

**REPORT OF THE BOARD OF DIRECTORS**

**December 31, 2022**

## **THE MISSION**

*"The sustainable and safe exploitation of resources with complete respect for the environment and the future, providing customers with quality products and services"*

## **THE VISION**

*"SNS S.A., a regional leader in the trading of salt-based products and a reliable partner".*

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## **Chapter I. Description of the activity conducted by Societatea Națională a Sării S.A. Regulatory and operating framework. Company's mission**

**Societatea Națională a Sării S.A.** (hereafter called "**the Company**" or "**SNS**") is a Romanian legal entity, registered with the Trade Register under no. J/40/4607/2010, being established in 1997 pursuant to Government Decision no. 767/1997 following the reorganisation of the former Regia Nationala a Sării [Salt's Autonomous Public Entity].

The Company conducts its business from its administrative headquarters in Bucharest, as well as by means of 7 unincorporated branches, as follows: Râmnicu Vâlcea Mining Site (Vâlcea County), Slănic Prahova Salt works (Prahova County), Ocna Dej Salt works (Cluj County), Ocna Mureș Salt works (Alba County), Târgu Ocna Salt works (Bacău County), Praid Salt works (Harghita County) and Cacica Salt works (Suceava County).

The registered office is: 220 Calea Victoriei , 4<sup>th</sup> floor, District 1, Bucharest. The address of the administrative headquarters in Bucharest is: 76 Splaiul Unirii, Unit A, 4<sup>th</sup> and 5<sup>th</sup> floors, District 4, Bucharest.

The company's core activity is the exploitation of salt and other non-metalliferous products within the perimeters that hold exploitation licences (e.g. limestone), as well as preparation for trading, both on the domestic and foreign markets, a wide range of products. The predominant secondary activity consists in the provision of tourism and leisure services for natural persons.

The Company, in its capacity of holder of mineral resource exploitation licences, is subject to the specific regulations issued by the National Agency for Mineral Resources ("**NAMR**"), holding 14 concession and exploitation licences for salt and other non-metalliferous products.

The licences are concluded pursuant to Mining law no. 85/2003, as subsequently amended, and supplemented, and focus on the concession of the right to exploit rock salt and limestone deposits. According to art. 20 in Mining law no. 85/2003 and to the implementation rules, rock salt and limestone exploitation right concession licences were extended by means of addenda, over a 5-year period, and may be extended over successive 5-year periods. In regard to the exploitation of graphite schists at Ungurelașu, the company will analyse whether it intends to execute closure works or to develop business along this path, in which case it will reupdate the documentations required as per art. 20 in the above-mentioned mining law and submit them to NAMR for approval.

The mining royalty has been currently set forth at 1 EUR/ton of gross rock salt extracted from the deposit. For limestone, the mining royalty currently applied has been set forth at 0.4375 EUR/ton of gross limestone extracted from the quarry.

**Chapter II. Shareholding structure. Governance, organisational and activity structure. General organisational and operating framework of Societatea Națională a Sării S.A.**

**Shareholding structure**

As of December 31, 2022, the Company is owned by two shareholders, as follows:

- the Romanian State, represented by the Ministry of Economy, with 51%;
- Fondul Proprietatea SA with 49%.

**Governance structure and management activity organisation**

The Company is administered under a unified system by a Management Board comprising 5 members, who delegated leadership duties to a General Manager.

The General Manager fulfils all the duties and takes all the necessary and useful steps in order to achieve the company’s scope of business, with the exception of those duties that fall under the purview of the Shareholders’ General Assembly or of the Management Board, according to the company’s Articles of Incorporation.

The Management Board is the structure that exercises a permanent control over the company’s Management and assembles at least once a month. The Board’s of Directors activity is regulated by the Romanian legislation (e.g., Companies law no. 31/1990) and governed by the provisions of Chapter V in the Company’s Articles of Incorporation.

