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Societatea Națională a Sării S.A.

Outgoing document N° 3090/27 April 2021

MANAGEMENT REPORT

on the Financial Statements of *Societatea Națională a Sării S.A.*, prepared pursuant to Order N° 2844/2016 of the Minister of Public Finance on the enforcement of the Accounting Regulations compliant with the International Financial Reporting Standards adopted by the European Union.

- 31 December 2020 -

MISSION

***“Sensible and safe exploitation of resources in full respect for the environment and the future,
while providing customers with quality products and services”***

Vision

***“SNS S.A. should become a regional leader in the marketing of salt products and a reliable
partner.”***

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

Societatea Națională a Sării S.A. (hereinafter called the "Company" or "SNS") is a Romanian legal person, registered with the Trade Register under N° J/40/4607/2010, established in 1997 by Government Decision N° 767/1997 following the reorganisation of the former Regia Autonomă a Sării.

The Company operates from its headquarters in Bucharest, in 7 branches without 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 activity of the Company consists in the exploitation of salt and other non-metallic products from the premises for which the Company holds exploitation licenses, as well as in the 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.

1	7,010	Activities carried out by divisions (headquarters), central administrative offices
2	0893	Extraction of salt
3	5,210	Storage
4	0899	Other mining and quarrying n.e.c.
5	0811	Extraction of ornamental stone and building stone, extraction of limestone, gypsum, chalk and slate

At the end of the year, the Company is the sole producer of salt, nationally and is classified as a "company of strategic interest" by Law N° 99/1999 on some measures 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 N° 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 20 of the Mining Law N° 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 addenda, for a period of 5 years, and may be further extended for successive periods of 5 years each. For the exploitation of graphite schists from Ungurelașu, the Company will decide whether to carry out closure works or to develop the business; in case the Company decides for the latter, it will update the necessary documentation pursuant to Art. 20 of the Mining Law and submit such documentation to ANRM for approval.

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 value of royalties shall be maintained even after the time when the license is extended by means of an addendum.

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

Shareholders

As at 31 December 2020, the Company was owned by two shareholders, as follows:

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

Management structure and business

The Company is managed in a unitary system by a 5-member Board of Directors which delegated its management responsibilities to a General Manager.

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 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.

Over 01.01.2020 - 31.12.2020, the membership of the Board of Directors was as follows:

Item N°	Full name	Quality	Beginning of Mandate	End of mandate
1.	Simbanu Ionică	Board member and president*	28.01.2020	18.05.2020
2.	Neacsu Danut	Board member and president	01.01.2020	27.01.2020
3.	Gheorghe Dan - Valentin	Board member	01.01.2020	02.02.2020
4.	Puiu Laurențiu	Board member	01.01.2020	31.03.2020
5.	Jujan Constantin	Board member	01.01.2020	31.03.2020
6.	Niculiță Cătălin	Board member	31.03.2020	31.12.2020
7.	Fatu Simona - Carmen	Board member	01.01.2020	31.12.2020

8.	Tulici Nicolae	Board member and president**	04.03.2020	31.12.2020
9.	Rusu Petrică - Lucian	Board member	31.03.2020	31.12.2020
10.	Paraschiv Cătălin	Board member	18.05.2020	31.12.2020

*Mr. Simbanu Ionică - BoD president over 28.01,2020 - 31.03.2020

**Mr. Tulici Nicolae - BoD president during the period of 18.05.2020 - 31.12.2020

In 2020, the executive management of the Company included the following persons:

Item. No	(first name/last name)	Quality	Beginning of mandate	End of mandate
1.	Mantu Gabriela Izabela	General Manager	01.01.2020	17.07.2020
2.	Radu Constantin Cătălin	General Manager	20.07.2020	31.12.2020

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

By Decision N° 1 of 19.01.2017, the Board of Directors approved the Regulation on Corporate Governance in the Company; this Regulation includes all operational rules and duties of 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.

In order to operate pursuant to the provisions of the legislation on corporate governance of public enterprises, of the company law, having regard to the specificity of Company operations according to the Articles of Incorporation and to ensure transparency of operations, the Company fulfils annually the obligation to draft and submit financial statements to the relevant bodies, in accordance with the mandatory accounting rules applicable to the Company.

The purposes of the Company are pursued according to a Management Plan developed by the members of the Board of Directors appointed following a selection process pursuant to Government Emergency Ordinance N° 109/2011 on corporate governance of public enterprises. The tenure covered 4 years, as provided by Government Emergency Ordinance N° 109/2011.

The members appointed in the Board of Directors presented a **Management Plan** which was approved by the Board of Directors in 2016 by Decision 33/07.12.2016, Art. 4 and which was valid over **2016-2020**. The plan established the *“Corporate Development Strategy and the underlying principles of the budgets”*; and the *“Implementation of the internal management control system and active risk management”*.

The administrative management monitored, on a monthly basis, the indicators provided in the Statement of Estimates (SoE) (achieved vs. target/budgeted) based on the monthly reports submitted by the executive management (general manager),

During the year, the administrative management monitored the timely submission by the executive management of the reports or documents required by the financial and non-financial reporting schedule, using the templates provided by law, by the internal regulations of the Company or by the administrative management.

The objective was to monitor the Company activity and ensure proper presentation in terms of accuracy of data and information, but also in terms of quality of argumentation.

