION

In 2019, 97 requests for public information were received and all were answered within the



legal deadline, without any complaints or criminal complaints registered.

Requests received by e-mail, verbal, portal or mail: 91 from legal entities, including media representatives and 8 from individuals.

The topics of these requests for information included the following: the use of public funds - 45, fulfilment of Company duties 48, legislation and regulations - 2, employee rights - 2.

Social media activity: Facebook- [www.facebook.com/ConstantaPort](https://www.facebook.com/ConstantaPort), and [www.facebook.com/PortofConstanta](https://www.facebook.com/PortofConstanta) and Twitter - @ConstantaPort entailed intense activity and new posts with a focus on the daily activity of the Company: repairs including asphaltting, projects from own funds.

All events and actions of the Company and of the Port of Constanta were promoted, and dialogue with social media users was strengthened, to ensure greater openness to those interested in Romanian seaports.

Due to permanent updating of the information presented on our Facebook page, at the end of 2019 we reached a total of 4,200 likes for the Company page and report numerous interactions with our followers.

No	Event name	Location/ Dates
1.	DAPHNE Consortium meeting	Enns, Austria 6 February
2.	Port Policy Day - DAPHNE	Vienna, Austria 10-11 April
3.	Port Info Yes, (Munich Logistics Transport) - DAPHNE	Munich, Germany 5 June
4.	Final event, project DAPHNE + Working group „Ports & Sustainable Freight Transport” (Danube Region)	Vienna, Austria 12 June
5.	Annual project partners meeting CIVITAS-PORTIS „Port-cities: Innovation for Sustainability”	Klaipeda, Lithuania 3-7 September
6.	CIVITAS-PORTIS Forum	Graz, Austria 2-4 October

Table 29 - Events 2019

On 12.06.2019, by Decision no. 205, the Media Office was designated as the structure responsible for managing the petitions received by CN APM SA. 12 petitions were received during the reporting period, and all were answered within the legal deadline, without exception.

### **XIII. CORPORATE GOVERNANCE / CONTROL**

#### **Implementation of corporate governance principles**

The governance system implemented by the Company management established the following main objectives: to ensure patrimony management integrity, efficient use of technical resources and to capitalise on the newly created values to ensure Company growth and shareholder satisfaction.

Given the complexity of the processes and activities organised and carried out by the Company, the management decided to establish and organise internal and external audit mechanisms in order to identify and prevent (internal and external) risks and to implement strict financial, management, managerial and system controls.

Pursuant to legal provisions, the Company organised and implemented different controls over the entire activity of patrimony management, organisation and operation of Company management by different organisational levels, in order to identify and prevent risks, to implement **internal audit** and **external audit**.

#### **a) Internal audit**

**The internal audit system**, organised and developed by Company in order to ensure the asset integrity and efficient management and use of the Company assets to strengthen shareholder ownership, includes the following components:

##### **a1) Financial control**

The Financial Control Department of C.N. Administrația Porturilor Maritime SA Constanța operates pursuant to the Government Emergency Ordinance no. 94/2011 on the organisation and functioning of the economic-financial audit and to the Government Decision no. 151/2012 approving the Methodological Rules for the organisation and implementation of financial control.

Financial control is a form of control that seeks to ensure integrity of patrimony, of public and private assets of the state managed by the Company, under concession or lease agreements, to enhance the efficient use of allocated resources, and to ensure compliance with legal provisions and regulations applicable to the economic and financial activity of the Company.

The financial control activity is carried out according to the annual, quarterly and monthly control programmes developed pursuant to the Government Decision 1151/2012 and approved by the General Manager of CN APM S.A.

In 2019, the audit missions included in the 2019 Activity Programme were carried out, as well

as unannounced audit missions or audit mission carried out upon request by the General Manager.

More specifically, audit reports were drafted on:

**1. Verification of mentions included in Report no. 28324/10.07.2018 drafted by the Legal and Litigation Service**

The objectives of the mission were to check the unlawful payment of unperformed works at the perimeter system on the fence length P3 bis - P6 and to check the unlawful payment for the snow removal on public vehicle and pedestrian access roads from the Port of Constanta.

**2. Inventory of assets managed by the 601 SEP**

The objective of the mission was to check compliance with the provisions of Order of the Ministry of Public Finance no. 2861/2009 approving the rules on the inventory of assets, liabilities and equity.