**The Board of Directors members during the 01.01.2022 - 31.12.2022 period are the following:**

2022						
Members of the Board of Directors	January 1	February 2	June 3	August 4	December 5	December 31
Nicolae Tulici						
Petrică Lucian Rusu						
Cătălin Paraschiv						
Ion Valeriu Ionita						
Simona Georgiana Ochian						
Cristi Sandu						
Constantin Dan Dobrea						
Nicolae Cimpeanu						

**The company’s top management was ensured throughout 2022 as follows:↓**

Year 2022						
General Manager	01 Jan-16 Febr.	17 Febr.	18 Jun	19- Aug	20- Dec	31- Dec
Emil Militaru						
Constantin Dan Dobrea						

**The General Organising and Operating Framework of Societatea Națională a Sării S.A.**

The Board of Directors approved, as per Decision no. 1 from 19.01.2017, the Regulation on Corporate Governance across the company, in which they present the body of operational rules, as well as the responsibilities of the company’s management structures, in order to ensure compliance with the segregation of duties’ principle, the adequate assignment of competencies

in direct connection with duties attached to each of the company's three decision-making pillars.

In order to manage, compliant with the provisions in the laws on the corporate governance of public enterprises and the companies law, the business specifics in line with the articles of incorporation, and to maintain transparency across the activity carried out, the company fulfils on an annual basis its obligation to draw up and submit to the specialised bodies the financial statements, prepared in line with the mandatory accounting rules applicable to the company.

The administrative management monitored on a monthly basis the fulfilment levels of the IEB (implemented vs target/budgeted) indicators based on the monthly reports presented by the SNS management.

Throughout the year, the administrative management monitored the presentation within deadlines, by the top management, of the reports or documents stipulated in the financial and non-financial reporting timetable, as provided by the law, the company's internal regulations or the administrative management.

The goal was to monitor the company's business and provide a disclosure method that is suitable in terms of data and information accuracy, but also in terms of reasoning quality.

As of 2018, the company draws up annual financial statements in accordance with the *International Financial Reporting Standards, (IFRS)*, pursuant to Order no. 2844/2016 of the Ministry of Public Finance on the approval of the Accounting regulations compliant with the International Financial Reporting Standards.

### **Chapter III. Analysis of the business conducted in 2022**

The Company's financial performance is described extensively in the financial statements.

#### **1. Assessment of the sales of products and services**

The company is organized, according to the business activities it carries out, based on two revenue-generating units: sales of salt-based products and other non-metalliferous products (limestone), representing 90.74% of the turnover, and the tourist activity (9.87% of the turnover).

Activity of trading products is conducted both at administrative headquarters level, in a central warehouse and within the branches, with clear distinctions between duties in terms of customer management. As such, the sales workforce at the administrative headquarters concludes "key account" contracts with external and internal customers (including the retail networks, the large companies, etc.), with chemical compounds, C.N.A.I.R. (*National Company for Road Infrastructure Administration*), and also handles the organization and operation of its own salt deposit. Concluding contracts with, and selling products to, other categories of domestic customers are carried out by the sales specialists within the branches, who cover territorial customers.

#### **Share of products and services, by category, within the total turnover**

The highest share within the turnover structure, achieved from sales of salt-based and non-metalliferous products belongs to revenues from sales of rock salt for snow clearance, with approx. 42.26%, followed by salt for the chemical industry, with approx. 17.94%.

The revenues obtained from sales of rock salt for snow clearance increased by approx. 53% (+RON74,498 thsnd. compared to the previous year), whereas those from sales of salt for the chemical industry increased in 2022 by more than 29.8% (+RON 5,761 thsnd. compared to the previous year).

On the **domestic market**, the company delivers food-grade salt for direct human consumption and for the food industry, salt brine and limestone for the chemical industry, lumps and blocks for the livestock industry, water softening tablets, industrial salt for snow clearance. Revenues in 2022 increased with 28.77% primarily due to the large volume of sales for salt for snow clearance.