Starting with 2018, the Company drafts and submits annual financial statements in compliance with IFRS, pursuant to the same Order 1286/2012, Art. 8:

Art. 8 (i). "starting with the financial year 2018, the entities shall organize and manage their accounting records according to Accounting Regulations compliant with the International Financial Reporting Standards, applicable to companies holding securities admitted to trading on a regulated market, approved by Order of the Deputy Prime Minister, Minister of Public Finance, N° 1286/2012, as further amended and supplemented".

and in compliance with the Accounting Law N° 82/1991, as republished and supplemented; Order N° 666/2015 of the Minister of Public Finance on the enforcement of the Accounting Regulations compliant with the International Financial Reporting Standards by certain state-owned entities; Order N° 1802/2014 approving the Accounting Regulations governing individual annual financial statements and consolidated annual financial statements - applicable for the period of 2014-2017 and Order N° 2844/2016 of the Minister of Public Finance approving the Accounting Regulations compliant with the International Financial Reporting Standards (IFRS) - applicable since 2018.

Chapter III. Review of 2020 activities

From an economic perspective, 2020 was a difficult year, atypical across the entire society in Romania and worldwide. In spite of these unfavourable conditions arising from the constraints related to the COVID-19 pandemic which determined authorities to declare the state of emergency and the state of alert, which had the effect of shutting down the HORECA industry and implicitly tourism in salt mines, the company was profitable.

Moreover, 2020 was strongly impacted by the rippling effects of losing an important customer, CIECH SODA Rm. Vâlcea which discontinued its business on September 19, 2019. For SALROM, this was the largest customer in the "salt solution" and "limestone" business line targeting the chemical industry.

2020 was the deadline for the implementation of the Management Plan approved by the shareholders for the 2016-2020 timeframe; an overall assessment of objectives indicates 55% success rate. The main objectives which have not been successfully achieved are those related to the implementation of an ERP across the entire company and the stock market listing.

The Board of Directors assessed the financial statements presented by the Company management on 31.12.2020 and noted a negative trend in the synthetic indicators achieved in 2020 compared to the indicators achieved in 2019. The priorities of the Board of Directors are derived from the evaluation of solutions to increase revenues, to boost production and sales capacities and to adopt any other necessary actions to streamline activities for the next period.

The financial situation of the Company is reflected in the Financial Statements and the initiative to draft and publish the third non-financial report is part of the Company's commitment to maintain and increase its economic performance.

1. Review of sales activities (products and services)

Sales and Tourism

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 92% of the turnover, and tourism (7.77% of the turnover).

The sales activities are carried out in both the administrative headquarters and the branches, while tasks in terms of client management are clearly separated. Thus, the sales staff at the administrative headquarters conclude agreements with external customers, with local "key accounts" (including retail networks, large companies, etc.), with chemical plants, CNAIR (Romania' Road Infrastructure Management Corporation), and ensure the organization and operation of our own salt deposit. The contracting and sales activities for other categories of domestic customers are carried out by the sales staff in our branches, for the territorial customers.

Share of products and services by categories, in total turnover

The largest share in the turnover structure, achieved from the sale of salt and non-metallic products is represented by the revenues from the sale of rock salt for the chemical industry, which accounts for about 33.50%, followed by the snow-removal salt, which accounts for about 28,50%.

Revenues achieved in 2020 with the rock salt for snow removal segment decreased by approx. 57% due to the atypical weather conditions in Q4 2020 (mild winter, with temperatures above annual averages, without heavy rainfall). The quantity delivered to the most important beneficiary of SNS SA, CNAIR SA, in Q4 2020 was 73,546.76 tons, 63.6% less than in the same period of the previous year. The total sales to this beneficiary in 2020 amounted for 165,172.70 tons of snow-removal salt, which accounts for 65.76% of total road salt deliveries for the domestic market (251,163 tons).

The revenues from salt sales for the chemical industry increased by RON 6,640 thou. in 2020, compared to 2019.

According to customs statistics provided by the National Institute of Statistics, **in 2020, the total salt imports in Romania** decreased by 17% (37,048 tons decrease) compared to 2019.

Imports (tons)	Quantity in 2018 (tons)	Quantity in 2019 (tons)	Quantity in 2020 (tons)	Evolution (tons) 2020 vs. 2019	Evolution %
Total salt imports in Romania	155.217	215.652	178.604	-37.048	-17%

For the **domestic market**, the Company supplies edible salt for direct human consumption and for the food industry, salt solution and limestone for the chemical industry, lumps and briquettes for the livestock industry, water softener salt tablets, industrial salt for snow-removal.

In Q4 2020 sales were impacted by the reduction of orders for snow-removal salt by CNAIR; 202,187.56 tons were delivered in Q4 2019, compared to 73,546.76 tons delivered in Q4, 2020

In **the foreign market**, we note a decrease in revenues from the sale of salt, due to a decrease in the market share in Slovakia in the segment of industrial salt for the chemical industry and snow-removal salt, and a 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.

Sales in 2020 decreased compared to 2019, as follows:

- salt solution and limestone - due to the termination of the supply agreement for salt solution and limestone by Ciech Soda Romania in September 2019 and the cessation of activity (decrease in revenues in 2020 by over 48% compared to 2019);
- snow-removal salt - due to decline in orders to less than 50% of the contracted quantity - no snow and short periods of frost;

Salt for the chemical industry - with a different situation: we registered a quantitative increase by 3.35%, and a value increase by 9.39% determined by the quantitative increase and by an increase in the price of the agreement by approx. 5.8%.