**3. Verification of performance of contract no. 25919/19.07.2017 "Modernisation of the check point building P1, Port Constanta" concluded with SC Disan Expert SRL.**

The action consisted in checking compliance with the legal provisions and with the internal regulations on the management of the physical and monetary assets, based on the documents recorded in the accounting books and on the documents provided by technical-operative records. Contract performance was also checked.

**4. Verification the performance of works "Military Berths Lighting Network", "Lighting Network Berths 85-90" and "Lighting Network Berths 100-103"**

The objective of this action was to check how projects were developed, how approvals were obtained and how works were performed.

**5. Development of the railway capacity in the maritime river sector of the Port of Constanta** The objective of the action was to check how projects were developed, how approvals were obtained and how works were performed.

**6. Verification of procurement procedures carried out by the Public Procurement Department in 2019** The objective of the action was to check compliance with the legislation in force at the time of procurement and with all internal regulations applicable.

**7. Verification of procurement procedures carried out by the Public Procurement Department in 2018-2019**

The mission was initiated following the resolution of the General Manager of CN APM SA Cta on the CFG Report no. 35588/06.09.2019; the purpose was to establish the causes leading to the “issuance of several GM decisions to change the procurement committee” and to the lengthy duration (5-8 months) of the procedure”.

**8. The performance of contracts managed by the Organisation Unit**

The objectives of this mission were to check compliance with contractual and legal provisions regarding the conclusion and performance of contracts managed by the Organisation Unit.

**9. Unannounced audits at the pay office of C.N. Administrația Porturilor Maritime s.a. Constanta** These audits aimed to check compliance with the provisions of Law no. 70/2015 on strengthening financial discipline concerning cash collection and payment operations and amending and supplementing Government Emergency Ordinance no. 193/2002 on introducing modern payment systems.

Following such checks, the persons who performed the financial audits recorded their findings in the bilateral audit documents (audit reports) which were submitted to the General Manager of CN Administrația Porturilor Maritime SA Constanța, who (pursuant to the Government Decision no. 1151/2012 approving the Methodological Rules for the organisation and implementation of financial control) should analyse, order and monitor the implementation of such measures included in the audit reports.

In the documents prepared, the audit team within the Financial Control Department proposed measures, deadlines and established persons in charge in order to remedy the deficiencies found.

**a2) preventive financial control** over the operations involving commercial relations based on contracts with third parties, natural and legal persons, and cash and non-cash collection and payment operations, organised at Company and branch level;

Preventive financial control is regulated by the following legal provisions applicable:

- Government Ordinance no. 119/1999 on internal audit and preventive financial control
- Law no. 84/2003 amending and supplementing Government Ordinance no. 119/1999 on internal audit and preventive financial control
- General Methodological Rule on the performance of preventive financial control, as approved by Order of the Minister of Public Finance no. 923/2014, as further amended.

According to the quarterly Activity Reports on preventive financial control, 11,348 operations with financial effect on public funds and public patrimony, amounting to 944.579 thou. lei, were subject to preventive financial control in 2019, as follows:

No operations were denied the preventive financial control seal of approval.

**a3) the internal audit** is carried out at all organisational levels of the Company, is independent of the organisational structures and assesses compliance with efficiency and ethics standards building on the risk analysis and on the audit plan approved by the Board of Directors.

The internal audit activity carried out in 2019 consisted in conducting the internal audit missions scheduled under the Public Internal Audit Plan for 2019, approved by the General Manager of the Company and registered under no. 47263/26.11.2018. This was amended during the year according to notice no. 18537/07.05.2019 rescheduling the performance of the internal audit mission on “Ensuring the identification and accessing of non-reimbursable foreign funds, to implement projects to develop port activity.

Seven regular missions were planned, and the plan was 100% accomplished, as follows:

1. The mission on “Monitoring the implementation of recommendations made by internal auditors of the Internal Audit Unit of CN APM SA Constanța, in the internal audit reports “follow-up” carried out in CN APM SA Constanța, completed; the audit report was endorsed by the General Manager and registered under no. 12453/21.03.2019.
2. The audit mission carried out with the Budgets, Economic Analysis and Tariffs Unit, on “Ensuring the performance of the economic-financial analysis on the activity carried out at the level of the Company and of its organisational units. “Performance of calculations substantiating the economic-financial indicators regarding Company revenues, expenses and profitability” carried out with the Budgets, Economic Analysis and Tariffs Unit, completed with the Internal Audit Report no. 21100/24.05.2019 endorsed by the General Manager of CN APM SA Constanța.
3. The audit mission on “Assessment of the 2019 corruption prevention system” (mission ordered by the Central Harmonisation Unit for Public Internal Audit by notice no. 430854/16.10.2018) completed with the Internal Audit Report no. 37738/17.09.2019 endorsed by the General Manager of CN APM SA Constanța.
4. The audit mission carried out with the Technical Ship Branch on “Provision of services to third parties using own equipment, Romanian seaport waters, and fire extinguishing services on ships and on land, from the water”, completed with the Audit Report no. 32372/20.08.2019 endorsed by the General Manager of CN APM SA Constanța.