On the **foreign market**, there was a 64.8% increase of revenues from sales of salt, due to the increase in industrial salt volumes sold to Hungarian market. The foreign market was provided by traditional customers in Hungary, Serbia, Slovakia, Bulgaria, and the Republic of Moldova, whereas small quantities were exported to other countries, as well, such as Austria and Israel. The distribution of these products is done through the company's retail warehouses and the branches' sales departments.

### Evolution of SNS sales during the 2021-2022 period

The evolution of the quantities of delivered products and sales revenues, achieved by the company between 2021-2022, shows a decrease in deliveries on the domestic market and an increase in those on the foreign market:

Indicator	u.m.	2021	2022	(%)
<b>Quantity of delivered products of which:</b>				
	<b>to</b>			
		<b>1,835,712</b>	<b>1,659,734</b>	<b>-9.59%</b>
- domestic market	to	1,379,779	1,042,241	-24.46%
- foreign market	to	455,933	617,493	35.44%
<b>Value of delivered products, of which:</b>	<b>mii RON</b>			
		<b>331,227</b>	<b>460,423</b>	<b>39.01%</b>
- domestic market	thsd RON	237,151	305,387	28.77%
- foreign market	thsd RON	94,076	155,035	64.80%

The comparative situation of the revenues obtained from the commercialization of the main groups of products:

	Value (thsd RON)			Quantities (ton)		
	2021	2022	%	2021	2022	%
<b>TOTAL – of which:</b>	<b>331,227</b>	<b>460,423</b>	<b>39.01%</b>	<b>1,835,712</b>	<b>1,659,734</b>	<b>-9.59%</b>
LIMESTONE	14,299	6,943	-51.45%	447,219	155,216	-65.29%
SALT SOLUTION	19,328	25,089	29.81%	325,078	293,479	-9.72%
SALT FOR SNOW	140,885	215,383	52.88%	500,659	634,001	26.63%
ROCK SALT FOR CHEMICAL IND	87,370	89,315	2.23%	426,742	389,077	-8.83%
OTHERS	69,344	123,692	78.37%	136,014	187,960	38.19%

### The activity of providing tourist services in total turnover

Total revenues from tourism activity in 2022 (tourist services and sale of goods) were RON 46,850 thousand, with an increase of 30% compared to 2021 (RON 36,014 thousand).

The increase in income is due to the increase in the average income/visit (entrance) from RON 29.98 to RON 38.53, under the conditions of a reasonably equal number of registered visits.

The share of tourism revenues in the company's turnover decreased in 2022 to 9.41% compared to 9.87% in 2021, due exclusively to the increase in turnover.

The expenses related to the tourism activity, in the amount of RON 33,677 thousand, increased by 13.11% compared to the previous year (RON 29,775 thousand), below the level of income growth of 30%, with an effect on the increase of gross profit to RON 13,173 thousand in 2022 compared to RON 6,239 thousand recorded in 2021.

## 2. Evaluation of the technical and technological level

The technologies employed in the exploitation of salt and other non-metalliferous products, depending on the product and its end uses, are applied pursuant to the framework exploitation methods approved by NAMR as follows:

- **Rock salt exploitation** is done using the classic rock removal mining technologies, which include: the floor-level cutting, boring, blasting procedures, followed by the loading, transportation and preparation operations. The exploitation methods employed have a common foundation, which is the construction of a pillar-floor supporting structure. Depending on the specifics of the deposit and the extraction coefficient that may be obtained, the multi-storeyed exploitation methods may be with small rooms and square or rectangular pillars, with flat or domed ceiling.
- **Brine-based salt exploitation** is performed by means of kinetic dissolution aided by drills, using exploitation methods with individual drills.
- **Recrystallized salt** is produced through the evaporation of salt brine extracted using drills, as well as multiple-effect vacuum evaporation equipment.
- **Limestone exploitation** is carried out using the classical quarry mining exploitation technologies.

The technologies employed are specific to the deposit conditions and the product categories obtained.