SNS deliveries in 2019-2020

The table below reflects the evolution of quantities of products delivered and of revenues from sales for the Company in 2019-2020:

Indicator	UoM	2019	2020	%
Quantity of products delivered		2,846,447	1,453,639	
of which:	Tons			-48.93 %
- domestic market	Tons	2408142	1,017,368	-57.75 %
- foreign market	Tons	438.305	436.271	-0.46 %
Indicator	UoM	2019	2020	%
Value of products delivered,				

of which	thou. Lei	335.205	230.889	- 31.12%
- domestic market	thousands RON	255.771	146.922	-42.56 %
- foreign market	thousands RON	79.434	83.967	+5.71%

A comparison of revenues from the main categories of products indicates the following:

	Value (thousand RON)			Quantity (tons)		
	2019	2020	%	2019	2020	%
Total, out of which:	335.205	230.889	- 31.12%	2,846,447	1,453,639	-48.93 %
LIMESTONE	26.238	9.681	-63.10 %	882.455	348.024	-60.56 %
SALT SOLUTION	24.780	16.521	-33.33 %	835.398	311.556	-62.71 %
SNOW-REMOVAL SALT	154.436	65.806	-57.39 %	598.617	251.163	-58.04 %
ROCK SALT FOR THE CHEMICAL INDUSTRY	70.708	77.348	+9.39 %	389.419	402.455	+3.35%
OTHER	59.041	61.533	+4.22 %	140.558	140.441	-0.08 %

As for the “salt solution” business line, the decrease in quantities by 62% was mitigated by price increases, therefore the loss was limited to 33% compared to the same period of the previous year.

Tourism services in total turnover

Total revenues (RON 19,523 thousand) generated by tourism activities (tourism services and sales) were reduced to less than half (48.93%) on a YOY basis (RON 39,901 thousand), as a result of a very much limited number of visits due to the restrictions imposed by the Covid-19 pandemic. When the authorities imposed a state of emergency, the salt mines were completely closed for visits over 15 March - 15 June.

Moreover, after the salt mines reopened, the physical distancing restrictions decreased the transportation and accommodation capacity, and certain profit-generating facilities (restaurants, cafés, playgrounds etc.) could not be opened.

In 2020, tourism revenues accounted for 7.76% of the Company turnover, compared to 10.48% in 2019.

The decrease in tourism-related expenses, in amount of RON 22,405 thousand, did not match the decrease in revenues, and account for 70% compared to the levels reported for the previous year (RON 31,980 thousand). More specifically, 2020 was the first year to see losses in this field of activity (RON 2,882 thousand).

2. 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 mining** uses dry mining methods, multi-layer small chambers with square pillars, and cutting methods using explosives and mechanised loading and transportation of the displaced material.
- **Salt solution exploitation** is performed by means of kinetic dissolution using individual probes.
- **Recrystallised salt** produced by evaporating the salt solution extracted using probes, using a multi-effect vacuum evaporator.
- **Limestone mining** using resilient multi-layer mining technologies, in the quarry.

All technologies used are specific to the type of deposit and to the product categories obtained.

Although the main stages of the technological process are common, due to the specificities of the deposit, to the possible different types of results, the preparation/delivery flows may differ from one branch to another.

For the chemical industry, the salt mining from the massif is performed by kinetic dissolution using probes.

3. 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 2020 was 1,175,979 tons, accounting for 97.39% of the production scheduled of 1,207,469 tons.

In 2020, 58.34% of the production target was achieved compared to 2019 is (achieved in 2020, 1,175,979 tons, achieved in 2019, 2,015,579 tons). The downward trend is due to the cessation of brine orders by Ciech Soda Romania SA starting with 18.09.2019, as a result of their cease of operations.

For limestone, the total production achieved in 2020 was 348,857 tons, compared to the 343,300 tons

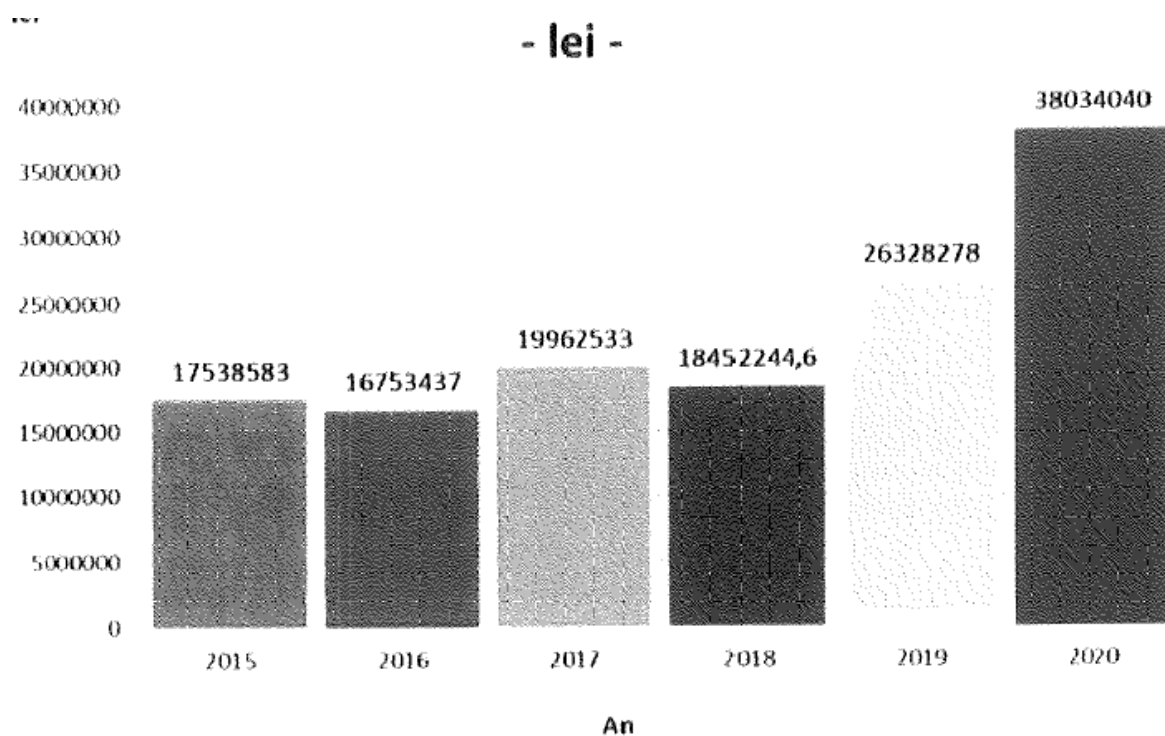
scheduled, which accounts for 101.61% of the production target scheduled.

