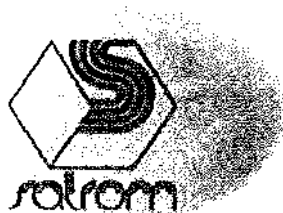


SOCIETATEA NAȚIONALĂ A SĂRII S.A.



**MANAGEMENT REPORT**

**on the Financial Statements of *Societatea Națională a Sării S.A.*, drafted pursuant to the Order of the Ministry of Public Finance 2844/2016 on the enforcement of the Accounting Regulations compliant with "IFRS" - the International Financial Reporting Standards adopted by the European Union.**

**- 31 December 2019 -**

## **TABLE OF CONTENTS**

### **CHAPTER I**

#### **Description of the business of Societatea Națională A Sării S.A.**

Regulatory and Operational Framework

### **Chapter II.**

#### **Shareholders Management Structure, Organisation and Business.**

General Organisational and Operational Framework - Societatea Națională a Sării S.A.

### **Chapter III.**

#### **Analysis of the business done by the Company in 2019:**

1. Review of sales activities (products and services)
2. Review of production activity
3. Review of technical and technological levels
4. Review of the way in which the Investment Plan was implemented
5. Review of environmental impact aspects Environmental protection
6. Review of mine and quarry closure activities on company premises
7. Quality management
8. Review of aspects related to Company personnel/employees
9. Review of Risk Management Activity and of the internal control System Internal audit

### **CHAPTER IV.**

#### **Financial and accounting situation**

1. Accounting policies
2. Statement of the financial position
3. compliance with the income and expenditures budgets
4. Economic and financial indicators
5. Checks performed by authorities and major disputes
6. Affiliated entities, related parties and transparency
7. Subsequent events

#### **Statements**

Financial statement

Non-financial statement/Non-financial report

## **Chapter I. Activity description - Societatea Națională a Sării S.A. Regulatory and Operational Framework.**

**Societatea Națională a Sării S.A.** (hereinafter called the "Company" or "SNS") is a Romanian legal person, registered with the Trade Register under No. J/40/4607/2010, established in 1997 by Government Decision No. 767/1997 following the reorganisation of the former Regia Autonomă a Sării.

The Company operates from its headquarters in Bucharest, through seven branches that do not have a legal personality, as follows; Mining Facility Rm. Vâlcea, Vâlcea County, Slănic Prahova Salt Mine, Prahova County, Ocna Dej Salt Mine, Cluj County, Ocna Mureș Salt Mine, Alba County, Târgu Ocna Salt Mine, Bacău County, Praid Salt Mine, Harghita County and Cacica Salt Mine, Suceava County.

Registered office: 220 Calea Victoriei, 4th floor, Bucharest, District 1.

The main business of the Company consists of the exploitation of salt and other non-metallic products from the premises for which the Company holds exploitation licenses, as well as of manufacturing of a wide range of products for the domestic and international markets. The secondary activity consists in the provision of tourist and leisure services for individuals, metal works, cavernometry services, etc.

At the end of the year, the Company is Romania's only salt producer and is classified as a "company of strategic interest" as per Law no. 99/1999 on action to accelerate economic reform.

The Company, as a holder of exploitation licenses for mineral resources, is subject to specific regulations, issued by the National Agency for Mineral Resources (ANRM) holding 14 licenses for the concession and exploitation of salt resources and of other non-metallic products.

The licenses are concluded pursuant to the Mining Law no. 85/2003 as further amended and supplemented and the object of the licenses is the concession of the exploitation right for salt and limestone deposits. According to Article Pursuant to Art. 20 of the Mining Law no. 85/2003 and to its enforcement rules, the licenses for the concession of the exploitation right for rock salt and limestone were extended by means of an addendum, for a period of 5 years. For the exploitation of graphite schists from Ungurelasu, the Company will conclude an addendum to extend the license for the exploitation right for the next 5 years, as the current license expires in August 2020.

The mining royalty was set at EUR 1/ton of crude rock salt extracted from the deposit. For limestone, the mining royalty currently applied was set at EUR 0.4375/ton of raw limestone extracted from the quarry. Pursuant to the current regulations, the amount shall be maintained for royalties after the extension of the license by means of addendum.

As a 51% state-owned company, the Company is subject to all regulations specific to companies wholly or mainly owned by the Romanian State.

## **Chapter II. Shareholders Management Structure, Organisation and Business. General Organisational and Operational Framework - Societatea Națională a Sării**

### **Shareholders:**

As at 31 December 2019, the Company was owned by two shareholders, as follows:

- The Romanian State, represented by the Ministry of Economy, Energy and Business Environment, 51%;
- Fondul Proprietatea SA, 49%.

### **Management structure**

#### **Organisation of management activities:**

The Company is managed in a unitary system by a 5-member Board of Directors which delegated its management responsibilities to a General Manager. In 2019, the Board of Directors operated based on the 4-year mandate granted by the general meeting of shareholders in 2016, a mandate implemented pursuant to the provisions of the Law 111/2016 approving the Government Emergency Ordinance 109/2011 on corporate governance of public enterprises.

The Board of Directors is the structure that exercises permanent control over the Management of the Company and its members confer at least once a month. The activity of the Board of Directors is regulated by the Romanian legislation and is governed by the provisions of Chapter V of the Articles of Incorporation of the Company and by the management contract concluded by the Company with each administrator.

In 2019, the Company operated under the going concern principle, with a view to achieve the main object defined by the Articles of Association and with the mission to fulfil the general mandate objectives approved by Decision no. 22 of 8.12.2016 for July 2016 - July 2020. In 2019, following the initiatives taken by administrators since 2018, the General Meeting of Shareholders approved the change of three key performance indicators, of the targets for 2019 and 2020, and of the evaluation score for 5 mandate indicators.

#### **In the period of 01.01.2019 - 31.12.2019, the Board of Directors included the following members:**

In 2019, the general assembly of shareholders appointed three successive temporary directors for the position which remained vacant in 2018, following the resignation of Mr. Mugur Popescu. The position of chairperson of the Board of Directors was assigned by the general meeting to the temporary administrators appointed in 2019, and at the end of 2018, respectively. Due to discontinuities in the appointment process and in the registration of the

new directors with the Trade Register, the Board of Directors operated in the absence of a chairman, for certain periods.

MEMBERS OF THE BOARD OF DIRECTORS	Year 2019					
	1 January	6-10 June	27 Aug.	27 Sept.	09 Nov.	31 December
Puiu Laurențiu						
Gheorghe Dan - Valentin						
Fatu Simona - Carmen						
Jujan Constantin	<i>executive administrator</i>					
Bulai Oana - Gianina	President of the Board					
Nicolescu Petre Iulian		President of the Board				
Neacsu Danut				President of the Board		

The “Annual Report on remunerations and other benefits granted to administrators and directors in 2019” provides detailed information on the activity undertaken by the Board of Directors, including the results of the self-assessment process conducted by the Board and of the Board advisory committees for human resources, audit and Company strategy and development. The report was drafted pursuant to Art. 55 (2) of Government Emergency Ordinance 109/2011 on corporate governance of public enterprises, amended by Law 111/2016.

**In 2019, the executive management of the Company included the following persons:**

GENERAL DIRECTOR	Year 2019					
	1 Jan.	10 June	11 June	31 Aug.	27 Sept.	09 Nov.
Jujan Constantin						
Mantu Gabriela Izabela						

The General Manager undertakes all actions and takes all necessary and relevant steps in order to carry out the Company activities, except for those tasks which fall under the remit of the General Meeting of Shareholders or the Board of Directors, according to the Company’s Articles of Incorporation. The delegation of the executive management responsibilities of the company was provided under the mandate contract concluded with both general managers who performed this function in 2019; the clauses and objectives, and the performance indicators stipulated by such contracts were broadly the same as the standard contract approved in year 2016.

Following the resignation of Mr. Dumitru Matei, on 09.11.2018, who was recruited in 2016 pursuant to the requirements of the Government Emergency Ordinance 109/2011, as approved by Law 111/2016, the Board of Directors decided to delegate the executive

management to Mr. Constantin Jujan - a member of the Board of Directors - who became an executive manager. The delegation took place on short intervals (4 months and later, every 2 months) thus accumulating a total period of 1 year (November 2018 - November 2020) during which two procedures for the selection of the Director-General were carried out in the conditions provided by Government Emergency Ordinance 109/2011. Although the selection procedures were conducted by a headhunting company, they failed; the first nomination procedure from the shortlist did not meet the majority of votes at the board meeting and the second selection procedure failed to produce a shortlist of candidates, due to the small number of candidates, who did not meet the selection requirements. Following the resignation of Mr. Jujan from the position of General Manager, the Board of Directors decided, in November 2019, to delegate the executive management duties to Ms. Mantu Gabriela, Chief Financial Officer of the Company, and appointed her as interim General Manager. Ms. Mantu still serves as General Manager at the time of writing this report.

2019 marked the beginning of a management instability, which would most likely continue in 2020, as the mandate of the current Board expires in July 2020; the new Board shall have the task to carry out the recruitment process for the General Manager pursuant to Law 111/2016. Although the general manager appointed by the Board members was maintained in this position for one year, there was a permanent instability every time the GM was reconfirmed in this position, which escalated into strikes organised while the General Manager was away for medical reasons, at the end of October 2019; this is actually the time when the General Manager resigned. Although the executive management was committed to continuing the projects and objectives assumed by the Board of Directors in the management plan which underpinned the approval of objectives and key performance indicators in December 2016, only minor progress was made in 2019, mainly due to a weaker commitment by those in charge of implementing the measures, more specifically the operational managers and specialists of the Company.

### **General Organisational and Operational Framework - *Societatea Națională a Sării***

The executive and administrative management activity was carried out under the same internal regulatory framework, as approved by Decision No. 1 of 19.01.2017, laid out in the Regulation on Corporate Governance in the Company; this Regulation includes all operational rules and the regulations, by fields, to be provided by the management structures of the Company, in order to ensure compliance with the principle of separation of duties, and appropriate allocation of the powers, being directly linked to the duties of each of the three decision-making pillars of the Company. Some progress made, at least formally, in 2019 is the approval by the Board of Directors of the "Policy on delegation of authority within the Company", a regulation which defined the approval powers and the representation mechanisms for each type of activity, with the goal to streamline the approval processes, to simplify the workload of the executive management but also to create more levels of responsibility in relation to specific tasks.

As regards the organizational adequacy of the Company in relation to new and/or amended legislation, court decisions and in relation to the current needs of the Company, in 2019 the General Manager promoted two proposals aiming to change the organisational structure of the Company. Both were drafted by analysis committees formed *inter alia* of heads of departments and specialists from the Company. The proposals were also submitted for consultation to the trade union representatives pursuant to the provisions of the social dialogue law. The main objective of the first draft amendment to the organisational chart, developed in the first part of the year, was to establish functional hierarchical links, by fields of activity, between headquarters and branches, to change certain organisational entities in order to ensure the prerequisites to fulfil certain mandate indicators and to implement a court decision to reinstate a former director in the position held prior to dismissal. This draft proposal was submitted to the general meeting of the shareholders, which decided “The discussion shall be postponed for a later date”. The executive management carried out correspondence and discussions with the representatives of the majority shareholder in order to identify the reasons for postponing the decision; however, since there was no conclusion, the general meeting no longer convened to propose the amendment of the organisational structure, in 2019.

The second proposal, advanced in the second half of the year, consisted in the development of a restructuring plan at the Râmnicu Vâlcea Exploitation Branch, which was affected by the closure of the largest customer of the branch with negative consequences on the profitability of two of the three business lines of the branch). The restructuring proposal was submitted to the general meeting in October 2019 and the General Meeting of Shareholders (GMS) decided in November to “The discussion shall be postponed for a subsequent GMS meeting”. The restructuring proposal was approved by the General Meeting of Shareholders 4 months later, on 31 March 2020. Based on it, a new proposal regarding the amendment of the organisational chart, of the number of jobs and structures at Company level will be drafted so as to reflect such changes.