The process of dry salt extraction from a massif, through mining works, comprises the following distinct stages: ensuring work site readiness by means of executing the site scaling works, the boring, the rock removal, loading the removed rock material and transportation to the grinding, packaging and delivery flows.

Although the main stages of exploitation technological process are common, given the specific deposit conditions, the possible assortment that may be obtained, the preparation/delivery flows may differ from one branch to another.

For the chemical industry, salt exploitation from the massif is carried out only through kinetic dissolution assisted by drills.

## 3. Assessment of the production activity

The production activity is carried out pursuant to the annual exploitation schedule, which is drawn up and approved according to the legislation in force. The annual production of salt (rock, recrystallized, solution) and non-metalliferous items (limestone) is scheduled based on the estimated statistical data concerning the evolution of consumption and of the specific industries served, as well as that of ongoing contracts and orders.

The total salt production achieved in 2022 was 1,461,264 tons, and the scheduled production was 1,460,278 tons, which represents a degree of production realization 0.068% higher than the scheduled level.

The degree of production achievement in 2022 is 9.97% higher than in 2021 (achieved in 2021 = 1,328,738 tons, achieved in 2022 = 1,461,264.60 tons).



For limestone, the total production achieved in 2022 was 159,670.00 tons, and the scheduled production was 164,367.00 tons, which represents a degree of production's achievement of 2.85% lower than the scheduled level.

The degree of achievement of limestone production in 2022 is 65% lower than in 2021 (achieved in 2021 = 451,428 tons, achieved in 2022 = 159,670 tons).

#### 4. Assessment of the manner of executing the investment plan

For 2022, in the company's budget approved by GD no. 478/2022 and revised by GD no. 1269/2022, expenses for investments were foreseen in the total amount of RON 83,912,190.

The total value executed and received was RON 43,609 thousand (51.97% of the total program).

Also, investment objectives were contracted with an estimated value of approximately RON 10.1 million, which are to be completed and put into operation in 2023.

- Thsnd RON -

Branch	Scheduled	Achieved
Salt works Ocna Dej	5,718	2,941
Mining site Râmnicu Vâlcea	14,430	1,687
Salt works Slănic	16,697	6,588
Salt works Targu Ocna	11,580	8,045
Salt works Praid	26,204	21,17
Salt works Cacica	6,103	2,095
Salt works Ocna Mures	1,156	795
Headquarter SNS-SA	2,024	280
<b>TOTAL S.N.S</b>	<b>83,912</b>	<b>43,60</b>

By investment category, the structure is as follows:

Category	Total Programed	Achieved
Retechnology and production efficiency	2,925	955
Protection of the environment and deposits	16,466	1,808
Occupational health and safety	19,724	8,614
New perimeters/products/business lines	100	0
Maintaining production capacity	44,697	32,232
<b>Total</b>	<b>83,912</b>	<b>43,609</b>
	<b>51.97 %</b>	

The company paid particular attention to investments intended to ensure occupational safety and health conditions in 2022. Moreover, contracts for deposit protection works were concluded, works to be commenced and partly completed in 2023.

#### 4. Assessment of aspects related to the impact of the company's activity on the environment; Environment protection

Within the company's branches, the environmental protection activity is carried out in accordance with the environmental permits and the water rights permits, issued by the accredited authorities, as provided by the applicable environmental legislation.

Throughout 2022, environmental protection and restoration works were carried out, in a total amount of RON 4,241 thousand compared to a programmed value of RON 5,263 thousand:

<b>Branch</b>	<b>Value planned</b>	<b>-thsnd RON - Value achieved</b>
<b>TOTAL</b>	<b>5,263</b>	<b>4,241</b>
Salt works Ocna Dej	1,519	410
Salt works Ocna Mureş	189	154
Mining site Rm. Vâlcea	559	211
Salt works Slănic	42	21
Salt works Cacica	1,176	664
Salt works Tg. Ocna	649	534
Salt works Praid	1,129	2,247

The company's branches are regularly subject to inspections carried out by the local environmental authorities, namely of inspectors from the National Environmental Guard, the National Administration "Romanian Waters" or the Local Agency for Environmental Protection, as the case may be.