In 2020, 39.65% of the limestone production target was achieved compared to 2019 (achieved in 2020, 348,857 tons, achieved in 2019, 879,964 tons).

4. Review of Investment Plan implementation

For 2020, the Company budget approved by GD N° 343/2020 and amended by GD 885/2020 included investment expenses amounting to RON 129,373,680. The schedule for 2020 included the total value of the multi-annual investments, in order to organize the procurement procedures and to conclude the related agreements.

Investments made in the past 6 years (2015 - 2020)



The total value executed and accepted amounted to RON 38,034,040, 44% more than the value achieved in 2019.

Investments made in 2020 included: interventions/refurbishments/consolidation of mining works (shafts, galleries, etc.), procurement of machinery and equipment, opening works for new mine levels, landscaping works for tourism, etc.

Breakdown by branches:

Branch	Planned (RON)	Achieved (RON)
Ocna Dej Salt Mine	23,281,933	5,736,680
Ramnicu Valcea Mining Facility	26,388,237	9,868,635
Slănic Salt Mine	15,294,450	6,189,657
Targu Ocna Salt Mine	28,732,500	9,294,528
Praid Salt Mine	8,276,900	5,310,157
Branch	Planned (RON)	Achieved (RON)
Cacica Salt Mine	9,493,230	1,165,405
Ocna Mureş Salt Mine	570.000	229.770
Headquarters SNS-SA	17,336,430	239.207
TOTAL S.N.S - S.A.	129,373,680	38,034,040

Structure by categories of investment:

Category	- lei - TOTAL	
	Working hours	Done
Production retooling and streamlining	12,326,883	1,465,331
Environmental and deposit protection	16,410,280	3,843,071
Occupational health and safety	29,454,687	11,869,319
New facilities/products/business lines	930.000	834.238
Maintaining production capacity	70,251,830	20,022,081
Contribution	129.373.680	38.034.040
%	29.40 %	

The company considered investments aimed at ensuring occupational safety and health in 2020 were highly important. The Company concluded agreements covering underground deposit protection which will commence and will be partly finalised in 2021.

5. Review of environmental impact aspects

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 2,237,790** were performed in 2020, compared to the scheduled value of **RON 9,623,284**, as follows:

Branch	- lei -	
	Planned amount	Amount achieved
TOTAL	9,623,284	2,237,790
Ocna Dej Salt Mine	1,159,106	444.794
Ocna Mureş Salt Mine	0	95.665
Mining Facility Rm. Vâlcea	5,812,000	178.249

Slănic Salt Mine	22.500	8.261
Cacica Salt Mine	-	-
Tg. Ocna Salt Mine	640.500	547.508
Praid Salt Mine	1,989,178	963.313

In 2020, the Company branches were inspected by inspectors of the National Environmental Guard and the National Administration “Romanian Waters”. Following these inspections, none of the branches was penalised by the National Environmental Guard.

In 2020, 5 complaints were made in the form of notifications to the National Environmental Guard, to the National Administration National Administration “Romanian Waters”, or to the Ministry of Environment, or other institutions subordinated to this ministry, in connection with alleged violations of the environmental protection legislation in force. The complaints were investigated by the competent authorities, followed by recommendations for corrective actions in 5 of the 5 cases.

No major environmental events were recorded during 2020 and no sanctions were imposed by the environmental authorities.

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”;

closure and remediation of economically unviable facilities or of facilities with depleted reserves;
closure and remediation 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 2020, Ocna Mureș branch performed conservation works from own sources in amount of RON 2,414,091 lei, as follows:

- **RON 1,015,154 lei in the Ocna Mureș facility,**
- **RON 837,296 lei in the Războieni facility,**

- **RON 561,641** for the supply of utilities, land surveys, security services, tax, mining tax, cadastral surveys, etc. necessary for the conservation works in these facilities.

7. Quality management

Societatea Națională a Sării S.A. promotes an internal culture of quality, which reflects accountability 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. This framework governs a process-based approach, from research - development, supply, production and control to the marketing of products/services to customers/end consumers.

The Integrated Management System (SMI) is certified by SRAC CERT Bucharest, accredited by RENAR and recognized internationally through the IQ Net network.

The reference standards addressed for Integrated Management System (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: 2019 - for the Food Safety Management System, and SR ISO 45001: 2018 - for the Occupational Health and Safety Management System.

The Recertification Audit included two stages, the first stage was carried out online - remote audit, and the second stage, the on-site audit, was conducted at Chiajna Salt Deposit, on 22.10.2020.