### Chapter III. Review of 2019 activities

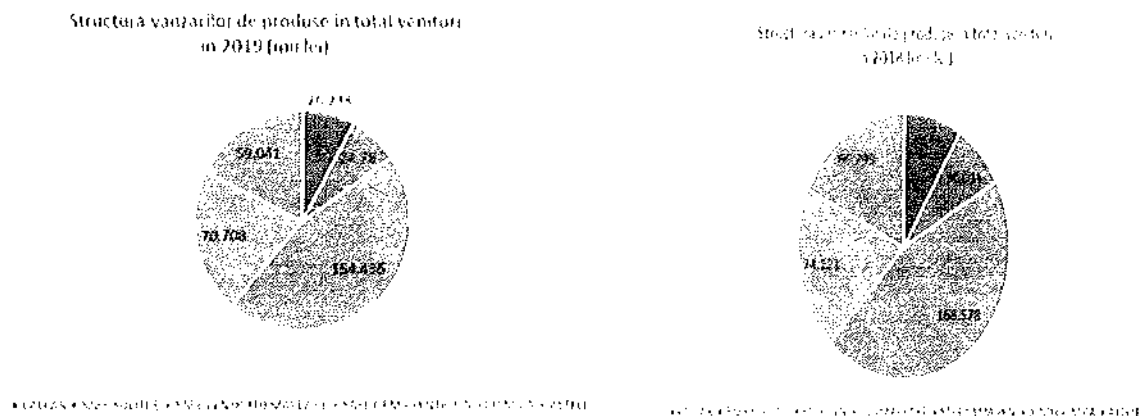
#### 1. Review of sales activities (salt products and salt mine tourism services)

The Company is structured, according to its commercial activities, in two revenue-generating centres: sales - salt products and other non-metallic products (limestone), accounting for 90% of the turnover, and tourism (10% of the turnover).

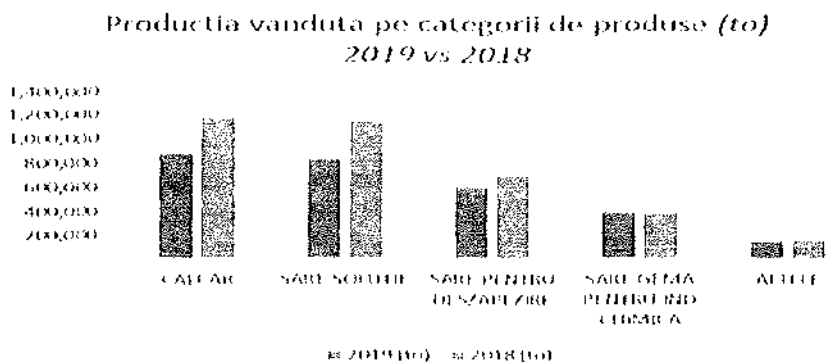
#### **Share of products sold by the Company by category, in total turnover**

The largest share in the turnover structure is achieved from the sale of salt and non-metallic products; the largest share in this category is represented by the revenues from the sale of rock salt for snow removal, which accounts for about 41%, followed by salt for the chemical industry, which accounts for about 18.57%.

The graphs below present the structure of product sales in 2019, in a total amount of 335 thou. RON, versus 2018 (372 thou. RON):



The table below presents the structure of quantities of products sold:



Revenues achieved in 2019 with the rock salt for snow removal segment decreased by approx. 8% due to the atypical weather conditions in Q4 2019 (temperatures above annual averages,

without heavy rainfall). The sales of salt solution and limestone for the chemical industry decreased in 2019 compared to 2018, mainly due to the termination of the contract for the supply of salt solution and limestone by Ciech Soda Romania in September 2019, as the plant activity ceased. The food salt segment ("Other" category in the chart above) reported decreases in both revenues and quantities sold, imported sea salt being more attractive in terms of price, but also more promoted.

The table below reflects the evolution of quantities of products delivered and of revenues generated by sales of salt and limestone products by the Company in 2019-2018:

Indicator	UoM	2019	2018	%
<b>Quantity of products delivered, of which:</b>	<b>Tons</b>	<b>2,846,447</b>	<b>3,539,277</b>	<b>19.57 %</b>
- domestic market	Tons	2,408,142	3,108,389	-22.52 %
- foreign market	Tons	438,305	430,879	1.69 %
<b>Indicator</b>	<b>UoM</b>	<b>2019</b>	<b>2018</b>	<b>%</b>
Value of products delivered, o/w:		<b>335,205</b>	<b>371,959</b>	<b>- 9.88 %</b>
- domestic market	thousands RON	255,771	291,136	-12.14 %
- foreign market	thousands RON	79,434	80,823	-1.71 %

**The salt consumption market in Romania** decreased in 2019 by 17% compared to the previous year, so that for the first time in many years it fell below the threshold of 2 thou. tons/year (*1.7 thou. tons vs. 2.1 million tons in 2018*). This decrease is due to the cessation of activity by USG Ciech Govora chemical plant, an industrial salt solution consumer, in the fourth quarter of 2019. However, there was an increase in salt consumption in the segment of food salt and processed salt for other purposes other than the chemical industry including food salt, bath salt, water softener salt tablets, etc.; this increase was supported by salt imports which increased by 39%, while SNS saw a decrease by 21% in the market share held in Romania (*1.5 thou. tons in 2019 vs 1.9 thou. tons in 2018*).

According to customs statistics provided by the National Institute of Statistics, **in 2019, the total salt imports in Romania** increased by +39% (60,435 tons increase) compared to 2018.

Imports (tons)	Quantity in 2018 (tons)	Quantity in 2019 (tons)	Evolution (tons)	Evolution (%)
Total salt imports in Romania	155,217	215,652	60,435	39%

SNS sales in the **foreign market** showed a decrease in revenues from the sale of salt, due to a decrease in the market share in SNS had gained in Slovakia in the segment of industrial salt for the chemical industry and de-icing salt, and to the reduction in the export of recrystallised salt to neighbouring countries (due to the non-competitive price/cost). The foreign market

consisted in traditional customers from Hungary, Serbia, Slovakia, Bulgaria and the Republic of Moldova, with small quantities exported to other countries, such as Croatia and Austria.

### **Tourism services in total turnover**

The turnover achieved from tourism services and the sale of goods related to tourism activity increased by 15.28% in 2019 compared to the previous year (39,901 thou. RON in 2019 compared to 34,612 thou. RON in 2018).

The share of tourism revenues in total turnover increased in 2019 compared to 2018, reaching 10.48%, compared to 8.5%; this increase was accelerated by the decrease in revenues from the sale of salt and limestone. Revenues from tourism activity increased, mainly due to an increase by more than 6% in the number of tourists; at the end of the year, a number of 1,613,906 people had visited the 5 salt mines of the Company that provide such services.

The total gross profit collected from the tourism activity in 2019 was amounting to 7,921 thou. RON, 1.44% lower than the one reported in the previous year due to the increase by 20.34% in the expenses related to this activity compared to expenses reported in the previous year, compared to a 15.28% increase in revenue.

## **2. Review of production activity**

The production activity is carried according to the annual operating schedule which is prepared and approved pursuant to the legislation in force. The annual production of salt (rock salt, recrystallised salt, salt solution), non-metallic products (limestone), is planned according to statistical forecasts on the evolution of consumption and of specific industries supplied, as well as according to agreements and orders.

The total salt production achieved in 2019 was 2,015,579 tons, accounting for 100.77% of the production scheduled of 2,000,072 tons. However, the production achieved in 2019 is 84.87% compared to the production achieved in 2018, which was 2,374,973 tons.

For limestone, the total production achieved in 2019 was 879,964 tons, compared to the 886,875 tons scheduled, which accounts for 99.22% of the production target scheduled, and only for 75.19% of the 2,374,973 tons achieved in 2018.

The downward trend reported both for salt and limestone is mainly due to the cessation of the activity by Ciech Soda Romania SA starting with 18.09.2019.

In 2019, the production and processing activity was performed under the going concern principle for all branches, except for Rm Vâlcea branch which saw a significant decrease in Q4, starting with the date when Ciech Soda Romania ceased activities, and except for Slănic Prahova branch whose food salt processing activity was stopped in the first half of the year, due to the closure of the processing hall, which received a negative opinion from the

authorities in the field, due to its advanced state of degradation. The management of the branch was changed and, currently, this activity is being relocated in the underground.

### 3. Review of technical and technological levels

The technologies used in the exploitation of salt and other non-metallic products, depending on the product and its use, are applied based on the framework operation methods approved by the National Agency for Mineral Resources as follows:

**Rock salt extraction** is performed underground using classical mining rock removal technologies. The exploitation methods used have a common basis, more specifically the construction of a pillar-floor resistance structure. Depending on the specificity of the deposit and on the extraction coefficient which may be obtained, a multi-storey method may be applied, using small chambers and square or rectangular pillars, with a straight or vaulted ceiling.

**Salt solution exploitation** is performed by means of kinetic dissolution using individual wells.

**Recrystallised salt** produced by evaporating the salt solution extracted using probes, using a multi-effect vacuum evaporator.

**Limestone mining** is performed on surface mines using classic quarry mining technologies.

In 2019, there were no changes in the operating technologies either for the ongoing licenses or for the new periods for which ANRM extended the exploitation license.

### 4. Review of the way in which the Investment Plan was implemented

For 2019, the Company budget approved by Government Decision no. 521/2019 included investment expenses in total amount of RON 88,007,886. The total amount invested was RON 26,328,277, representing 143% of the investments made in 2018 and 30% of the annual plan for 2019.

#### Structure by categories of investment:

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	<b>Done 2019</b>	<b>Programme approved 2019</b>	<b>Achieved in 2018</b>
<b>Grand Total, of which:</b>	<u>26,328,277</u>	<u>88,007,886</u>	<u>18,452,245</u>
Production retooling and streamlining	743,100	9,244,583	1,590,542
Maintaining production capacity	15,822,754	45,758,500	11,536,500
Environmental and deposit protection	440,779	7,694,700	2,415,616
Occupational health and safety	9,001,716	24,945,103	2,854,618
New facilities/products/business lines	319,928	365,000	54,968

The company significantly increased the level of investments intended to ensure occupational and health safety in 2019 compared to 2018, more specifically, 3.15 times more in the case

of achievements; the share of these investments increased from 15.5% of the total made in 2018 to 34% in 2019. The Company concluded agreements covering underground deposit protection which will commence and will be partly finalised in 2020.

**The main investment objectives in 2019 were as follows:**

**Branch Mining Facility Rm. Vâlcea:**

- investments for retooling and production efficiency: technical design for the development of parking lots, salt mine;
- Investments to maintain production capacity: Horizon opening + 190 - Horizontal inclined plane + 190-asphalting, documentation for the extension of the exploitation licence for Ocnele Mari Salt Mine, Update of framework methods for exploitation of sectors;
- investments to make new products, new perimeters, new business lines: limestone grinding plant (feasibility study + start-up of a pilot plant from own resources);
- investments for occupational health and safety: Consolidation of limestone crushing plant, technical design to update the dump project, Consolidation of the chambers at horizon +210 in the area of the salt grinding installation, retooling of buildings used for housing and administrative headquarters, Video and dispatch monitoring system;
- environmental protection works: Interventions at the wells in Field III Teica;
- independent equipment: dumper, compressor unit, bucket loader scale, electro-hydraulic installation for crushing salt blocks, partial ventilation fan, various other machinery and equipment

**Branch of Slănic Salt Mine in county Prahova:**

- Investments to maintain production capacity: Excavation of the main contour gallery and the joint gallery horizon XIV, Necessary documentation to extend the exploitation licence;
- investments for production retooling and streamlining: Means of transport of tourists underground - minibus 3 pcs
- investments for occupational health and safety: Explosive depot relocation works, equipment and endowments for the mine rescue station;
- Investments for environmental and deposit protection: Geo-electric research and study for electrometric measurements to establish hydrogeological conditions at the platform of the pit 23 August Unirea mine and in the well platform PA3 Cantacuzino

mine;

- independent equipment: forklift 1.5 tons 2 pcs, dumper 25 tons, front loader 3.5 m<sup>3</sup>, self-propelled scraper, front loader 2 pcs, personal transport vehicle, partial ventilation fans, hydraulic drilling rig, various other machines, equipment and endowments.

**Branch Ocna Dej Salt Mine:**

- investments to maintain production capacity: development of documentation to extend the exploitation licence;
- investments for environmental and deposit protection: technical design to gunitite the new area salt grinding flow underground;
- investments in occupational health and safety: equipment and facilities for the mine rescue station, Rehabilitation of the access gallery to the Mina Transilvania vault area, Fire detection, signalling and warning system, Design and modification of gas supply installation, Design of general ventilation system, Rehabilitation of traffic and storage platforms Preparation Sector, Increase power installed in PT3A, rehabilitation of traffic routes, etc.;
- independent equipment: forklift 1.5 tons 3 pcs, dumper 25 tons 2 pcs, bucket loader 5 m<sup>3</sup>, various other machinery, equipment and endowments;

**Branch of Ocna Mureş Salt Mine:**

- investments to maintain production capacity: Documentation to extend the exploitation licences related to the rock salt perimeters of Ocna Mureş and Razboieni, Study on the branch development options, by means of a salt recrystallisation installation, in order to extend the exploitation licenses (pre-feasibility study + feasibility study);
- independent equipment: fully submersible electric pump, network server with operating system.