In 2022, 9 such inspections were carried out (thematic or in order to resolve some intimations), as a result of which none of the branches of SNS SA was penalized for contravention.

Within the control minutes/inspection reports/finding notes, the local environmental authorities have imposed a series of measures with deadlines and responsible persons for implementation. All the measures ordered were carried out by the managers of the branches, the vast majority of them having a permanent and preventive nature.

Regarding the activity of SNS SA branches, 3 complaints were registered in 2022, submitted as notifications to the National Environmental Guard, the Prahova, Bacau and Valcea County police stations. In order to solve them, the environmental authorities carried out verification checks on the ground, following which reports/minutes/notes of findings were drawn up. In none of the cases were identified environmental problems that would require sanctioning the inspected branches. The measures ordered by the authorities are permanent and preventive, they do not represent measures to remedy any dysfunction. *All the measures ordered by the control bodies were implemented by the branches.*

Also, 3 reports/requests for compensation for affected crops and one report/request for displacement (for which there is already a lawsuit pending before the courts) were submitted physically, at the headquarters of Mining Site Rm. Valcea.

For the 3 requests for compensation for affected crops, extrajudicial technical expertise was carried out for the value quantification of the damages caused to the crops affected by the brine. Two of the compensation requests were submitted to the BoD for approval.

According to what was communicated by the branch, in the case of the third request, the branch communicated the results of the technical expertise to the owner, but that did not present the branch, until this date, any a written answer.

Regarding the request for relocation, Mining site Rm. Valcea sent a response to the petitioner, through which he was informed that it is necessary and timely to wait for the court's decision, given the process that, at the time of the request, but also currently, is in unfolding on the role of the court.

#### **4. Assessment of mine and quarry closure activity in the perimeters belonging to the company**

Societatea Națională a Sării S.A., in light of its specific nature and the age of its mining sites, is included in the mining industry restructuring program and has been, since 1998, part of an extensive closure and greening program which concerns the following aspects:

- the closure and greening of "historical mines";
- the closure and greening of perimeters that are economically unsustainable or have depleted reserves;
- the closure and greening of mining perimeters affected by subsidence phenomena.

The mine closure and environmental rehabilitation works, the technical design and assistance works, the contract implementation monitoring works and the post-closure monitoring works within the perimeters under the management of Societatea Națională a Sării S.A., as well as those classified as historical legacy, are financed from the state budget, from sources marked for this end use in the line of ministry's budget, and/or from other drawn-in sources (reimbursable or non-reimbursable loans granted by international financial institutions), within the limits of the provisions in the state budget approval law.

In 2022, Ocna Mureș branch carried out preservation works amounting to RON 3,062.8 thousand, with own resources, as follows:

- RON 1,307.9 thousand in Ocna Mureș perimeter;
- RON 1,092.8 thousand in Războieni perimeter;
- RON 620 thousand as expenses required to provide utilities for the objectives, land surveys, security services, to cover mining taxes and fees, cadastral works, as well as miscellaneous and unforeseen expenses.

#### **5. Quality management**

Societatea Națională a Sării S.A. has taken as reference point an internal culture of quality, which expresses the undertaken responsibility for the quality of products and services, for the workers' health and safety, the health of end customers and consumers, as well as for environmental protection.

In this respect, the processes identified within the organisation are carried out in accordance with the requirements of the benchmarks selected in order to implement the Integrated Management System - IMS (quality – environment – food safety – occupational health and safety), the applicable legal requirements SNS subscribes to and the internal work rules, maintained in the form of specific documented information. This framework governs the process-based approach, from research and development, supply, production - manufacturing and control to the marketing of products / services to end customers / consumers.

The Integrated Management System - IMS is certified by SRAC CERT Bucharest, a body accredited by RENAR and acknowledged worldwide through the IQ Net network.