8. Review of aspects related to Company personnel/employees

Number and structure of staff by professional categories on 31.12.2020:

Branch	TOTAL			Technical, economic and management personnel			WORKERS		
	2020	2019	%	2020	2019	%	2020	2019	%
TOTAL S.N.S.	1.507	1.664	90.6	386	409	94.4	1.121	1.255	89.4
Rm Vâlcea Mining Facility	412	526	78.3	90	114	78.9	322	412	78.2
Ocna Dej Salt Mine	333	331	100.6	61	65	93.8	272	266	102.3
Slănic Salt Mine	191	199	95.9	45	46	97.8	146	153	95.4
Targu Ocna Salt Mine	237	245	96.7	52	47	110.6	185	198	93.4
Praid Salt Mine	139	145	95.8	30	27	111.1	109	118	92.4
Ocna Mureș Salt	39	58	67.2	16	17	94.1	23	41	56.1

Mine	2019	2020	2019	2020	2019	2020	2019	2020	2019
Cacica Salt Mine	73	74	98.6	19	19	100.0	54	55	100.0
S.N.S.Headquarters	83	86	96.5	73	74	98.6	10	12	83.3

The number of employees decreased by 157 people in 2020 compared to 2019, mainly by redundancies involving 115 employees from Rm Valcea and Ocna Mureş Branches, and 2 employees from the Chajna Deposit. The rest are natural departures by retirement - 42 employees.

Staff structure evolution by age groups on 31.12.2020:

	<25 years old		26 - 35 years old		36 - 45 years old		> 45 years	
	2020	2019	2020	2019	2020	2019	2020	2019
TOTAL S.N.S.	25	18	152	182	335	359	995	1.105
Rm Vâlcea Mining Facility	1	2	32	36	83	86	296	402
Ocna Dej Salt Mine	15	5	39	35	100	98	179	193
Slănic Salt Mine	2	1	15	16	23	42	151	140
Targu Ocna Salt Mine	3	5	25	28	42	67	167	145
Praid Salt Mine	4	4	24	29	42	39	69	73
Ocna Mureş Salt Mine	0	0	0	0	3	5	36	53
Cacica Salt Mine	0	1	8	7	14	12	51	54
S.N.S.Headquarters	0	0	9	31	28	10	46	45
%	1.66	1.08	10.08	10.94	22.23	21.57	66.03	66.41

As regards the staffing structure by age groups, 66.03% of the Company's employees was found to be over 45 years old, and this percentage is maintained or even increased annually.

Staff structure by level of education and training on 31.12.2020:

	Basic education			Secondary education			Higher education		
	2020	2019	%	2020	2019	%	2020	2019	%
TOTAL S.N.S.	703	826	85.11	497	515	96.50	307	323	95.05
Rm Vâlcea Mining Facility	317	409	77.51	35	41	85.36	60	76	78.95
Ocna Dej Salt Mine	130	132	98.48	161	154	104.55	42	45	93.33
Slănic Salt Mine	81	86	94.18	77	81	95.06	33	32	103.13
Targu Ocna Salt Mine	96	100	96.00	94	98	95.92	47	47	100.00
Praid Salt Mine	18	19	94.74	96	104	92.31	25	22	113.64
Ocna Mureş Salt Mine	15	31	48.39	12	15	80.00	12	12	100.00
Cacica Salt Mine	43	43	100.00	13	13	100.00	17	18	94.44
S.N.S.Headquarters	3	6	50.00	9	9	100.00	71	71	100.00
%	46.65	49.64	X	32.98	30.95	X	20.37	19.41	X

Education and training - in 2020, employees benefited from upskilling courses in amount of RON 138,550.55, which meant a decrease by 54% 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 2020 (from RON 256 thousand/person/year in 2019 to RON 202 thousand/person/year in 2020) due to a decrease in the turnover. In 2020, 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.

Productivity indicators	UM	31 Dec. 2020	31 Dec. 2019
Average number of employees	persons	1.488	1.617
Operating revenue/Average number of employees	thousand RON/person/year	202	256
Turnover/average number of employees	thousand RON/person/year	167	235

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 EM Rm. Valcea Branch), SNS-SA limited its activities. In order to ensure the economic efficiency so as to enable the implementation of the plan, given the fact that the turnover evolution is limited, there was a need for actions to reduce costs so as to contribute to an increase in profitability and implicitly in the financial resources available for streamlining measures. Against this background, the company implemented a restructuring programme.

"The Restructuring Programme" (N° 1248/18.02.2020) was acknowledged by the Board of Directors of *Societatea Națională a Sării S.A.* by Decision N° 6/21.02.2020 and approved by the General Meeting of Shareholders by Decision N° 6/31.03.2020, Art. 2.

Upon termination of the individual employment agreements, the employees were granted the benefits provided by Art. 50 of the Collective Bargaining Agreement.

Below you can see our staff downsizing report:

Branch	Number of jobs made redundant provided for in the Restructuring Programme	Retirees	Layoffs Unemployed	Retained
RM. VALCEA MINING FACILITY	106	6	100	0
OCNA MUREȘ SALT MINE MUREȘ	15	2	13	0

OFFICE:	3	0	2	1
TOTAL	124	8	115	1

Severance compensations were calculated and paid as follows:

Branch	Severance specified in the Restructuring Programme	Severance payable to retiring persons	Aggregate severance paid	Outstanding severance
RM. VALCEA MINING FACILITY	6300000	0	6300000	0
OCNA MUREŞ SALT MINE MUREŞ	819.000	0	819.000	0
HEADQUARTERS - Chiajna storage facility	189.000	0	126.000	63.000
TOTAL	7,308,000	0	7,245,000	63.000

Severance payments totalling RON 7,308 thou. do not impact the profit and loss statement prepared as at 31 Dec. 2020, since provisions had been posted for them at the end of the financial year 2019.