**Branch of Salina Târgu Ocna Salt Mine:**

- Investments to maintain production capacity: Feasibility Study + Technical Design + Execution Details for Maintaining the production capacity at the Gura Slănic well field, Underground salt grinding flow, Development of exploitation road for access and platforms to wells 13E, 14E, including platform fences, Computer control of the production process at the well field, Switching power supply at the salt solution section from low to medium voltage, drafting documentation to extend the

exploitation licence;

- investments in occupational health and safety: Modernisation and rehabilitation of conveyor belt scaffold TB belt no. 1, Modernisation of the finished products warehouse, fire detection and signalling system, tourist base, car access road, etc.;
- independent equipment: big bag filling machine for salt packaging, intervention van, wastewater motor pump, electric compressor, electric pump, various other machinery, equipment and endowments.

#### **Branch of Praid Salt Mine:**

- Investments to maintain production capacity: new field drilling, development of documentation to extend the exploitation licence, underground preparation plant;
- investments for occupational health and safety: equipment and endowments for the mining rescue station, radio communication system between the underground and the surface, completion of the mining rescue station, security works horizon 40;
- environmental and deposit protection works: Installation of water monitoring system, Elisabeta Mine;
- independent equipment: 400 KVA electric generator, compactor plate, exhaust pump, underground intervention van, submersible pumps, ventilation fan, multifunctional front mini-loader, perforators, various other machinery, equipment and endowments.

#### **Branch of Cacica;**

- investments to maintain production capacity: documentation to extend the operating licence;
- investments for occupational health and safety: reshaping works for ventilation well no. 2, technical design anti-burglary system;
- independent equipment: electric compressor, air tank, air dryer, fuel pump

The investment schedule for 2019 was an ambitious project which included multi-annual investments, and many of the procurement procedures were organised this year. Only 30% of the investments scheduled for 2019 were completed due to the limited institutional capacity of the Company to carry out an investment programme of such magnitude; by institutional capacity we mean: inefficient and inflexible working procedures, specialists who are obsolete and not working according to the reality of current technologies and who have both the creativity and the courage to align the “obsolete operating technology” with the machines and equipment produced today. A common cause in the case of companies where the state is the majority shareholder is the formalism and bureaucracy in the procurement

procedures (“form” shall always prevail over “substance”) fuelled mainly by fear of audits to which procurement procedures are subject.

## 5. Review of environmental impact aspects Environmental protection

All Company branches carry out the environmental protection activity in accordance with the environmental permits and water management permits issued by the accredited authorities, pursuant to the environmental legislation applicable.

environmental protection and restoration works amounting to **RON 2,598,118** were performed in 2019, compared to the scheduled value of **RON 30,770,940**, as follows:

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Branch	Planned amount	Amount achieved
<b>TOTAL</b>	<b>30,770,940</b>	<b>2,598,118</b>
Ocna Dej Salt Mine	971,090	481,078
Ocna Mureş Salt Mine	22,000,570	131,910
Mining Facility Rm. Vâlcea	5,819,000	575,420
Slănic Salt Mine	28,500	9,860
Cacica Salt Mine	-	-
Tg. Ocna Salt Mine	609,900	708,360
Praid Salt Mine	1,341,880	691,490

In 2019, the Company’s branches were repeatedly checked by inspectors of the National Environmental Guard and of the National Administration “Apele Române”. Following these inspections, a single administrative penalty was enforced by the National Environmental Guard - Prahova County Unit for non-compliance with the provisions of the legislation and regulations regarding environmental issues, more specifically for non-compliance with Art. 58, letter (F) of the Government Emergency Ordinance no. 195/2005 on environmental protection (for washing the vehicles used for tourist transport to Slănic Salt Mine within the Company premises). The branch challenged the enforcement of this sanction in court.

In 2019, seven complaints were filed in the form of notifications to the National Environmental Guard (*Garda Națională de Mediu*), to the National Administration “Apele Române”, or to the Ministry of Environment, in connection with alleged breaches of rules. The representatives of the relevant institutions carried out inspections, established action plans and granted sanctions for minor offences, as follows:

- ✓ **For Slănic Salt Mine:** permanent measures (i) “Avoid the storage of salt for snow removal outside the receiving station”; (ii) “Ban the wash of minibuses used for tourism purposes on the Company’s premises, thus avoiding discharges of wastewater into the Slănic stream”. For this, the branch received a fine of RON 60,000 with the right to pay only the amount of RON 15,000 within 15 days; (iii) salt humidification



whenever loaded in means of transport.

- ✓ **Rm. Vâlcea Mining Facility branch - Ocnele Mari Salt Mine:** permanent measure: “all technical and organisational measures shall be taken for the activities carried out, so as to prevent the risks of harming the environment and population health”.
- ✓ **Rm. Vâlcea Mining Facility - Bistrița limestone quarry:** permanent measures (I) “Rm. Vâlcea MF branch shall monitor the area of activity of the CFI sector, in order to comply with the provisions of the environmental permit held and shall take all necessary measures to avoid environmental pollution by performing a measurement to determine the noise level in relation to the claimant’s home; (ii) Limestone shall be deposited in the outdoor dump in compliance with the requirements provided by the technical design, in order to avoid dump destabilisation. (iii) Surveillance of the diversion canal Valea Morii - Pietreni stream for which the Company is responsible and intervention, as needed (stream blockage, riverbank collapse, etc.); (iv) Rm. Vâlcea MF shall take all necessary legal steps to promote canal repair/rehabilitation works.

### **Environment pollution events**

In 2019, the Company reported only one environmental event at **Rm. Vâlcea Mining Facility branch - Ocnele Mari Sector** - Ocnita-Lunca workpoint, where, given the significant rainfalls in the city of Ocnele Mari for a long period of time, the decanter from Ocnele Mari could no longer retain the high flow of water upstream and spilled water over dam no. 5 in the period of 8-13.11.2019. The Olt Water Basin Administration - Vâlcea Water Management Service was notified and following the inspection they requested that at least 3 daily water analysis tests from Sărat brook should be submitted to WMS Vâlcea. No sanctions were imposed by the environmental authorities following this environmental event. A number of measures have been taken to reduce the concentration of spilled salt, so as to prevent such events in the future.

### **6. Review of mine and quarry closure activities on company premises**

Due to the specificity and the history of its operations, Societatea Națională a Sării S.A. is included in the Mining Industry Restructuring Programme and, starting with 1998, it has been part of a vast closure and remediation programme which targets the following actions:

- closure and remediation of “historical mines”;
- economically unviable facilities or of facilities with depleted reserves;
- closure and greening of mining perimeters affected by subsidence.

The mine closure and environmental rehabilitation works, the design and technical assistance works, the contract implementation monitoring works and the post-closure monitoring works in the facilities under the administration of *Societatea Națională a Sării S.A.*, as well as in those

facilities which are considered historical heritage are financed by the state budget, from dedicated budget lines of the relevant ministry and/or from other sources (reimbursable or non-reimbursable loans granted by international financial institutions) pursuant to the provisions of the state budget law.

In 2019, Ocna Mureş branch performed conservation works from own sources amounting to RON 2,580,439, as follows:

**In the Ocna Mureş perimeter, in total amount of RON 1,059,899, of which:**

- ✓ Conservation works for the wells from the Ocna Mureş perimeter (3 wells);
- ✓ Maintaining the water level at +254 m by pumping water from the lakes;
- ✓ Monitoring works at the Mureş Salt Mine;
- ✓ Maintenance, repair, conservation of machinery and technological equipment;
- ✓ Leveling and road maintenance works in the Ocna Mureş perimeter.

**in the Războieni perimeter, in total amount of RON 848,996, of which:**

- ✓ Conservation works for the wells from the Războieni perimeter (2 wells);
- ✓ Monitoring works at the Războieni perimeter;
- ✓ Maintenance, repair, conservation of machinery and technological equipment;

**Apart from** the expenses associated to the perimeter works, in 2019 the Company incurred expenses with the provision of utilities and taxes necessary for the objectives amounting to **RON 671,544**: field surveys, security services, taxes, mining tax and miscellaneous and unpredictable expenses.

## **7. Quality management**

*Societatea Națională a Sării S.A.* is accountable for the quality of products and services, for the health of employees, customers and end consumers, as well as for environmental protection.

To this purpose, the processes identified in the organization are carried out according to the requirements of the guidelines used for the implementation of the Integrated Management System (quality - environment - food safety - occupational health and safety), to the legal requirements applicable, and to internal operating rules, as reflected by documented information maintained and preserved. The Integrated Management System (SMI) is certified by SRAC CERT Bucharest, accredited by RENAR and recognised internationally through the IQ

Net network.

The reference standards addressed for SMI recertification are:

- SR EN ISO 9001: 2015 - for the Quality Management System,
- SR EN ISO 14001: 2015 - for the Environmental Management System,
- SR EN ISO 22000: 2005 - for the Food Safety Management System and SR OHSAS 18001: 2008 - for the Occupational Health and Safety Management System.

The second surveillance audit was conducted on 27-29.05.2019. No non-compliance was identified during the assessment. Areas for improvement were recommended, and were implemented according to the Implementation Report, registered under no. VL 3420/17.03.2020.

*Societatea Națională a Sării S.A.* – Headquarters and the Salt Warehouse in Chiajna are in the process of re-certification; the transition to the new standards shall take place in May 2020: SR EN ISO 22000: 2019 - Food Safety Management System, requirements for any organisation in the food chain” and migration from OHSAS 18001: 2008 to SR ISO 45001: 2018 - “Occupational Health and Safety Management Systems”.

The organisation established the limits and applicability of the Management System implemented and took into account both internal and external issues regarding the context of the organisation (requirement 4.1) and the requirements related to understanding the needs and expectations of stakeholders (requirement 4.2).

Through the integrated management system implemented and certified, the Company ensures the supply of products and services which meet the requirements and expectations of customers, in particular, and of all other stakeholders in general. The company holds ISO Compliance Certificates for the headquarters, for the Chiajna Salt Warehouse and for the 7 subordinate branches.

The Company, through the Rm. Vâlcea Mining Branch - Extraction sector - limestone preparation Bistrița ensures the market competitiveness of the certified products used in the regulated field, more specifically, natural limestone aggregates for constructions.

## **8. Review of aspects related to Company personnel/employees**

In 2019, the number of employees increased by 2 persons compared to 2018, reaching 1,664 employees.

Number and structure of staff by professional categories on 31.12.2019:

Branch	TOTAL			Technical, economic and management personnel			WORKERS		
	2018	2019	%	2018	2019	%	2018	2019	%
<b>TOTAL S.N.S.</b>	<b>1,662</b>	<b>1,664</b>	<b>100.1</b>	<b>404</b>	<b>409</b>	<b>101.2</b>	<b>1,258</b>	<b>1,255</b>	<b>99.8</b>
Rm Vâlcea Mining Facility	541	526	97.2	115	114	99.1	426	412	96.7
Ocna Dej Salt Mine	323	331	102.5	64	65	101.6	259	266	102.7
Slănic Salt Mine	201	199	99.0	43	46	107.0	158	153	96.8
Targu Ocna Salt Mine	222	245	110.4	44	47	106.8	178	198	111.2
Praid Salt Mine	138	145	105.1	30	27	90.0	108	118	109.3
Ocna Mureş Salt Mine	61	58	95.1	19	17	89.5	42	41	97.6
Cacica Salt Mine	98	74	75.5	23	19	82.6	75	55	73.3
S.N.S.Headquarters	78	86	110.3	66	74	112.1	12	12	100.0

In 2019 there were no significant changes in the structure by professional categories.

Staff structure evolution by age groups on 31.12.2019:

	<25 years old		26 - 35 years old		36 - 45 years old		> 45 years old		
	2018	2019	2018	2019	2018	2019	2018	2019	
<b>TOTAL S.N.S.</b>		<b>18</b>	<b>18</b>	<b>145</b>	<b>182</b>	<b>396</b>	<b>359</b>	<b>1,103</b>	<b>1,105</b>
Rm Vâlcea Mining Facility		3	2	38	36	95	<b>86</b>	405	402
Ocna Dej Salt Mine		4	5	29	35	99	98	194	193
Slănic Salt Mine		1	1	13	16	42	42	145	140
Targu Ocna Salt Mine		4	5	23	28	60	67	135	145
Praid Salt Mine		2	4	23	29	39	39	74	73
Ocna Mureş Salt Mine		0	0	0	0	5	5	56	53
Cacica Salt Mine		3	1	12	7	25	12	58	54
S.N.S.Headquarters		1	0	7	31	31	<b>10</b>	39	45
%		<b>1.08</b>	<b>1.08</b>	<b>8.72</b>	<b>10.94</b>	<b>23.83</b>	<b>21.57</b>	<b>66.37</b>	<b>66.41</b>

As regards the staff structure by age groups, 66.41% of the Company employees are over 45 years old, with an annual increase trend.