The reference standards selected for the IMS design and 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.

#### **6. Assessment of the aspects pertaining to the company's employees/personnel**

On the company as a whole, the number of employees increased by 1 person in 2022 compared to 2021, as a result of the movement of personnel in the branches, mainly as a result of the replacement of employees who left through retirement, resignation or the agreement of the parties.

The evolution of the number of personnel and its structure by professional categories on of 31.12.2022:

Branch	TOTAL			TESA (technical, clerical, and administrative staff)			WORKERS		
	2022	2021	%	2022	2021	%	2022	2021	%
<b>TOTAL S.N.S.</b>	<b>1.458</b>	<b>1.457</b>	<b>100,1</b>	<b>367</b>	<b>379</b>	<b>96,8</b>	<b>1.091</b>	<b>1.078</b>	<b>101,2</b>
Mining site Rm Vâlcea	370	393	94,1	70	85	82,4	300	308	97,4
Salt works Ocna Dej	334	329	101,5	61	60	101,7	273	269	101,5
Salt works Slănic	183	179	102,2	38	41	92,7	145	138	105,1
Salt works Tg.Ocna	237	230	103,0	52	51	102,0	185	179	103,4
Salt works Praid	135	137	98,5	29	31	93,5	106	106	100,0
Salt works Ocna Mureş	34	32	106,3	13	12	108,3	21	20	105,0
Salt works Cacica	71	70	101,4	19	20	95,0	52	50	104,0
S.N.S. Administrative Headquarters	94	87	111,5	85	79	107,6	9	8	112,5

The evolution of the personnel structure by age groups on 31.12.2022:

	< 25 years		26 - 35 _years		36 - 45 _years		> 45 _years	
	2022	2021	2022	2021	2022	2021	2022	2021
<b>TOTAL S.N.S.</b>	<b>27</b>	<b>19</b>	<b>146</b>	<b>147</b>	<b>286</b>	<b>288</b>	<b>999</b>	<b>1.003</b>
Mining site Valcea	0	0	22	27	68	71	280	295
Salt works Ocna Dej	18	12	42	43	69	77	205	197
Salt works Slănic	2	2	16	12	21	17	144	148
Salt works Tg.Ocna	4	2	32	25	43	44	158	159
Salt works Praid	2	3	14	21	49	45	70	68
Salt works Ocna Mureş	0	0	0	0	2	1	32	31
Salt works Cacica	0	0	10	10	13	10	48	50
S.N.S. Administrative Headquarters	1	0	10	9	21	23	62	55
<b>%</b>	<b>1,9</b>	<b>1,3</b>	<b>10,0</b>	<b>10,1</b>	<b>19,6</b>	<b>19,8</b>	<b>68,5</b>	<b>68,8</b>

Regarding the employees' structure by age group, it is found that 68.5% of the company's staff are over 45 years old, with an annual maintenance/decrease trend.

The evolution of the personnel's structure according to the level of professional training on 31.12.2022:

	With basic training			With medium-level training			Highly-trained		
	2022	2021	%	2022	2021	%	2022	2021	%
<b>TOTAL S.N.S.</b>	<b>621</b>	<b>674</b>	<b>92,1</b>	<b>520</b>	<b>482</b>	<b>107,9</b>	<b>317</b>	<b>301</b>	<b>105,3</b>
Mining site Valcea	253	307	82,4	55	32	171,9	62	54	114,8
Salt works Ocna Dej	121	125	96,8	172	162	106,2	41	42	97,6
Salt works Slănic	75	72	104,2	80	77	103,9	28	30	93,3
Salt works Tg.Ocna	100	97	103,1	88	87	101,1	49	46	106,5
Salt works Praid	14	14	100,0	96	96	100,0	25	27	92,6
Salt works Ocna Mureş	16	15	106,7	7	7	100,0	11	10	110,0
Salt works Cacica	40	42	95,2	13	12	108,3	18	16	112,5
S.N.S. Administrative Headquarters	2	2	100,0	9	9	100,0	83	76	109,2
<b>%</b>	<b>42,6</b>	<b>46,3</b>	<b>x</b>	<b>35,7</b>	<b>33,1</b>	<b>x</b>	<b>21,7</b>	<b>20,7</b>	<b>x</b>

**Employees' structure:** from the analysis of the employees' structure according to the level of professional training, a slight modification thereof can be seen throughout 2022.