9. Review of Risk Management Activity and of the internal control System

Risk management activity

The risk management process targets two main categories of purposes:

purposes associated to risk prevention activity (costs and savings related to the treatment of risk exposure);

purposes regarding post-event measures in order to avoid/minimize their occurrence (ensure continuity, existence and operation of the Company).

The risk matrix is designed using a scoring system which measures the degree of risk and the frequency of occurrence, on a scale from 1 to 5.

Each organizational entity within the Company is accountable for identifying and managing risks.

Risk factors are not independent, and losses registered when risks do occur are often a consequence of their interdependence.

The following categories of internal and external risks were identified in SNS SA:

Internal risk factors

According to the specificity of the Company, the following categories of **internal risks** were identified:

■ **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 type 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.

With regard to customer dependency, the Company is exposed to such a dependency for one category of products, more specifically deliveries of salt solution to customers: Chimcomplex with places of business Borzești and Ramnicu Valcea. Any imbalance in the operations of these salt solution customers is transferred to the supplier, with a major economic and social impact. Such examples are the cease of production by the chemical plant Ciech Soda Romania SA starting with September 2019, or the bankruptcy of the chemical plant SC UPSOM SA in 2010.

■ **Operational risks** (technological risks, geological reserves and environmental risks): using 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 the lifecycle of many such machines and pieces equipment that are still being used actually ended a long time ago, which generates increased repair costs.

Another technological risk identified is the management of surface and groundwater which, when it reaches the gangue/salt, may displace the ground layers uncontrollably which affects 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 measurements and monitoring of geo-mechanical phenomena of mining subsidence (cavernometry, topographic measurements, etc.).

■ **Risks associated to the human factor:**

(1) high percentage of employees with an average age of 45 or more who can retire in the coming years, with a lack of candidates in the labour market.

(2) lack of an objective skills assessment system;

(3) possible labour disputes (strikes, protests, etc.); employee dissatisfaction may lead to labour disputes.

External risk factors

According to the specificity of the Company, the following categories of **external risks** were identified:

- **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.

- **Risks associated to the human factor:**

- (1) the disappearance of high schools, vocational schools and other TVET schools, low attractiveness or lack of interest in certain sectors of activity or in certain technical professions for young people, leading to a decrease in the number of skilled applicants needed to fill vacancies, especially in manufacturing activities.

- (2) workforce migration to other European Union countries which offer very attractive wages.

- **Financial risks:** they impact the Company results due to changes in market conditions. These risks are beyond the control of the Company. Hence the need to identify and measure conjectural risks and, first and foremost, price and currency risk.

- **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. In 2020, the company did not use currency hedging instruments, but developments with the EUR currency did not have a negative impact, as the Company obtained favourable exchange rates. According to domestic policies, the net currency exposure is set at a maximum of 20% of the total equity.

- **Contract risk:** deliveries of salt products for snow removal depend on weather conditions, leading to possible failure to achieve economic and financial indicators.

The Company posted provisions for the broad categories of risks identified, in particular those related to commercial and labour disputes, as well as those related to environmental works and damages.

10. EVALUATION OF THE INTERNAL CONTROL SYSTEM

based on Article 4, paragraph (3) of Government Ordinance N° 119/1999 on internal/management audit and preventive financial control, as republished and further amended and supplemented, *Societatea Națională a Sării S.A.* has in place an internal control system meant to ensure the control

of assets and the achievement of the overall and specific objectives.

Therefore, the Company includes an internal control department and a financial control department, each having their specific tasks and duties, pursuant to Government Emergency Ordinance 119/1999 and to Government Decision N° 1151/2012. The two structures operate according to an Audit Plan approved at the beginning of each year; the reports are approved by the General Manager, followed by all necessary corrective actions are in place.

Societatea Națională a Sării S.A. also includes the Internal management control function, pursuant to Order N° 600/2018 approving the Code of internal management control for public entities. Internal management control is defined as the set of types of audit exercised within a public entity, including internal audits, established by the management in accordance with its objectives and the legal provisions, in order to ensure sound, efficient and effective management of funds; it also includes organizational structures, methods and procedures. The phrase “internal management control” emphasizes the responsibility of all hierarchical levels to supervise all internal processes carried out to achieve the overall and specific objectives.

Internal audit

Independence of the public internal audit department

The audit department is a structure consisting of three employees, of which one holds the management position - head of the internal audit department; this department is under the administrative subordination of the Company management, exercising a distinct function. The audit reports prepared based on audit missions are submitted to the executive management for clearance purposes. The executive management acknowledges the audit report and approves the implementation plan for the recommendations included in the report. The implementation deadlines and the persons responsible for implementing the recommendations are set out in the implementation plan.

The internal audit department reports directly to the Board of Directors

Reporting duties entail quarterly reports to present the activity carried out for the reporting period.

Development and updating of internal audit rules

The Company prepared its own Rules for the audit activity and the internal audit Charter, documents that are endorsed by the Public internal audit Service of the Ministry of Economy.

The written procedures governing the activity of the internal audit department are included in the Rules developed pursuant to the legislative framework in force, more specifically Law 672/2002, as republished, and GD 1086/2013.