Staff structure by level of education and training on 31.12.2019

	Basic education			Secondary education			Higher education		
	2018	2019	%	2018	2019	%	2018	2019	%
<b>TOTAL S.N.S.</b>	<b>861</b>	<b>826</b>	95.93	<b>495</b>	<b>515</b>	<b>104.04</b>	<b>306</b>	<b>323</b>	<b>105.56</b>
Rm Vâlcea Mining Facility	426	409	96.01	41	41	100.00	74	76	102.70
Ocna Dej Salt Mine	140	132	94.29	139	154	110.79	44	45	102.27

	Basic education			Secondary education			Higher education		
	2018	2019	%	2018	2019	%	2018	2019	%
<b>TOTAL S.N.S.</b>	<b>861</b>	<b>826</b>	95.93	<b>495</b>	<b>515</b>	<b>104.04</b>	<b>306</b>	<b>323</b>	<b>105.56</b>
Slănic Salt Mine	92	86	93.48	79	81	102.53	30	32	106.67
Targu Ocna Salt Mine	91	100	109.89	94	98	104.26	37	47	127.03
Praid Salt Mine	16	19	118.75	100	104	104.00	22	22	100.00
Ocna Mureş Salt Mine	33	31	93.94	14	15	107.14	14	12	85.71
Cacica Salt Mine	58	43	74.14	21	13	61.90	19	18	94.74
S.N.S.Headquarters	8	6	75.00	7	9	128.57	66	71	107.58
<b>%</b>	<b>51.81</b>	<b>49.64</b>	<b>X</b>	<b>29.78</b>	<b>30.95</b>	<b>X</b>	<b>18.41</b>	<b>19.41</b>	<b>X</b>

**Education and training** - in 2019, employees benefited from upskilling courses accounting for RON 258,438, i.e. an increase by 60% compared to the previous year.

**Trade unions** - there are 15 trade unions active in the Company, affiliated to the National Trade Union Federation SALROCA, and to other trade unions. Negotiations with trade unions for the Collective Bargaining Agreement were initiated in December 2019, and in February 2020 the Company registered the Collective Bargaining Agreement for 2020-2021 with the Territorial Labour Inspectorate of Bucharest.

**Labour productivity** - the value of labour productivity decreased in 2019 (from RON 271 thousand/person/year in 2018 to RON 256 thousand/person/year in 2019) due to a decrease in the turnover. In 2019, productivity gaps between branches were maintained due to the different operating conditions: the quality of resources, the range of products/activities, but also due to the technological level specific to each branch.

<b>Productivity indicators</b>	<b>UM</b>	<b>31 Dec. 2018</b>	<b>31 Dec. 2019</b>
<b>Actual number of employees on</b>	persons	<b>1,662</b>	<b>1,664</b>
Average number of employees	persons	1,610	1,617
Operating revenue/Average number of employees	thou. RON/person/year	271	256
Turnover/average number of employees	thou. RON/person/year	253	235
Payroll/Turnover (%)	%	34%	32%
Profit (before tax/employee	thou. RON/person/year	59.44	53.87

As product deliveries to Ciech Soda România ceased, due to the unilateral termination of supply agreements for salt solution and limestone and of service agreements for transportation of salt solution (brine pipelines) on 18.09.2019 (about 20% of the revenues of MF Rm.Vâlcea Branch), there is a need for a restructuring and reorganisation programme, as

there are no revenue increase prospects to the level that would enable the Company to support the current organisational structure. Thus, following the activity analysis carried out in 2019 by each branch, and especially in connection with the indicator “total production costs per RON 1000 revenues collected”, a restructuring programme was developed, which provided:

• Layoff of 85 employees, as follows:		
	• Mining Facility Râmnicu Vâlcea	80 persons
	• Ocna Mureş Salt Mine	2 persons
	• Chiajna Warehouse in Bucharest	3 persons
<b>Total</b>	<b>S.N.S.-S.A.</b>	<b>85persons.</b>

The total expenses proposed for the severance payments amounted to 3,631 thou. RON, with the professional retraining of 53 employees. (40 employees of FM Rm. Vâlcea and 13 employees of Ocna Mureş Salt Mine) to ensure security services.

The restructuring programme no. 7305/15.10.20219 was approved by the Board of Directors by Decision no. 28/22.10.2019, and the Board of Directors convened the General Meeting of Shareholders for approval. By Decision 18/28.11.2019 the General Meeting of Shareholders postponed the approval of the draft Restructuring Programme, given that, pursuant to the provisions of Art. 10, (4) din the Government Ordinance no. 26/2013, the income and expenditure budgets adjustments shall be approved by 31 October of this year.

By Decision no. 297/09.12.2019, the General Manager of the Company established an Analysis Committee to identify the measures to be implemented and to update the Company Restructuring Programme for 2020.

The new restructuring programme no. 1248/18.02.2020 was submitted for approval to the Board of Directors, together with the draft Income and Expenditure Budget for 2020, and provides:

• 124 employees made redundant, as follows:	
❖ Râmnicu Vâlcea Mining Facility - 106 persons, of which six combine a pension with a salary	
❖ Ocna Mureş Salt Mine- 15 persons, of which 2 meet retirement requirements	
❖ Chiajna Warehouse in Bucharest 3 persons	
<b>Total S.N.S.-S.A.</b>	<b>124 persons</b>

Upon termination of the individual employment agreements, the employees would enjoy the benefits provided by Art. 50 of the Collective Bargaining Agreement, more specifically a gross severance pay amounting to RON 63,000/employee; the total amount of severance payments is 7,308 thou. RON.

The Restructuring Programme was endorsed by the Board of Directors of *Societatea*

*Națională a Sării S.A.* by Decision no. 6/21.02.2020 and was approved by the General Meeting of Shareholders by Decision no. 6/31.03.2020, Art. 2.

The Restructuring Programme is the Annex to the Income and Expenditure Budget of *Societatea Națională a Sării S.A.* 2020, and includes the severance payments that will be granted to the employees who will be made redundant according to the provisions of the Collective Labour Agreement. The Statement of Estimates for 2020 was approved by Government Decision no. 343/2020. The programme will be implemented in 2020.

## **9. Review of Risk Management Activity and of the internal control System; Internal audit**

In 2019, the risk management activities and the organisation of the internal control system were carried out according to the “Policy on risk management and organisation of the internal control system at SNS”, a policy approved by the Board in 2017. This policy lays down the general unitary framework at the level of the Company designed to identify, analyse, manage and control the risks incurred in carrying out all Company activities and provides the Company staff and management with a tool to facilitate risk management in a controlled and efficient manner, so as to achieve both the overall and the specific objectives.

### **9.1 Risk management activity**

Risk management is a complex process which entails a scientific approach to risks, and uses material and financial resources. Each organisational entity within the Company is accountable for identifying and managing risks.

The executive management appoint the risk monitoring committee and its chairperson. In 2019 the chairman of the commission died, therefore a new chairperson was appointed. The Committee updates the “Risk Register” and monitors the “Risk Matrix” which is designed using a risk occurrence probability scoring system on a scale from 1 to 5 and a risk occurrence impact scoring ranging from “insignificant” to “critical”.

We describe below the risks inventoried and monitored in 2019. In some cases, some risks did occur, and the Company acted accordingly, as follows:

- **Market risks** (related to supply - sales)

Limited market for the supply of salt-specific materials and for suppliers of specific machinery and equipment worldwide due to the specific nature of the activity. In order to mitigate this risk, the Company has in place a regulation for the procurement of services, products and works used to purchase the raw materials and materials necessary for operation. As regards the supply of specific equipment, such equipment is included in the investment programme approved by the Board of Directors, taking into account the long manufacturing cycle for some equipment, which was included in the multi-annual investment programme.

The business lines of exploitation and sale of salt solution and limestone products are dependent on a small number of customers. Consequently, if during previous years the Company depended on a number of 3 customers, this dependence heightened, reaching in 2019 a major dependence on a single customer, Chimcomplex, with work-points in Borzești and Ramnicu Vâlcea, due to the partial takeover of Oltchim. Starting with September 2019, there was a risk of losing the second customer of the Rm Vâlcea branch, more specifically Ciech Soda Romania SA chemical plant.

The Company had a slow damage control response after the loss of the customer Ciech Soda Romania, therefore, although the Company executive level managed, within only one month from the plant closure, to develop a plan to quickly adjust the staff by 80 persons, due to the limited powers to approve such measures by the executive/non-executive management, the measures could not be implemented in 2019 as there was no approval of the restructuring plan and of the budget changes by the General Meeting of Shareholders. For these reasons, the measures to be taken in 2020 to compensate for the negative effects will have a greater scope both in terms of the restructuring to be operated (106 people) and in terms of operational costs. At the same time, although various investment objectives were planned and approved, such as *“The development of a project for the economically efficient exploitation and use of secondary limestone resources”*, with the aim of diversifying the customer base in the limestone segment, they were not implemented before this risk occurred.

- **Operational risks** (technological risks, geological reserves and environmental risks): use of equipment affected by advanced wear and tear and low investment.

Technological risk can be defined as any deviation from the planned production flows, or any malfunction of machinery and equipment which may cause a failure.

No deviations were found in terms of compliance with approved operating technologies.

In terms of operating machinery and equipment, we note that many such machinery and equipment are beyond their life cycle, which leads to increased repair costs. However, the Investment programmes do not provide for prioritisation actions according to this criterion.

Another technological risk identified is the management of surface and groundwater which, when it reaches the gangue/salt, may produce uncontrollable dislocations with an effect on the overall stability of the deposit and surface.

With salt mining using kinetic dissolution with probes, in order to eliminate potential risks, the Company implements a complex programme of cavernometric measurements and topographic monitoring. We should mention that the cavernometric measurements were performed by the cavernometry team from the Targu Ocna Salt Mine Branch for all Company branches which require this specific activity. The topographic measurements aimed at



determining the co-axiality of the security elements (interchamber pillars), the planimetric and levelling measurements performed at the terminals of the monitoring alignments.

No such risks occurred in 2019.

- **Risks related to the human factor:** possible strikes/protests, dissatisfaction among employees may lead to labour disputes, failure to carry out the training programme for each department/unit may lead to a decline in professionalism.

An important risk that also occurred in 2019 is the risk of strikes. In October-November 2019, there were spontaneous strikes, initiated by the requests of miners from the Ocna Dej branch to be granted holiday vouchers, and later generalised at Company level, endangering deliveries to the largest customer of the Company, Borsodchem from Hungary. The strike ended after the requested benefits were granted, one day before the Company would be placed in the position to pay significant damages to this customer for failure to deliver according to contractual provisions. The internal audit plan for 2020 included an internal audit mission aimed at clarifying the circumstances and measuring the losses.

Another important risk related to the human factor is the lack of skilled mining personnel in the labour market, given that the share of personnel of 45 years or older is very high. Although this risk was addressed in 2019, by carrying out collaboration actions with the Mining Institute from Petroşani with the goal of training specialists in the mining field, such actions were not continued after the departure of the general manager who initiated them.

- **Political and legislative risks:** changes which can radically alter the economic environment where the Company exports most (country risk).

Considering who the shareholders are and the sort of the business the Company is doing, the Company is subject to certain rules specific to public institutions, and many of them depend on political changes.

- **Currency risk:** the Company has exposure in foreign currency (EUR), liquidities being generated by the export activity while purchases in foreign currency are at insignificant values, and the Company is exposed to exchange rate differences. In 2019, the Company did not use currency hedging instruments, but developments with the EUR currency did not have a negative impact, as the Company obtained favorable exchange rates. In 2017, the Board of Directors approved a Policy on financial investments in SNS, which aims, among other things, to reduce this risk. According to domestic policies, the net currency exposure is set at a maximum of 20% of the total equity. All other currency at hand is converted in RON.

## **9.2 EVALUATION OF THE INTERNAL CONTROL SYSTEM**

Based on Article 4, paragraph (3) of Government Ordinance no. 119/1999 on internal

supervision system and preventive financial control, as republished and further amended and supplemented, *Societatea Națională a Sării S.A.* has in place an internal supervision system meant to enable the executive management of *Societatea Națională a Sării S.A.* to provide reasonable assurance that public funds managed to fulfil the overall and specific objectives have been used lawfully, effectively, efficiently and economically.

A committee for the monitoring, coordination and methodological guidance on the development of the internal management supervision system (hereinafter referred to as the “monitoring committee” or “MC”) was appointed at the headquarters of *Societatea Națională a Sării S.A.* by Decision no. 10/13.01.2020 (amending Decision no. 218/02.09.2019 amending Decision no. 208/05.10.2018). Monitoring committees were also appointed for branches, which operate according to the organisation and functioning regulations of the committee, attached to the decisions appointing the commissions.

The executive management carried out a self-assessment of the implementation of the internal management supervision system for each standard and found that it is “partially implemented”.