5. The audit mission carried out with the Port Services Branch, on “Ensuring good condition of buildings, roads and port platforms, water installations and sewerage, of the operation and repair of means of transport and equipment, as well as the provision of water supply/sewerage services and of specific services using own equipment for economic agents that carry out their activity in the port”, completed with the Audit Report no. 37737/17.09.2019 endorsed by the General Manager of CN APM SA Constanța.
6. The audit mission carried out with the Port Energy Branch, on “Ensuring electricity supply, thermal energy production and supply, as well as assistance in the field of electronic communications, simultaneously with proper maintenance of facilities belonging to the Company in the context of the rational use of electricity and heating resources”, completed with the Audit Report no. 43850/01.11.2019 endorsed by the General Manager of CN APM SA Constanța.
7. The audit mission on “Ensuring the identification and accessing of non-reimbursable foreign funds, to implement projects to develop port activity” was not carried out during the planned period, more specifically 13.05 - 05.07.2019, given the audit mission conducted by the Directorate General of the Intermediary Body for Transport, with the goal to check the administrative capacity of the Beneficiary to develop and implement project management procedures and to draft reimbursement requests”. The objectives of this mission overlapped in part with those of the internal audit mission scheduled, consequently, following discussions with the General Manager of CN APM SA Constanța, the mission was rescheduled for the end of the year, as reflected by notice no. 18537/07.05.2019. The report developed upon completion of the mission was endorsed by the General Manager of the company and was registered under no. 5968/10.02.2020.

The reports prepared upon completion of the 7 (seven) internal audit missions included a number of 46 recommendations; we present below the recommendations implementation status until the present date:

- 16 implemented;
- 13 implemented partially;
- 14 implemented according to deadline;
- 3 not implemented, deadline exceeded.

We mention that in 2019 we did not carry out any advisory mission or any other types of activities regulated by the legislation governing our activity.

**b) External Audit**

A concern of the Board of Directors was the gradual compliance with the External Auditor's observations, by implementation of report recommendations.

The company is audited by BDO Audit SRL Bucharest which provides the Annual Economic and Financial Audit Report, pursuant to local rules (statutory audit pursuant to the Order of Minister of Finance 1802/2014).

**IX. Note on subsequent events (for 2020)****I. The impact of the economic crisis caused by the COVID-19 pandemic on CN APM SA activities in 2020**

1. We estimate the negative impact caused by the COVID-19 pandemic on the **freight traffic**, which is the most important economic indicator for Constanta Port, to reach about 16%, in the total amount of cargo handled in 2019, a decrease representing approx. 10,800 thousand tons cargo.
2. We estimate that the impact on the **cash flow** will result in a decrease by approx. 28% in revenues at Company level.

**Although there will be a negative impact on the Company's liquidity, the Company will be able to sustain its activity in good conditions, given that the cash flow is positive during that period.**

3. The impact on **revenues (turnover)** is estimated to decrease by 10%, given the decrease in revenues collected from ship taxation, amounting to 35,742 thou. lei, due to estimates on decrease in freight traffic; such revenues will not be recovered in 2020.
4. **Action taken to support the going-concern principle:** implementation of the Covid-19 Emergency Management Plan, scenario no. 4:
  - Employee/teams isolation/quarantine, as the case might be, according to the plan.
  - The plan provides for workplace isolation for a number of 70 functions/positions/employees without management staff, and on standby at home 70 + 70 = 140 employees.
  - Adjustment/adaptation of the going concern plan according to developments.
  - The Company will continue procurement of healthcare materials and protective equipment, including for pilotage companies, in order to ensure the continuity of the naval

transport activity.

**5. Human resources measures - organisation and endowment**

- Introduction of teleworking; all necessary technical means were provided to teleworkers to carry out their activity;
- All necessary actions were taken to enable employees to express their option pursuant to the provisions of Law no. 19/2020 on paid leave granted to parents for child supervision, in case schools close down.
- Employees were allowed to take holidays outside schedule
- Necessary protective equipment was provided: masks, gloves, coveralls
- Appropriate measures were taken to ensure employee protection: hand disinfectant dispensers were installed both in pedestrian access areas in the port area (Gate 1 and 2) and in all access areas at the headquarters of CN APM SA Constanta
- Full compliance with all legal provisions applicable at the time, depending on the restrictions/obligations imposed by the regulations that will be issued in 2020.