Public internal audit activity planning for 2020

The Audit Plan 2020 was prepared and registered under N° 224/21.11.2019, together with its supporting report which includes 4 missions, approved by Decision 3/04.02.2020, Art. 3. The Audit Plan 2020 was updated and approved by Decision of the Board of Directors N° 11/16.04.2020, and the number of missions remained unchanged, namely 4 missions.

Public internal audit missions carried out in 2020

The internal audit Plan 2020 included 4 missions. The Plan was 100% implemented.

Four *ad-hoc* audit missions were conducted upon request by executive management (formal letters N° 398/20.01.2020, N° 1199/17.02.2020, 4649/18.06.2020 and N° 5683/21.07.2020).

The audit missions were conducted before February 2020 by three internal auditors, of which one holding a management position - head of the internal audit department.

Controls performed by authorities

Follow-up inspections were conducted by the team of external auditors of the Romanian Court of Auditors ("RCA") - Department IV, as follows:

- for Decision N° 18/2013, the Follow-up Report 8251/29.10.2020,
- for Decision N° 5/2016 the Follow-up Report 8462/05.11.2020,
- for **Decision N° 4/2019** the Follow-up Report 8373/03.11.2020, to be implemented by **31.05.2021**.

The three employees of the Financial Control Department are conducting the mission to analyse and check the implementation of the actions ordered by RCA auditors by *Decision N° 18/2013, Decision N° 5/2016 and Decision N° 4/2019*.

The final results of the verification, with actions to be implemented and those in charge with implementation will be presented to the Directors by May 31, 2021.

Thematic controls on occupational health and safety and fire protection and extinguishing were also carried out during the year. No fines were imposed.

11. Social and environmental aspects

- **Occupational health, safety and security** - Law 319/2006, as updated, "Occupational Health and Safety Law" provides for obligations to improve working conditions and ensure utmost operational safety. The objectives are to constantly monitor and protect employee health,

therefore Societatea Națională a Sării SA envisages that employees should benefit from a voluntary insurance, based on a health insurance contract, having as object the access to healthcare services/investigations provided by different medical providers at national level

- **Consumer health and safety and product liability** - last year, there were no major non-compliance incidents for the products marketed by SNS S.A - Salrom.
- **Local community** - the Company actively contributes to the development of the local communities where it operates, both by means of CSR actions and of sponsorship. In 2020, there were no sponsorships, as during the state of alert and the state of emergency imposed by the COVID-19 pandemic, the line ministry urged companies to provide sponsorships only for the health sector.
- **Employee rights** - the respect for human rights is a provision of the Collective Bargaining Agreement. All the rights of the employees provided in the Collective Bargaining Agreement, corroborated with all other internal procedures, were respected without discrimination.
- **Emergency preparedness** - the mining sector may pose significant risks to the health and safety of its employees, and sometimes to neighbouring communities. In order to prepare and manage as efficiently as possible any such emergencies which may arise, the Company regularly organizes emergency drills, both at the Company headquarters and in the Company Branches, in cooperation with local authorities.
- **Human Resources Management** - attracting suitable and highly-skilled staff for this specific field is a priority for Societatea Națională a Sării

S.A. which implements transparent and impartial employment practices, and subsequently, bans any form of discrimination and implements a remuneration policy which takes into account both the specificity of the job, and the individual performance of employees.

- **Environmental performance**

- **Effluents and waste** - Societatea Națională a Sării S.A pays particular attention to the environmental impact assessment for all specific activities carried out by the Company, and implements various prevention and protection procedures. Such measures enabled proper management and efficient recovery of the waste generated, and non-hazardous waste is handed over to an authorized economic operator.

- **Biodiversity** - salt mining activities may have a negative impact on biodiversity and may significantly influence ecosystems if rules and requirements are not complied with, in accordance with applicable law. As one of the Company's production areas overlaps with the boundaries of the Buila-Vânturărița National Park, in Vâlcea County, the Company identified the need to develop biodiversity management plans. For this purpose, the Company cooperated with the local and

central authorities so as to develop a legal framework to enable the change of the boundaries of the Buila-Vânturărița National Park. Moreover, various rules and regulations were identified and prepared, together with local and central authorities, in order to launch future legislative proposals, which should be implemented by all economic agents, in order to continue reasonable and safe mining operations for certain deposits/mineral resources from those protection areas, without economic and social impact on the local communities.

- **Environmental complaints** - no administrative or judicial sanctions were registered for non-compliance with environmental legislation last year. However, due to the type of the activities carried out, there are situations in the exploitation areas which cause disturbances, and generate complaints. These are solved on a case-by-case basis, with the involvement of branch managers and of the general manager and in the event that assets are affected, the Company pays damages to the injured persons.

12. Economic performance

The company is supported by the financial results obtained, and the Company's commitment to maintaining and enhancing its economic performance underpinned the initiative to draft and publish two reports, more specifically the Directors' Report and the Non-Financial Report. The development strategy of the Company aims to strengthen its position as a leader in the salt market in general and in the market for salt for human consumption in particular.

The Company is a member of EUSALT (Association of European Salt Producers); during the past year, the Company participated in online meetings organised by the Association and received various materials related to salt quality, production and market trends.