**Implementation standards:**

- Standard 1 - Ethics and Integrity
- Standard 3 - Competence, performance
- Standard 4 - Organisational structure
- Standard 6 - Planning
- Standard 8 – Risk management
- Standard 9 - Procedures
- Standard 10 - Supervision
- Standard 11 – Going concern
- Standard 12 - Information and communication
- Standard 13 - Document management
- Standard 14 - Financial and accounting reporting
- Standard 15 - Review of the Internal Management Supervision System

***Standards implemented “in part”:***

- *Standard 2 - Duties, functions, tasks*
- *Standard 5 - Objectives*
- *Standard 16 - internal statutory audit*

***Standards not implemented “in part”:***

- *Standard 7 – Performance monitoring: Not implemented*

**9.3 Internal audit**

*Societatea Națională a Sării S.A.* has an internal audit department with three employees. Five

internal audit missions were planned and conducted in 2019, consequently the audit plan is 100% completed. Moreover, upon request by the executive management, notified by letter no. 2066/19.03.2019, an ad-hoc audit mission was conducted.

#### *Independence of the public internal audit department*

The audit department is under the administrative subordination of the general manager and under the hierarchical subordination of the Board of Directors which approves the audit plan and supervises this activity. The audit reports drafted following audit missions are submitted to the executive management for endorsement, so as to decide on the necessary actions; the audit reports are submitted quarterly to the Advisory Audit Committee and to the Board of Directors.

#### *Review of internal audit activity*

The activity undertaken over 2016-2019 by the internal audit department was evaluated in 2019 by the Romanian Court of Accounts. The Court of Accounts only ordered a single measure, more specifically "The management of the Societatea Națională a Sării S.A. shall order measures and shall monitor the legality of the *"the internal public audit activity"*, in compliance with the legislation in force" in connection with the audit finding, at least once every 3 years, for all activities carried out at the level of the entity, such as: the execution of the income and expenditure budget and the activity regarding the IT systems. The implementation deadline requested by the Court of Accounts is 30.06.2020; at this report is being drafted, the internal auditors of the Company reported that the measure was already implemented. No other measures were imposed.

#### *Multi-annual planning*

The internal audit department developed the Strategic Audit Plan for 2017-2019, which was approved by the Board of Directors. Pursuant to Art. 164 (3) of Law 31/1990, as updated, *ad-hoc* audit missions may be performed both at SNS-SA headquarters and at the Company branches following a written decision of the Board of Directors, of the General Meeting of Shareholders and in case of complaints filed by shareholders. The executive management may request in writing the audit department to conduct ad-hoc audit missions, but they will have to provide information on the topic of the ad-hoc audit mission requested and on its objectives in the first meeting the Board of Directors.

## **CHAPTER IV. Financial and accounting situation**

### **1. Accounting policies**

The financial-accounting activity is organised and conducted pursuant to the Accounting Law no. 82/1991, as republished and further amended and supplemented, on the systematic and chronological recording of data and complies with the accounting principles stipulated by legislation including: permanence of methods, going concern, independence of the financial year, intangibility of opening balances, no offsetting revenue with expenses, separate valuation of assets and liabilities, the principle of prudence, accrual-based accounting, valuation at acquisition or production cost and significance thresholds.

For 2019, the Company presents the set of individual Financial Statements pursuant to the provisions of the Order 2844/2016 of the Ministry of Public Finance on the enforcement of the Accounting Regulations compliant with the International Financial Reporting Standards adopted by the European Union (IFRS) implemented for the enforcement of Order no. 666/2015 on the enforcement of Accounting Regulations compliant with the International Financial Reporting Standards by certain state-owned entities.

Accounting books are kept in Romanian and in the local currency (RON).

Foreign currency transactions are recorded in local currency at the exchange rate published by the National Bank of Romania for the transaction date; entries are made systematically and chronologically based on supporting documents.

The accounting policy manual was developed in compliance with the International Financial Reporting Standards (IFRS) and was approved by the Board of Directors by Decision no. 7/12.03.2020.

Company accounting books and records are kept both at the administrative headquarters and at the level of each branch. The company has seven subordinate branches where the accounting records are managed by a head of unit/chief accountant up to the level of the trial balance. The branches operate without legal personality, but have their own management.

## 2. Statement of the financial position

### Company's assets and liabilities

#### A. PROPERTY, PLANT AND EQUIPMENT

##### I. Tangible assets

Tangible assets	Balance as at 31.12.2019	Balance as at 31.12.2018
Land	24,741,601	24,471,476
Constructions	102,103,838	101,943,575
Technical plants and machinery	105,258,177	90,379,673
Other plant, equipment and furniture	1,772,330	1,506,016
Biological assets	3,313	3,313
Tangible assets in progress	13,011,956	5,877,438
Depreciation of land	(13,850)	(13,850)
Depreciation of buildings	(24,256,273)	(19,530,902)
Depreciation of plant and machinery	(43,384,572)	(29,469,287)
Depreciation of other plant and machinery, fixtures	(781,338)	(502,683)
Impairment of buildings	(5,145,188)	(4,977,643)
Impairment of plant and machinery	(210,769)	(60,382)
Impairment of other plant and machinery, furniture	-	-
Impairment of tangible assets in progress	(4,935,751)	(3,053,663)
Advance payments for the purchase of tangible assets	881,781	-
<b>TOTAL</b>	<b>169,045,252</b>	<b>166,573,083</b>

	Balance as at 31 Dec. 2019	Balance as at 31 Dec. 2018
The rights to use the assets	1,204,216	-
Right-of-use asset amortisation	(33,450)	-
<b>TOTAL</b>	<b>1,170,766</b>	-

Tangible assets are mainly specific to the exploitation of mineral resources: land related to mining fields, special buildings and constructions, excavation and transport machines and equipment, processing and packaging machines and equipment, conveyor belts, etc. The Company does not own assets for sales purposes.

The last revaluation of property, plant and equipment was carried out at the end of the financial year 2017 for buildings and constructions, and at the end of 2016 for land, fixed assets - class 2 and class 3. No property, plant and equipment revaluations were conducted in 2019.

The land, buildings and special constructions, technological equipment, installations, means of transport and other fixed assets held by the Company as at 31 December 2019 are disclosed at fair value in the statement of financial position.

In 2019, the increases of the Company's property, plant and equipment amounted to RON 20,504,810, consisting of:

- land amounting to RON 270,125,
- Special buildings and constructions amounting to RON 4,100,036, of which purchases amounting to RON 1,718,346, and the difference of RON 2,381,690 represent increases in value due to modernisations of existing special buildings and constructions;
- The acquisitions of plant and machinery amounting to RON 15,862,459 in 2019 consisted in technological equipment amounting to RON 5,019,077, measurement and control devices and installations amounting to RON 903,135, means of transport amounting to RON 9,940,247 intended for mining (special trucks for salt transport).
- Acquisition of furniture, office equipment, protective equipment amounting to RON 272,190.

The balance of investments in progress as at 31.12.2019 - gross amount RON 13,011,956, and RON 5,877,438 as at 31 December 2018, respectively.

In 2019, impairment of non-current assets in progress reached the amount of RON 1,909,848, representing the amount of investments in progress that were not completed within the deadlines provided by works estimates, impairment of buildings and constructions and impairment of plant, machinery and motor vehicles representing the remaining undepreciated amount of the property, plant and equipment that was written off in 2019.

In 2019, property, plant and equipment amounting to RON 831,015 were written off, undepreciated amount of RON 476,209; such write-offs were based on the Inventory Reports concluded and approved for 31.12.2018. The writing off was effective. Impairments targeted property, plant and equipment with an advanced degree of wear and tear, which can no longer be used in the exploitation process and were earmarked for write-off.

In 2019, an advance payment was made for property, plant and equipment amounting to RON 881,761 for the purchase of an underground salt grinding plant at the Tirgu Ocna Salt Mine.

## **II. INTANGIBLE ASSETS**

Intangible assets acquired by the company are presented at cost less accumulated amortisation and impairment losses. Most of the intangible assets registered by the Company are represented by dedicated software for different fields of activity (manufacturing, accounting, finance, procurement, payroll). They are amortised on a straight-line basis over a period not exceeding three years.

	<b>Balance as at 31.12.2019</b>	<b>Balance as at 31.12.2018</b>
<b>INTANGIBLE ASSETS</b>	<b>1,814,398</b>	<b>1,425,873</b>
Development costs	#	-
Concessions, patents, licences, trademarks and similar rights and assets	794.322	1,450,865
Intangible assets related to exploitation and evaluation of mineral resources	1,029,142	243.788
Other intangible assets	2,838,594	2,006,892
Amortisation of concessions, patents, licences, trademarks and similar rights and assets	(343,715)	(278,940)
Amortisation of intangible assets related to exploration and evaluation of mineral resources	(327,707)	(233,820)
Amortisation of other intangible assets	(2,158,171)	(1,908,393)
Advance payments for the purchase of intangible assets	43.980	145.480
Impairment of intangible assets	(62,048)	-

In 2019, the Company purchased:

- “Concessions, patents, licences, trademarks and similar rights and assets, other intangible assets” amounting to RON 177,000 related to blasting works, monitoring the phenomena of instability at Gura Slănic facility (Tg. Ocna);
- Intangible assets related to exploitation and evaluation of mineral resources Geoconsulting licences (E.M. Vâlcea) amounting to RON 167,000, exploitation licence (Slănic Salt Mine) amounting to RON 156,000, salt deposit exploitation licence (Ocna Dej Salt Mine) amounting to RON 146,177, extension of licence Ocna Mures-Razboieni (Ocna Mureş Salt Mine) amounting to RON 165,000, extension of mining licence for Gura Slănic perimeter (Tirgu Ocna Salt Mine) amounting to RON 150,000, exploitation licence (Cacica Salt Mine) amounting to RON 1,177;
- “Other intangible non-current assets representing operating software, amounting to RON 144,538.

In 2019, the Company wrote off computer software amounting to RON 146,379, which were completely amortised.

Advance payments made in 2019 to purchase intangible non-current assets amounted to RON 66,814.

In 2019, impairment of “Other intangible assets” amounting to RON 62,048 was calculated, representing the remaining unamortised value of the intangible assets proposed for write-off in 2019.

**III. Other non-current assets**

	<b>Balance as at 31.12.2019</b>	<b>Balance as at 31.12.2018</b>
<b>Other non-current assets</b>	<b>20,749,498</b>	<b>21,274,042</b>
Other long term receivables	13,746,433	9,991,920
Deferred tax (active)	7,003,065	11,282,121

**Other long-term receivables** include environmental guarantees opened by the Company for the implementation of the Joint Order 202/2881/2348/2013 (National Agency for Mineral Resources, Ministry of Environment and Climate Change, Ministry of Economy).

**Deferred corporate tax** resulted from the implementation of IAS 12 and is in the form of assets (account receivable) as at 31.12.2019. Deferred tax was first calculated on 31.12.2014 when restating for the first time the Annual Financial Statements for compliance with IFRS (IFRS1), with impact on the Equity chapter amounting to RON 8,782,177.63 - Retained Earnings resulting from the shift to IFRS, except for IFRS 29 (1177).

**Statement of inventory of patrimony**

The annual stock-taking was carried out in compliance with the internal procedures of the Company and with the accounting regulations applicable. The stock-taking period covered:

- 05.12.2019 - 10.01.2020 for:
  - ❖ fixed assets (construction, land, technological equipment, measuring and control devices and installations, means of transport, furniture, office equipment), intangible non-current assets, property, plant and equipment in progress.
  - ❖ small inventory, materials from third parties, goods in custody, leasing, rent, money and other valuables, petty cash).
  - ❖ raw materials, materials, goods, packaging, finished products, residual products.
- 31.12.2019 - 31.01.2020 for share capital (based on the Company Report issued by the Trade Register) and cash at hand and in bank, as well as other values;
- 31.12.2019 - 15.03.2020 for balance sheet accounts, assets and liabilities (other than inventories).

The results of the inventory are presented below and were approved by the Board of Directors by Decision no. 7/12.03.2020.

1. Number of stocks taken:	119
2. Surplus resulted from annual inventory (RON)	12,980.96
3. Minus resulted from annual inventory (RON)	2,145.36



**B. Current assets**

The current assets registered as at 31 December 2019 are in the amount of RON 304,246,765 and have the following structure:

	Balance as at 31 Dec. 2019	Balance as at 31 December 2018
<b>CURRENT ASSETS - TOTAL</b>	<b>304,246,765</b>	<b>355,968,190</b>
Stocks	25,060,306	12,867,458
Receivables	51,358,383	124,735,391
Other financial assets	16,204,153	262
Cash at hand and in bank	204,730,111	218,365,079
Receivables related to corporate tax	6,893,811	-

**Stocks**

Stocks are reported at the lower of cost and net realizable value. The method used for capitalization of different types of stocks such as spare parts and consumables is FIFO (first in, first out). Stocks are subject to inventory at the end of each year.

	Balance as at 31.12.2019	Balance as at 31.12.2018
<b>Stocks</b>	<b>25,060,306</b>	<b>12,867,458</b>
Raw materials	242.013	188.223
Write-down of raw materials	2.	-
Consumables	12,779,361	10,403,126
Write-down of consumables	(1,267,169)	(1,415,025)
Production in progress	5,489,790	1,404,924
Semi-finished goods and finished goods	7,060,283	1,569,409
Write-down of semi-finished goods and finished goods	(67,232)	(7,549)
Goods purchased for resale	948.504	831.719
Write-down of goods	(2,505)	(322)
NON-ELIGIBLE VAT - stocks	(122,736)	(107,045)

Approximately 54% of the value of stocks is represented by stocks of finished products and goods or products and goods in progress, while 46% are stocks of raw materials, materials, fuel, materials in the form of small inventory and packaging.