**Solutions to the crisis:**

- implementation of the Going Concern Action Plan under normal parameters:
- electricity, heat and water supply;
- shipping, maneuvers without restrictions, except in case of bad weather - plan amendment/adjustment according to developments

As 2020 is a year of challenges and difficulties caused by the coronavirus impact, and given the long-term implications which remain unclear, there are various issues that need to be considered in the future:

- The crisis should not be treated in a one-dimensional way; it must be managed with powers to make quick decisions to coordinate business with customers and suppliers, in order to decide what financial reserves should be made available;
- The overall liquidity of the Company and any developments in this field should be considered by careful development of plausible scenarios, enabling decision-makers to redirect discretionary expenses from optional to critical operations, because the crisis may generate unpredictable fluctuations.
- Provision of support to clients, partners, health and social care services (e.g., payment rescheduling, sponsorships, etc.) in times of adversity.



- Finding an economic balance between revenues/amounts collected and expenses/payments, respectively.

**II. The current condition of Queen Hind, owned by Astra Marine Services LTD, Monrovia, Liberia, recovered and refloated by CN APM SA**

From an operational perspective:

- The ship is moored at berth 108 in line 3, with the ships Eforie in line 2 and Mangalia in line 1, and is monitored daily, both by physical and video surveillance provided by the Security Service; the Technical Ships Branch ensures draught surveillance.
- On 24.04.2020, the final acceptance report was signed for the services provided under Contract no. 1598/14.01.2020, in total amount of lei 19,150,000.
- The ship has no electricity supply and is provided with safety lighting for navigation at night, more specifically two floodlights, by the Port Energy Branch.
- A security guard employed by Trident Services and Maintenance (Supplier of port security and perimeter security services) was temporarily detached (by amendment of the Port Security Plan), and placed at the surveillance point at berth 108 quay.
- Queen Hind will generate monthly parking costs of approximately EUR 2,200, excluding port costs. Port costs are amounting to EUR 100/month.

From an legal perspective:

- As regards the risk of litigation with the Association Grup Servicii Petroliere Logistic SRL - GSP Offshore SRL, we mention that the Association Grup Servicii Petroliere Logistic SRL - GSP Offshore SRL resumed previous correspondence on the need to increase the price of the contract and to agree on additional costs, by letter no. 3690/27.04.2020. We mention that CNAPM SA submitted letter no. 2411/11.03.2020, in response to a previous request by the GSP Association (no. 2305/09.03.2020); the letter submitted by CNAPM SA rejected the request pursuant to Art. 2.5 of the Contract, on the one hand, and proposed consultations between the Parties, pursuant to Art. 4.2.3. of the Contract, on the other hand. According to the provisions of the contract, CNAPM will analyse the new request, and the Parties will consult without delay in order to reach an agreement (Art. 4.2.3. of Contract no. 1598/14.01.2020. According to Article 4.2.4. of the contract, in case the parties cannot reach an agreement within 5 days from the date when the Contractor (GSP Association) provides details of the additional costs, either Party may turn to the Bucharest International Commercial Arbitration Court to rule on additional costs.

- As regards the risk of third party litigations due to the partial suspension of manoeuvres in the port of Midia, no such litigations have been started so far.
- enforcement actions commenced on 09.04.2020 against the Shipowner, pursuant to the writ of execution no. 28058 of 31.03.2020. In the case file no. 155/2020 on enforcement, the court ruled the decision no. 4400/22.04.2020 in the case file no. 7742/212/2020, approving the enforcement. On 30.04.2020 we expect the certified translations of the procedural acts of enforcement to be finalised, and then the bailiff will proceed to their communication at the headquarters of the Shipowner Astra Marine Services LTD, more specifically, 80 Board Street, Monrovia, Liberia.
- Notice no. 3708 was submitted on 27.04.2020 to notify the Association Omniasig V.I.G. S.A. - Asigurarea Romaneasca ASIROM V.I.G. S.A on the claim on the advance payment amounting to lei 9,575,000 and on the amicable settlement of the claim by agreement of the parties; a meeting should be mutually agreed for this purpose.

We attach the Non-Financial Statement for 2019.

Signed on behalf of the Board of Directors,

**President of the Board of Directors**

**Elena PETRASCU**

*Illegible signature*