1. Compliance with the income and expenditures budgets

Indicator Name (all amounts in RON)	Achieved 31/12/2020	Achieved 31/12/2019	Budgeted for 2020
Net Turnover	251,113,057	380,719,883	283,104,557
Operating income, of which:	300,168,756	469,214,428	322,839,502
Production sold	214,301,679	318,179,270	241,462,440
Proceeds generated on goods sold	18,519,223	21,617,853	19,655,058
Revenues from service delivery	17,495,360	36,307,920	21,987,058
Operating expenses, of which:	284,331,358	384,654,939	296,906,042
Raw materials and consumables	26,683,334	34,605,466	25,285,845
Goods for resale	13,027,769	14,271,515	13,397,811
Personnel expenses	126,781,413	127,001,190	140,321,982
Other operating expenses	100,795,799	191,804,856	112,544,708
OPERATING RESULT (EBIT)	15,837,398	84,559,489	25,933,459
EBITDA	38,005,175	104,864,635	48,444,985
Financial revenues	2,245,575	3,076,142	2,437,357
Financial expenses	570.072	530.970	368.828
FINANCIAL RESULT:	1,675,502	2,545,172	2,068,529
CURRENT OPERATIONAL RESULT:	17,512,897	87,104,661	25,933,459

TOTAL INCOME	302414331	472290570	325276859
TOTAL EXPENDITURES	284901430	385185909	297274871
GROSS RESULT	17,512,897	87,104,661	28,001,989
Profit tax	6031131	10148873	4330000
NET RESULT OF THE FINANCIAL YEAR:	11,481,766	76,955,788	23,671,989

2. Performance indicators

	2020	2019
Revenues from tourism/Total turnover		
Revenues from tourism (A)	19,522,677	39,900,853
Turnover (B)	251,113,057	380,781,608
(A/B)		10.48%
EBITDA margin		
EBITDA (A)	38,005,175	103,362,690
Turnover (B)	251,113,057	380,781,608
(A/B)	15.13%	27.14%
Net profit margin		
Net Profit (A)	11,481,766	76,955,788
Turnover (B)	251,113,057	380,781,608
(A/B)	4.57%	20.21%
ROE		
Net Profit (A)	11,481,766	76,955,788
Equity (B)	453,044,025	383,191,722
(A/B)	2.53%	20.08%
Operating revenues/average staffing		
Operating revenue (A)	300,168,756	414,373,775
Average staffing (individuals) (B)	1.488	1,617
(A/B) (thousand RON/employee)	202	256
Total ratio debts/equity		
total debts (short-term + long-term) (A)	90,300,891	113,818,226
Equity (B)	453,044,025	383,191,722
(A/B)	19.93%	29.70%
Outstanding payables vs turnover (ratio/maximum indicator)		
Outstanding payables (A)	0	0
Turnover (B)	251,113,057	380,781,608
(A/B)		0
Outstanding receivables vs turnover (ratio/maximum indicator)		
Outstanding receivables (A)	28,826,106	36,373,759
Turnover (B)	251,113,057	380,781,608
(A/B)	11.48%	9.55%
“Average cash (petty cash and bank accounts including short-term investments) turnover ratio (minimum indicator)”		
Average cash (petty cash and bank accounts	204,686,077	235,715,131

	2020	2019
including short-term investments) (A)		
Turnover (B)	251,113,057	380,781,608
(A/B)	81.51%	61.90%
CSR expenses as a share in the total turnover (% turnover)		
CSR expenses (A)	4,172,170	4,968,351
Turnover (B)	251,113,057	380,781,608
(A/B)	1.66%	1.30%
Profitability indicators:	2020	2019
Gross sales margin	6.97 %	22%
<i>(EBIT/Turnover)</i>		
Net profit vs sales	4.60 %	20%

(Profit after tax/Turnover)

In 2020, the gross sales margin reached 6.97%, below the 2019 values, mainly due to the decrease in the sales of snow-removal salt, a product that usually generates a high-profit margin.

Liquidity indicators and indebtedness:	2020	2019
Liquidity	5.31	3.73
<i>(Current assets/Current liabilities)</i>		
Indebtedness (%)	0.80 %	0.34%
<i>(Loan capital/Equity)</i>		

13. 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. The Company management carefully assessed the potential impact of such litigations and posted provisions on 31 December 2020 for those litigations at risk of unfavourable court decisions, as described in Note 25.5 to the financial statements.

14. Asset Inventory

The physical count of the assets was carried out based on the Decision of the General Manager N° 21 /10.09.2020 pursuant to the provisions of

Accounting Law N° 82/1991, as republished,

Order N° 2861/20.10.2009 on the inventory of assets, liabilities and equity

Decision N° 21/10.09.2020 included a calendar for the annual inventory of the Company's assets and

liabilities; the calendar was followed properly.

128 categories were inventoried, surplus inventory and missing inventory were registered in the accounting records, and the missing inventory was recovered from the guilty persons, where applicable.

The results of the inventory and the proposal of the inventory commission regarding the settlement of differences identified were approved by the Board of Directors by Decision N° 12/19.04.2021. For purposes of compliance with the legal provisions regarding the inventory, the issued and archived documents, other procedures for the approval of results at branch level and at Company level, as well as for the usage of the inventory results, the Company implements the Working Instruction IL-SNS-96 on decommissioning the depreciated/non-fully-depreciated fixed assets, fixed assets considered inventory items, as well as inventory items, write-off of tangible and intangible assets.

This Report is an integral part of the financial statements, and is signed by the Company Directors.

BOARD OF DIRECTORS OF SOCIETATEA NAȚIONALĂ A SĂRII SA

ERVIN MEDVES - President // *illegible signature*
ALINA PRAHOVEANU - Member // *illegible signature*
DRAGOS OANCEA - Member // *illegible signature*
SIMONA OCHIAN - Member // *illegible signature*
VALERIU IONITA - Member // *illegible signature*