The production in progress shows a significant increase compared to the level recorded at the end of 2018 due to the works performed at the Salina Slănic branch for the new mining field. These works consist of digging the main contour gallery and the joint gallery horizon XIV, resulting in salt removal. This (raw) salt is recorded in the accounting records under work in progress.

At the end of 2019, large stocks of rock salt for snow removal were registered due to CNAIR's failure to take over the quantities estimated for the fourth quarter of 2019, due to temperatures above annual averages. The stocks of finished products at the end of 2019 show an increase by 349% compared to the previous year.

As at 31 December 2019, impairment adjustments were made for non-moving or slow-moving inventory as follows:

- for stocks of consumables, auxiliary materials, spare parts, packaging, impairment adjustments amounted for RON 1,267,169, decreasing compared to 2018 (RON 1,415,025);
- for stocks of finished goods, the depreciated amount is of RON 67,232, increasing compared to 2018 (RON 7,549).
- for stocks of goods amounting to RON 2,505, increasing compared to 2018 (RON 322).

**Receivables and impairment of receivables:**

	<b>Balance as at 31 December 2019</b>	<b>Balance as at 31 December 2018</b>
<b>Trade receivables and other receivables</b>	<b>51,358,383</b>	<b>124,735,391</b>
Trade receivables and similar	68,730,215	94,235,983
Allowances for doubtful debts	(21,625,321)	(20,679,502)
Employee-related claims	845,136	618,240
Other outstanding payables to the State budget	1,913,190	49,556,137
Sundry debtors	17,178,483	16,225,681
Allowances for doubtful sundry debtors	(17,123,547)	(16,427,993)
DEFERRED INCOME	1,251,694	1,161,953
Interest receivable	188,531	44,862
Miscellanea	2	28

**Trade receivables and similar receivables** include the obligations of internal and external customers to the Company, based on the rules imposed by a market economy and on the advance payments made to suppliers of goods and services.

The 27% reduction in the level of trade receivables is due to the low volume of deliveries to CNAIR in the fourth quarter of 2019 and to the termination of the contract with Ciech Soda Romania SA (salt solution and limestone).

For claims related to customers and other litigious debtors (customers/debtors involved in lawsuits pending at various stages), value adjustments were reflected in a separate account, pursuant to the legislation in force, both in accounting and in fiscal matters. Allowances for doubtful debts - accounts receivable as at 31 December 2019 amounted for RON 21,625,321.

The evolution of the allowances for doubtful customers is impacted by the accrual of late penalties calculated on contracts for the amounts under litigation.

the group of **Employee-related claims** includes amounts to be collected from employees in the form of instalments, according to the contracts for sale/purchase of apartments concluded by Slănic Prahova branch with employees, and amounts to be recovered from employees following the audit conducted by the Court of Accounts resulting in actions brought before the court by SNS SA.

**Other claims receivable from the Treasury** represent amounts to be recovered from the Health Insurance House for medical leave and ineligible VAT.

	<b>Balance as at 31 December 2019</b>	<b>Balance as at 31 December 2018</b>
<b>Other outstanding payables to the State budget</b>	<b>1,913,190</b>	<b>49,556,137</b>
Mining royalty	-	33,394,819
Other claims receivable from the Treasury	49.148	14,063,049
Other personnel-related claims	1,766,343	1,949,336
VAT under settlement	97.699	148,934

The group of **Sundry debtors** mainly consists in the addition in 2018 of the claim on OLTCHIM (company under judicial reorganisation) amounting to RON 14,153,119.71, up to the level established by Decision C(2018) 8592 adopted by the European Commission on 17.12.2018 regarding the debtor OLTCHIM SA and of the accrued interest for 2019 in the amount of RON 607,357.97. It also includes amounts to be recovered from former suppliers who had been charged with undue amounts, former and current employees for whom Imputation Decisions were issued, stamp duties paid for cases pending before courts, etc. In 2019 the Company recognised allowances for doubtful sundry debtors (RON 17,123,547).

**Outstanding receivables:** on 31.12.2019 the Company reported outstanding receivables amounting to RON 36,373,759, of which the largest share is held by the receivable on Oltchim SA amounting to RON 33,708,986.

**Other financial assets** include Registered Bank Guarantee Letters available to some partners according to contractual provisions, guaranteed with cash-collateral (RON 16,104,737). There is a significant performance guarantee constituted and available to CNAIR, for the road salt delivery contracts amounting to RON 13,260,138. This was established in 2018 and maintained the same amount in 2019. A letter of guarantee amounting to RON 2,448,411, guaranteed with collateral cash, was made available by the Company to the supplier Sandvik for the purposes of a contract for the purchase of goods.

### Cash in hand

On 31 December 2019, the Company registered cash and cash equivalents in the amount of RON 204,730,111, decreasing compared to the previous year (RON 218,365,079) due to the lower sales volume.

### C. Debts

#### Trade payables

As at 31 December 2019, the Company registers trade payables amounting to RON 20,050,637, with the following structure:

	<b>Balance as at 31.12.2019</b>	<b>Balance as at 31.12.2018</b>
<b>SUPPLIERS AND SIMILAR ACCOUNTS</b>		

	<b>20,050,637</b>	<b>22,175,772</b>
Trade payables	13,555,116	13,645,388
Suppliers of non-current assets	4,510,931	5,630,599
Advance payments collected	1,984,590	2,899,785

The decrease of the "Suppliers" balance by 10% compared to the previous year is mainly due to the settlement of the debt to suppliers of fixed assets in the first part of 2019, at the Slănic Prahova branch (RON 1,851,640 representing the purchase of front loaders) and at the Tg Ocna branch (RON 1,679,488 representing road paving services).

**Advance payments collected** - advance payments collected in foreign currency from foreign customers, based on proforma invoices according to contractual clauses.

### Employee-related liabilities

As at 31.12.2019, the company records employee-related liabilities amounting to RON 8,329,746 and employee benefits determined by actuarial calculation based on IAS 19, recognised in the financial statements for two components: long-term and short-term benefits.

	<b>Balance as at 31 December 2019</b>	<b>Balance as at 31 December 2018</b>
	<b>8,329,746</b>	<b>7,322,529</b>
Salaries and similar	7,403,863	4,678,373
Profit-sharing plan	-	-
Management guarantees	555.236	510.812
Other employee related liabilities	25.237	21.636
Allowance in lieu of annual leave	-	1,757,544
Meal tickets	345.410	354.165

**Personnel payables** include current personnel expenses due in January of the following year (salaries, sick leave, deductions from employees' remuneration due to third parties, amounts due to staff based on Court Decisions, meal vouchers, management guarantees, leaves pending at the end of the year and other staff-related expenses). The amounts representing the employee participation in the previous year's profit were paid in 2019.

### Employee benefits

For post-employment benefits and short-term employee benefits, provisions amounting to RON 20,188,340, calculated based on the estimate assumptions in the Collective Labour Agreement in force on 31.12.2019, were recorded at the end of 2019 following the actuarial calculation performed by a certified external expert, a member of the Romanian Actuarial Association.

<b>Balance as at 31 December 2019</b>	<b>Balance as at 31 December 2018</b>
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		<b>20,188,340</b>	<b>15,869,479</b>
Employee benefits with maturity	<1 year	9,571,617	8,615,744
Employee benefits with maturity	> 1 year	10,616,723	9,115,370

Employee benefits are calculated for the application of IAS 19, are recognised in employee-related liabilities and are presented separately in the financial statements, by two components: long-term and short-term benefits.

**Short-term tax liabilities**

	<b>Balance as at 31 December 2019</b>	<b>Balance as at 31 December 2018</b>
	<b>24,365,232</b>	<b>23,875,109</b>
Taxes and social security contributions	8,471,088	7,104,684
VAT payable	1,555,217	4,300,234
Mining royalty	1,861,843	-
Income tax from operating activities	187.554	234,357
Waste and packaging tax	81.644	
OTHER TAXES AND LEVIES	180.751	195,342
Other debts payable to the Treasury	12,027.135	12,040,492

Short-term **tax liabilities** cover taxes and contributions related to salaries, VAT payable, income tax from operating activity and other taxes and duties calculated for December, due in 2019.

An important component of the short-term debts payable to the Treasury is a part of the increases and penalties related to the additional mining royalty for the period 2010-2013, the amount suspended from enforcement (RON 12,016,491).

**The corporate tax for 2019** is in the amount of RON 5,279,140. In 2019, payments were made amounting to RON 22,420,174, of which RON 9,632,268 represents corporate tax due for 2018, and RON 12,787,906 represents corporate tax calculated and transferred for the first three quarters of 2019.

The Company paid additional amounts as corporate tax, because initially the Company considered the expenses with the mining royalty for the financial years 2013-2015 amounting to RON 37,976,742 as non-deductible expense and the Oltchim SA became bankrupt, therefore, pursuant according to the provisions of the Fiscal Code, the impairment of this receivable in total amount of RON 33,718,127 may be reconsidered deductible expense. In previous years, the Company recorded allowances for doubtful debts which were considered non-deductible expenses; consequently, in 2019 these expenses were cancelled by restating them in non-taxable income and establishing the allowance for doubtful debts in deductible expenses.

At the annual year-end corporate tax adjustment for 2019, carried out at the end of the financial year, the Company reconsidered both the expenses with the mining royalty and with the allowances for bankrupt customers, which led to a corporate tax claim amounting to RON 6,893,811. This amount includes the corporate tax difference established by representatives of the National Agency for Fiscal Administration amounting to RON 614,995, which is the object of a case pending before the courts.

	<b>Balance as at 31 December 2019</b>	<b>Balance as at 31 December 2018</b>
Current corporate tax (debt)	-	9,632,268

**Deferred tax (IAS 21)** is calculated starting with 2014 and is recognised under receivables. The balance as at 31.12.2019 is amounting to RON 7,003,064, it is carried forward to the next year and it will undergo adjustments every year until the realisation of the assets/liabilities that generated it.

	<b>Balance as at 31 December 2019</b>	<b>Balance as at 31 December 2018</b>
Deferred tax (account receivable)	(7,003,064)	(11,282,121)

**Other short-term debts in** amount of RON 1,888,325 (RON 994.460 as at 31.12.2018) are related to sundry creditors (RON 1,573,303) and deferred income. Tender guarantees for the tender procedures organised by the Company hold the largest share in sundry creditors.

The Company pays the dividends to shareholders annually, in the year in which they are constituted as a payment obligation approved by Decision of the General Meeting of Shareholders.

#### Trade payables and other long-term debts

	<b>Balance as at 31 December 2019</b>	<b>Balance as at 31 December 2018</b>
	<b>10,714,508</b>	<b>9,315,658</b>
VAT and other tax liabilities - long-term	11,851	14,077
Sundry creditors > 1 year	85,934	186,211
Long-term employee benefits (IAS 19)	10,616,723	9,115,370

The benefits of long-term employees are established by actuarial calculation for the application of IAS 19, based on calculation assumptions from the Collective Labour Agreement of SNS and represent the component with maturity exceeding one year.

#### Loans

The Company does not have bank loans as at 31 December 2018.

#### Other elements in relation to liabilities:

The Company holds long-term and short-term concessions as at 31.12.2019.

	<b>Balance as at 31 December 2019</b>	<b>Balance as at 31 December 2018</b>
Short-term concessions <1 year	191,884	12,052
Long-term concessions > 1 year	1,214,701	277,196

The Company holds concessions concluded with local city halls for a period exceeding 45 years. The short-term component (less than 1 year), amounting to RON 191,884 is posted under short-term loans. The increase is determined by the application of IFRS 16 "Leases" starting with 1 January 2019. The amount is related to a concession contract concluded land concession contract for Ramnicu Vâlcea Mining Facility branch, signed in October 2007 for a 49-year period, payable in equal instalments plus additional expenses represented by the inflation rate over 25 years, representing the current expenditure of the financial year.

### Outstanding debts

As at 2019 year-end, the Company had no outstanding debts.