**Professional training** - in 2022, employees benefited from training courses in the amount of RON 220.9 thousand, registering an increase of 128.8% compared to the previous year (resumption of participation in courses after the COVID-19 pandemic).

**Trade unions** - 15 trade unions affiliated to the National Trade Union Federation SALROCA, but also to other trade unions, operate within the company. Negotiations with the unions for the Collective Labor Agreement had started in March 2022, and in April 2022 the company registered with the *Labor Inspectorate* Bucharest, Collective Labor Agreement for the period 2022 - 2023.

**Labor productivity** - value labor productivity increased in 2022 (from RON 262 thsnd./person/year in 2021 to 351 thsnd. lei/person/year in 2022), on account of the turnover increase. In 2022, as well, productivity gaps were present among the branches due to differing operating conditions: the quality of resources, the range of products / activities, but also the technological level specific to each branch.

Productivity indicators	MU	31.12.2022	31.12.2021
Medium number of employees	Persons	1,410	1,437
Operating income/Average number of employees	thousands of lei/person/year	351	262
Turnover/ average number of employees	thousands of lei/person/year	353	254

## **9. Assessment of the Risk Management activity and of the Internal Control System Intern**

### **The Risk Management activity**

The risk management process pursues the fulfilment of two major categories of objectives:

- objectives concerning the risk occurrence prevention activity (costs and savings related to how risk exposure is addressed);
- objectives concerning post-event measures that would allow avoiding / minimizing the occurrence of risks (ensuring the company's continuity, existence, and operation).

The risk matrix is conceived based on a risk level and occurrence frequency scoring system, on a scale from 1 to 5.

The task of identifying and addressing risks belongs to each organizing entity within the company.

The risk factors are not independent, and the losses incurred in cases where risks occur are, often times, consequences of the interdependence among them.

Within SNS S.A. the following categories of internal and external risks were identified:

### **Internal risk factors**

According to the company's specific nature, one can identify the following categories of **internal risks**:

#### **■ Market risks** (in terms of supply and sales):

Restricted market for the purchase of materials specific to salt / non-metal mining processes, limited number of suppliers, worldwide, for machinery and equipment used in mining, due to the requirements and specifics of the activity.

In order to reduce this risk to an acceptable level, a procurement regulation is operational within the company, based on which the process of rhythmic supply of the products, services and works necessary for the adequate performance of the extraction - preparation and marketing activities is carried out.

Regarding the purchase of machinery/equipment specific to exploitation, these were included as objectives in the investment program approved by the Board of Directors; taking into account the long manufacturing period for some machines, they were introduced in the framework of the multi-annual investment program, short-, medium- and long-term development strategies being established.

Regarding the dependence of the organization's business on maintaining traditional customers, the company is exposed to potential risks for certain product categories, namely the reduction in the volume of sales of salt in solution and limestone to the client Chimcomplex, with the Borzești and Râmnicu Valcea work points. Any imbalance in the functioning of the activity of these beneficiaries, for salt in solution and limestone, is translated to the SNS provider, having a major economic and social impact. Eloquent examples in this regard are the closure of the Ciech Soda Romania SA chemical plant starting in September 2019, or the bankruptcy of the SC UPSOM SA chemical plant in 2010.

#### **■ Operational risks** (technological, geological and environmental reserves): the use of equipment with an advanced degree of wear and low degree of achievement of investment objectives.

Technological risk can be defined as any deviation from the designed production flows, or any improper operation of machinery and equipment, which can cause a breakdown / interruption, etc..