### Provisions and value adjustments

Having regard to the risk of asset impairment and of possible cash outflows in future years, the Company recognised impairments and provisions,

At the end of the financial year 2019, an analysis of the provisions established in the previous years was carried out; based on this analysis, the Company management made decisions regarding either the establishment of new provisions or provision reductions, as follows:

Name of provision	Balance as at 01.01.2019	New	Reposted	Balance as at 31.12.2019
1. Provisions for litigation		153,939		1,008,897
Labour disputes regarding salary rights: request to change the employment category which are the object of pending lawsuits Vâlcea, unresolved cases regarding the non-granting of the annual reward according to the provisions of the collective labour agreement (CLA) for 2012-2015:	854,958	153,939	-	1,008,897
2. Provisions for the profit-sharing plan	4,419,659	3,874,000	4,239,000	4,054,659
Fund for employee participation in realised profit	4,419,659	3,874,000	4,239,000	4,054,659
3. Provisions for environmental works and compensation	5,783,731		2,196,731	3,587,000
Compensation for Râmnicu Vâlcea Mining Facility, Bistrița Quarry	5,783,731		2,196,731	3,587,000
4. Provisions for taxes and duties	58,066,120	-	58,066,120	-
Mining royalty - principal established for the period between 01.01.2014 and 12.07.2017	37,976,742		37,976,742	
Penalties and interest for delays and failure to report the mining royalty	19,474,423		19,474,423	
Provision for the additional corporate tax established under an ANAF (tax office) audit report, payable for the 2014 FY:	614,955		614,955	*
5. Provision for the variable component, administrators and general manager	597,848	428,510	206,554	819,804
6. Other provisions	-	7,392,662	-	7,392,662



Provision for severance packages Vâlcea mining facility	-	7,308,000	-	7,308,000
Provision for payments to sundry suppliers	-	84,662	-	84,662
<b>GRAND TOTAL</b>		<b>69,722,316</b>	<b>11,849,111</b>	<b>64,708,405</b>
				<b>16,863,023</b>

**The provision for labour disputes amounting to RON 1,008,897** was established for disputes with employees for annual rewards not granted from previous periods, according to the provisions of the collective labour agreement in force, which are pending before the courts and are to be paid in subsequent periods, depending on the decisions ruled by the courts. As at 31.12.2019, the Company calculated that salary payments based on court decisions amounted to RON **1,008,897**;

**Provisions for the establishment of the profit participation fund:** the provision was established for employee participation in profit-sharing and is calculated pursuant to the provisions of the legislation applicable

to wholly or majority government-owned companies and of the Collective Labour Agreement, more specifically by applying a maximum percentage of 10% of the net profit, but without exceeding the legal ceiling of the average wage at Company level, established by Order of the Ministry of Finance.

in 2019, the amount of RON 4,239,000 was also paid for employee participation in profit-sharing for 2019 and a provision was established amounting to RON 3,874,000 with payment due in 2020.

**Provisions for environmental works and compensation:**

**Provisions for compensations** As a result of the compensations paid by the Company in 2018-2019 to the owners affected by the operating activities of the Ramnicu Vâlcea Mining Facility, the amount of the provision was reduced by RON 2,196,731.

**Provisions for taxes and duties:**

The provisions for taxes and duties were decreased by RON 58,066,120, after the completion of the tax audit aimed at checking the mining royalty calculated by the Company for 2014-2017 and after the registration of the tax audit report results. Currently, the Company no longer has any debts payable to the Treasury, as it paid all obligations established by the control document drafted by the National Agency of Fiscal Administration on 28.02.2020.

**For the variable component, administrators and general manager: RON 819,804** - including the amount of the variable component established in the management contracts of the members of the Board of Directors and a difference to be granted to the general manager for the previous years (including 2019) to be paid in 2020.

**Long-term provisions**

	Balance as at 31.12.2019	Balance as at 31.12.2018
Provisions for decommissioning of tangible assets	16,457,331	20,079,710
Provisions for decommissioning of tangible assets - long-term > 1 year	16,457,331	20,079,710

As the operational activities are carried out in the field of mineral resource extraction, the Company has obligations related to environmental protection, decommissioning of assets and land decontamination. Provisions calculated according to work estimates were established for this type of work.

The legal basis for this provision is the Joint Order no. 202/2881/2348 of 2013 issued by the National Agency for Mineral Resources, Ministry of Environment and Climate Change, Ministry of Economy.

The amount of the provision for environmental remediation expenses is RON 16,457,331 at 2019 year-end. Compared to the provision established in 2018, it was reduced by RON 3,622,379, after updating of the work estimates drafted together with the feasibility studies necessary to extend the validity of the exploitation licences by another five years.

### 3. Compliance with the income and expenditures budgets

Name of the item:	Done		
	Done 31.12.2019	Budgeted for 2019	Done 31 December 18
<b>Net Turnover</b>	<b>380,781,608</b>	<b>395,014,000</b>	<b>407,025,528</b>
<b>OPERATING INCOME</b>	<b>414,373,775</b>	<b>411,911,000</b>	<b>436,921,515</b>
Production sold	359,163,755	375,209,000	353,325,994
Proceeds generated on goods sold	24,933,523	19,805,000	21,574,700
Revenues from tourism services	39,900,852	41,619,000	26,553,692
Trade discounts offered	-3,315,670	-	-2,941,794
Variation of inventories	20,865,158	10,952,000	8,994,381
Capitalised production	3,747,898	1,010,000	679,065
Other operating revenues	8,840,168	4,935,000	28,735,477
<b>Operating expenses</b>	<b>331,316,231</b>	<b>348,184,000</b>	<b>343,418,024</b>
Raw materials and consumables	31,180,284	36,622,000	48,868,358
Other material expenses	3,472,270	1,573,000	3,091,641
Other expenditure (electricity and water)	13,436,909	14,050,000	13,632,193
Goods for resale	14,271,515	13,232,000	12,320,790
Trade discounts received	-47,087	-	-14,840
Personnel expenses	129,828,077	132,631,000	115,461,365
Allowances for tangible and intangible non-current assets	22,600,664	-	27,715,522
Adjustment of the value of current assets	1,639,622	-	-16,335,644
Other operating expenses	167,947,210	202,525,000	143,111,482
Allowances for provisions for risks and charges	-53,013,233	-52,449,000	-4,432,842
<b>OPERATING RESULT (EBIT)</b>	<b>83,057,544</b>	<b>63,727,000</b>	<b>93,503,491</b>
<b>EBITDA</b>	<b>103,362,690</b>	<b>91,072,000</b>	<b>121,219,013</b>
Financial revenues	5,263,778	2,531,000	2,567,844
Financial expenses	1,216,661	0	375,947
<b>FINANCIAL RESULT:</b>	<b>4,047,117</b>	<b>2,531,000</b>	<b>2,191,896</b>
<b>CURRENT OPERATIONAL RESULT:</b>	<b>83,057,544</b>	<b>63,727,000</b>	<b>93,503,491</b>
TOTAL INCOME	419,637,553	414,442,000	439,489,358
TOTAL EXPENDITURES	332,532,892	348,184,000	343,793,971
<b>GROSS RESULT</b>	<b>87,104,661</b>	<b>66,258,000</b>	<b>95,695,387</b>
Corporate tax	10148873	4,088,000	19,311,404
<b>NET RESULT OF THE FINANCIAL YEAR:</b>	<b>76,955,788</b>	<b>62,170,000</b>	<b>76,383,983</b>

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**4. Economic and financial indicators**


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**A.** Performance indicators established as a result of the implementation by the Company of the provisions of the Government Emergency Ordinance 109/2011 (all amounts are in RON, unless otherwise stated):

	<b>31 Dec. 2019</b>	<b>31 Dec. 2018</b>
<b>Revenues from tourism/Total turnover</b>		
Revenues from tourism (A)	39,900,853	34,612,000
Turnover (B)	380,781,608	407,025,529
(A/B)	10.48%	8.50%
<b>EBITDA margin</b>		
EBITDA (A)	103,362,690	121,219,012
Turnover (B)	380,781,608	407,025,529
(A/B)	27.14%	29.78%
<b>Net profit margin</b>		
Net Profit (A)	76,955,788	76,383,984
Turnover (B)	380,781,608	407,025,529
(A/B)	20.21%	18.77%
<b>ROE</b>		
Net Profit (A)	76955788	76,383,984
Equity (B)	383,191,722	368,701,903
(A/B)	20.08%	20.72%
<b>Operating revenues/average number of employees</b>		
Operating revenue (A)	414,373,775	436,921,515
Average staffing (individuals) (B)	1.617	1.610
(A/B) (thou. RON/employee)	256	271
<b>Total ratio debts/equity</b>		
total debts (short-term + long-term) (A)	113,818,226	176,539,284
Equity (B)	383,191,722	368,701,903
(A/B)	29.70%	47.88%
<b>Accounts payable/turnover ratio (indicator Maximum)</b>		
Outstanding payables (A)	0	0
Turnover (B)	380,781,608	407,025,529
(A/B)	0%	0%
<b>Accounts receivable/turnover ratio (maximum indicator)</b>		
Outstanding receivables (A)	36,373,759	391.476
Turnover (B)	380,781,608	407,025,529
(A/B)	9.55%	0.10%
<b>“Average cash (petty cash and bank accounts including short-term investments) turnover ratio (minimum indicator)”</b>		
Average cash (petty cash and bank accounts including short-term investments) (A)	235,715,131	266,524,903
Turnover (B)	380,781,608	407,025,529
(A/B)	61.90%	65.48%

**CSR expenses as a share in the total turnover (% turnover)**

CSR expenses (A)	4,968,351	4,533,258
Turnover (B)	380,781,608	407,025,529
(A/B)	1.30%	1.11%

**B. Financial and economic indicators compared to previous year:****Capital indicators:**

	<b>2019</b>	<b>2018</b>
<b>Profitability of the business capital</b> <i>(Profit before tax/Own equity)</i>	23%	26%
<b>Return on adjusted capital</b> <i>(Profit before tax/Own equity - Geological Fund)</i>	24%	28%
<b>Own equity indicator</b> <i>(Own equity/Total liabilities)</i>	77%	69%

The return on capital employed decreased in 2019 by 3pp compared to 2018, due to the decrease in the result for the year (9%). The increase in equity does not balance the decrease in the result for the current year (4%).

The return on capital adjusted with the amounts representing the geological fund is 24% in 2019, compared to 28% in 2018.

**Profitability indicators:**

	<b>2019</b>	<b>2018</b>
<b>Gross sales margin</b> <i>(EBIT/Turnover)</i>	22%	23%
<b>Net profit vs sales</b> <i>(Profit after tax/Turnover)</i>	20%	19%

The gross sales margin was 22% in 2019, below the 2018 margin, mainly due to the decrease in the sales volume of salt for snow removal, a product with a high profit margin.

**Liquidity indicators and indebtedness:**

	<b>2019</b>	<b>2018</b>
<b>Liquidity</b> <i>(Current assets/Current liabilities)</i>	3.73	2.49
<b>Indebtedness (%)</b> <i>(Loan capital/Equity)</i>	0.34%	0.13%

The degree of liquidity increased as at 31.12.2019 due to the decrease in short-term liabilities, following the cancellation of provisions amounting to RON 58,785,786.

## 5. Checks performed by authorities and Litigations

### Inspections/audits performed by authorities

5.1 Following the audits performed by the National Agency for Fiscal Administration auditors in the period of 11.06.2018 - 20.02.2019 at *Societatea Națională a Sării SA*, the Tax Audit Report F-MC 30/26.02.2019 was issued, based on which additional payment obligations were established as follows:

- corporate tax amounting to RON 948,683;
- value added tax related to writing off finished products amounting to RON 25,830;
- mining royalty amounting to RON 37,976,742;

The amount of RON 948,683 covers the different established by checking on the method used to calculate the expenses having a deductibility limited to RON 614,955, an amount which was actually challenged, and the amount of RON 333,728 established and not reported as a result of the fact that the tax audit mission started. This amount was paid in 2019.

The value added tax was not challenged and was paid during 2019.

The additional amount established for the mining royalty was based on amendments to the Mining Law no. 85/2003 which has some interpretable provisions regarding the calculation of the royalty. Consequently, the Company is involved in several litigations pending before the court for the establishment of additional liabilities related to these obligations.

The Company challenged the additional debt established following the tax audit report.

At the same time, the Company was requested to pay interest and penalties for failure to declare and pay the mining royalty amounting to RON 14,168,725.

In 2018, the Company paid the amount of RON 51,310,435 - consisting in an estimated debt of RON 37,141,710 and in RON 14,168,725 delay penalties - before the tax audit report. These amounts were recognised under accounts receivable; the tax adjustment will be made in the month when the tax audit report is issued, more specifically in March 2019.

For these amounts, the Company established provisions for risks and charges, which were reversed under income when the expenses with the additional mining royalty and the interests and penalties were paid.

5.2 Also in 2019, an tax audit mission was conducted by the Ministry of Public Finance, General Directorate of Economic-Financial Audit, which aimed to "check compliance with the provisions of the Government Ordinance 26/2013 on strengthening financial

discipline at the level of economic operators in which the state or units administrative-territorial are sole or majority shareholders or directly or indirectly hold a majority stake, within the statute of limitation”.

The reference period covered by this audit mission was 01.10.2016 - 01.07.2019.

The Audit Report no. 5070/23.07.2019 issued following this mission included the following findings:

- A 4-day delay in submitting the income and expenditure budget for 2019, in breach of the deadline provided by Art. 6 of the Government Emergency Ordinance 26/2013; as a consequence of this finding, the Company was sanctioned with a “warning”,
- The indicator of total expenditures in April 2019 was exceeded, compared to 1/12 of the total expenditure approved by the income and expenditure budget for to the financial year 2018; as a result of this finding, the Company was sanctioned with a fine amounting to RON 2000. During the tax audit, the Company paid half of the minimum fine, more specifically RON 1000 pursuant to Art. 28 (1) of the Government Ordinance no. 2/2001.

### **Litigation**

The Company is involved in numerous litigations as a defendant. These litigations involve claims for financial rights filed by employees or former employees, complaints, damages for land affected as a result of mining operations, tax issues, debt recovery and other disputes. Unexpected court decisions may arise. The Company management appreciate that such disputes will not have a significant impact on the financial position of the Company and did not deem it necessary to establish other provisions for risks and charges as at December 31, 2019, different from those already established.

Among the most important litigations in terms of value, we mention

1. **Litigation with the National Agency for Fiscal Administration (NAFA)** - for the mining royalty established additionally by NAFA auditors following the change of mining royalty quotas by legal provisions, amounting to **RON 50,119,000**, according to the Tax Decision. The application for suspension of the tax decision was accepted by the court, as a final decision. The order and the writ of execution were quashed by the court in appeal. At the same time, the company obliged NAFA to resolve the administrative appeal. The application was admitted by the court of first instance, the court ruling remained final, as the appeal filed by NAFA was rejected.
2. The company held a claim against **Oltchim Plant** amounting to **RON 33,101,628.07** of which: RON 12,577,802.49 the claim provided in the payment schedule, RON 18,249,986 - the claim representing unlawful state aid according to the Decision of the European Commission no. C (2018) 8592, RON 32,772.15- unsecured debt

representing court fees; RON 2,241,067.43 - interest related to the state aid granted) which was partly covered by a real estate guarantee authenticated by notarial deed. As at 31 December 2019, the claim was fully adjusted for depreciation. Some of the claims mentioned by the statement of claims made during the bankruptcy proceedings were not accepted in the list of creditors (RON 7,110,262.13 from the state-aid amounting to RON 18,249,986, as well as the amount of RON 2,241,067.43 - interest related to the state-aid granted). The claim will remain in the accounting records until a final decision has been made in the case.

## 6. Affiliated entities, related parties and Transparency

### Affiliated entities and related parties

*Societatea Națională a Sării* does not hold shares in other companies, therefore **the Company does not have affiliated entities.**

The **Company has related parties**, as it carries out commercial transactions with majority government-owned companies:

Partner	Sales without VAT		Purchases without VAT	
	2018	2019	2018	2019
Oltchim	11,705,576	13,047,324	-	709,966
CFR Marfa	-	-	15,307,668	16,166,716
CNAIR	132,564,521	113,782,423	-	-

As for “related parties” which are related to the directors and to the general manager of the Company, they are included in the “Declarations of interests” which are drafted by directors and by the general manager at the beginning of their term, and at the end of their term and are updated, annually, and submitted by May 31 to the National Integrity Agency (“ANI”) and published on the Company’s website.

### Transparency

According to its mandate objectives, *Societatea Națională a Sării* has the obligation to comply both with the National Anti-Corruption Strategy adopted by Government Decision no. 583/2016 and with the Memorandum on: *Increasing transparency and standardising the publication of public-interest information* adopted by the Romanian Government. As at 31.12.2019, the Company reports 88.6% compliance with the obligation to publish information on the Company website, pursuant to the provisions of Annex 4 of the Government Decision no. 583/2016 and of the Memorandum, calculated as follows:



<b>SOCIETATEA NAȚIONALĂ A SĂRII S.A. - Salrom</b>		<b>a majority state-owned enterprise under the authority of the Ministry of Economy, Energy and Business Environment</b>	
Compliance of the website structure with the structure provided by the Memorandum		Complete	
Content compliance		88.6%	
Date of analysis:		31 Dec. 2019	
Name	No.		Link to website/mentions
Legislation regulating the operation of the institution/company	1	✓	<a href="http://www.salrom.ro/despre-institutie-legislatie.php">http://www.salrom.ro/despre-institutie-legislatie.php</a>
Management - last name, first name, picture, CVs.	2	✓	<a href="http://www.salrom.ro/despre-institutie-conducere.php">http://www.salrom.ro/despre-institutie-conducere.php</a> <a href="http://www.salrom.ro/conducere-CA.php">http://www.salrom.ro/conducere-CA.php</a> <a href="http://www.salrom.ro/conducere.php">http://www.salrom.ro/conducere.php</a> <a href="http://www.salrom.ro/conducere-directori-sucursale.php">http://www.salrom.ro/conducere-directori-sucursale.php</a>
Management agenda - "news" section	3	✓	<a href="http://www.salrom.ro/ultimele-stiri.php">http://www.salrom.ro/ultimele-stiri.php</a>
Organization and Operation Rules	4	✓	<a href="http://www.salrom.ro/despre-institutie-organizare.php">http://www.salrom.ro/despre-institutie-organizare.php</a>
Organochart indicating the names of the persons holding management positions and the positions filled in available positions*	5	partial ✓	<a href="http://www.salrom.ro/despre-institutie-organizare.php">http://www.salrom.ro/despre-institutie-organizare.php</a>
Job ads open for competition (Career)	6	✓	<a href="http://www.salrom.ro/recrutari-sns-sediu.php">http://www.salrom.ro/recrutari-sns-sediu.php</a>
Programmes and strategies	7	✓	<a href="http://www.salrom.ro/doc/public/strategie2.pdf">http://www.salrom.ro/doc/public/strategie2.pdf</a> <a href="http://www.salrom.ro/doc/public/misiune.pdf">http://www.salrom.ro/doc/public/misiune.pdf</a> <a href="http://www.salrom.ro/doc/public/viziune.pdf">http://www.salrom.ro/doc/public/viziune.pdf</a>
Name of employee 544, contact address, templates - application and claims	8	✓	<a href="http://www.salrom.ro/contact-sns-presa.php">http://www.salrom.ro/contact-sns-presa.php</a> <a href="http://www.salrom.ro/interes-public-formularetip.php">http://www.salrom.ro/interes-public-formularetip.php</a>
Institution budget (2019)	9	✓	<a href="http://www.salrom.ro/interes-public-formularetip.php">http://www.salrom.ro/interes-public-formularetip.php</a>
Monthly statement of current payments (budget execution)	10	✓	<a href="http://www.salrom.ro/interes-public-formularetip.php">http://www.salrom.ro/interes-public-formularetip.php</a>
Statement of salary rights by job groups (updated)	11	X	X
Balance sheet (2012-2019)	12	✓	<a href="http://www.salrom.ro/rapoarte.php">http://www.salrom.ro/rapoarte.php</a>
Annual Procurement Plan 2019	13	✓	<a href="http://www.salrom.ro/despre-noi.php">http://www.salrom.ro/despre-noi.php</a>
List of procurement contracts	14	✓	<a href="http://www.salrom.ro/despre-noi.php">http://www.salrom.ro/despre-noi.php</a>

<b>SOCIETATEA NAȚIONALĂ A SĂRII S.A. - Salrom</b>		<b>a majority state-owned enterprise under the authority of the Ministry of Economy, Energy and Business Environment</b>	
(+EUR 5000) in 2019			
Procurement contracts +5000 EUR published		N/A	-
Asset and Interest Declarations	15	✓	<a href="http://www.salrom.ro/interes-public-declaratiiavere.php">http://www.salrom.ro/interes-public-declaratiiavere.php</a>
Activity Report for 2019 drafted by the Board of Directors	16	✓	<a href="http://www.salrom.ro/rapoarte.php">http://www.salrom.ro/rapoarte.php</a>
Regular report on the implementation of Law no. 544/2001 (2019)	17	✓	<a href="http://www.salrom.ro/interes-public-solicitari.php">http://www.salrom.ro/interes-public-solicitari.php</a>
Regular Report on the implementation of Law 52/2003 (2019)		N/A	-
Contact (contact information, meeting schedule, working hours, email address, petitions)	18	✓	<a href="http://www.salrom.ro/contact-sns-datecontact.php">http://www.salrom.ro/contact-sns-datecontact.php</a>
			<a href="http://www.salrom.ro/contact-sns-programaudiente.php">http://www.salrom.ro/contact-sns-programaudiente.php</a>
			<a href="http://www.salrom.ro/contact-sns-programfunctionare.php">http://www.salrom.ro/contact-sns-programfunctionare.php</a>
			<a href="http://www.salrom.ro/contact-sns-petitii.php">http://www.salrom.ro/contact-sns-petitii.php</a>
Other missing sections/documents		N/A	-
Good practice statements			
Website with reasonable adjustments for persons with disabilities	19	X	X
Webpage	20	✓	<a href="http://www.salrom.ro/">http://www.salrom.ro/</a>
Phone number	21	✓	<a href="http://www.salrom.ro/contact-sns-datecontact.php">http://www.salrom.ro/contact-sns-datecontact.php</a>
E-mail	22	✓	<a href="http://www.salrom.ro/contact-sns-datecontact.php">http://www.salrom.ro/contact-sns-datecontact.php</a>

**Currently, 100% compliance is not possible** because the Company has not identified the necessary technologies to achieve the objective related to the section on “Reasonable website adjusted for people with disabilities” and, on the other hand, the Company does not have the obligation to publish public procurement contracts with a value exceeding EUR 5,000 and their annexes, because the Company is not a public contracting authority.

## 7. Subsequent events

In 2019, *Societatea Națională a Sării SA* promoted an Operational Restructuring Program due

to the need to restrict the activity at Vâlcea. As at 2019 year-end, the Company established a restructuring provision estimated at RON 7,308,000 for severance payments to employee who will made redundant. The Operational Restructuring Programme will be implemented in 2020; this will generate in 2020 cash outflows and decreases in Revenue, as some income will not be realised, but it does not have the magnitude to jeopardise business continuity.

At the same time, in March 2020, the state of emergency generated by the COVID - 19 pandemic was declared in Romania, which has a profound impact on human health, as well as on the operational and financial performance of the entities. The analysis carried out by the executive management at the date of this report indicated a significant reduction in sales due to restrictions imposed by authorities (for example, from 15 March 2020 the tourism activity of the Company, which represents 10% of the annual turnover, was interrupted due to the COVID-19 pandemic), but the management does not estimate that the Company's ability to continue tourism activity in the forthcoming period should be affected, therefore the going concern principle is adequately assessed when preparing the financial statements.

### Statements:

#### Financial statement

To the best of our knowledge, we hereby confirm that the financial statements prepared pursuant to the Order of the Ministry of Public Finance no. 1802/2014 accurately reflect the financial position of the Company, the financial performance and the cash flows for the year ended 31 December 2019, pursuant to the accounting standards applicable, and that the management report accurately reflects the business development and performance and the position of the Company, as well as the main risks and uncertainties associated with the expected development of the Company.

#### Non-financial statement

**The provisions of the Order no. 1802/2014 of the Ministry of Public Finance amended by the Order of the Ministry of Public Finance no. 1938/2016 stipulate as follows:**

492<sup>1</sup>

*(1) **Public-interest entities** which, at the balance sheet date, exceed the criterion of 500 employees as average number of employees during the **financial year shall include in the management report a non-financial declaration** to include, **insofar as they are necessary to understand the entity development, performance and position and the impact of its activity, information regarding at least one of the following aspects: environmental, social, personnel, human rights, fight against corruption and bribery, including...**"*

**In conjunction with**

492<sup>4</sup>

**(1) If an entity prepares a separate report for the same financial year, whether or not this report is based on national, Union or international frameworks, which contains the information required for the non-financial statement, as set out in point 492<sup>1</sup>, that entity shall be exempt from the obligation to draft the non-financial statement stipulated under point 492<sup>1</sup>, provided that this separate report:**

- a) *be published together with the management report, pursuant to the provisions of section 9.1. "General obligation to publish"; or*
- b) *be made available to the public within a reasonable period of time which shall not exceed 6 months from the balance sheet date, on the entity's website, and be mentioned in the management report.*

*Societatea Națională a Sării prepared a separate Report on non-financial matters, "Non-financial report as at 31 December 2019" which accompanies the financial statements and which is included on the agenda of the general meeting of shareholders approving the financial statements. The Report includes the information required for the non-financial statement, as provided by the legislation applicable, and is prepared in accordance with the requirements of the international Global Reporting Initiative (GRI) non-financial reporting standard and is published together with the management report, pursuant to Section 9.1. "General obligation to publish".*

**MEMBERS OF THE BOARD OF DIRECTORS**

**Tulici Nicolae**

**Fatu Simona - Carmen**

**NICULITA Cătălin**

**RUSU Lucian**

**PARASCHIV Catalin**