In terms of compliance with the approved exploitation technologies, no irregularities were found. In connection with the items of machinery and equipment intended for exploitation, it was found that many of these have their operating life exceeded, which leads to cost increases driven by the performance of accidental repairs.

Another technological risk identified is represented by the surface and underground water streams which, once they reach the sterile site / salt itself, they can cause uncontrollable dissolutions with negative effects upon the general stability of the deposit and the area.

In the context of salt exploitation through kinetic dissolution aided by drills, in order to eliminate potential risks, the company applies a comprehensive and complex program of caliper measurements and topographic surveys.

■ **Market risks (related to supply - sale):**

There is a restricted market for the supply of specific materials for salt exploitation and suppliers of specific machinery and equipment worldwide due to the specificity of the activity. In order to mitigate this risk, within the company there is a service, product and works procurement regulation based on which the raw materials and materials needed for exploitation are purchased. Regarding the supply of equipment specific to exploitation, these were included in the investment program approved by the Board of Directors, taking into account the long manufacturing cycle for some of them, in the sense of including these machines in the perennial investment program.

In terms of customer dependencies, the company is exposed to such a dependency for a certain category of products, certain deliveries of salt solution to the client Chimcomplex with the Borzești and Râmnicu Valcea work points. Any imbalance in the operation of these beneficiaries for salt in solution is translated to the supplier, with a major economic and social impact. Eloquent examples in this sense are the cessation of production of the Ciech Soda Romania SA chemical plant starting from September 2019, or the bankruptcy of the SC UPSOM SA chemical plant in 2010.

**Risks pertaining to the human factor:**

- 1) the large percentage of salaried employees older than 45 and eligible for retirement over the following years against a backdrop of a labor market candidate shortage;
- 2) the lack of an objective skill assessment system;
- 3) possible labor conflicts (strikes, protests, etc.) and labor disputes.

**External risk factors**

According to the company's specific nature, one can identify the following **external risks:**

■ **Political and legislative risks:** concerns the changes that can radically alter the economic environment in which the company exports its products for the most part (country risk).

By means of its shareholding structure, as well as given the nature of its business, the company is subject to the application of certain rules specific to public institutions, many of them depending on the political changes.

■ **Financial risks:** they affect the company's outturns as a result of changes that occur under market conditions. These risks fall under the company's scope of control. From here stems the need to identify and measure conjectural risks and, first and foremost, the price risk and the foreign exchange risk.

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

**1)** the disappearance of high schools, vocational schools and other vocational training schools, a decrease in attractiveness or interest of certain business sectors or certain technical professions for youth lead to a decrease in the number of qualified candidates required to fill vacancies, primarily in manufacturing;

2) the departure to European Union countries of available workforce, where attractive remuneration is provided

■ **Foreign exchange risk:** the company is subject to foreign currency (Euro) exposure, liquidities being generated by export activities, whereas purchases in foreign currency account for insignificant amounts.

In 2022, the company did not use foreign exchange risk hedges, however, the EUR currency developments did not create a negative effect, the company benefiting from foreign exchange gains. According to the internal policies, the net foreign currency exposure is set forth at no more than 20% of the total own equity.

■ **Contractual risk:** the deliveries of salt-based products for snow clearance depend on the meteorological conditions, leading to possible non-fulfilments of the economic and financial indicators.

The company set up provisions for the major risk categories identified, particularly those related to trade litigations and labour disputes, as well as those related to environmental works and compensations.

## **9. Assessment of the internal control system**

Pursuant to the provisions of art. 4 par. (3) in Government Ordinance no. 119/1999 on internal / managerial control and preventive financial control, republished, as subsequently amended, and supplemented, the Company organized an internal control system designed to ensure control over the assets entrusted to be managed and the fulfilment of the general and specific objectives.

As such, an internal control unit and a management financial control are in place and running, each with specific duties deriving from GEO 119/1999, as well as GD 1151/2012. The two structures carry out their activity pursuant to a control plan approved at the beginning of every year, the reports are approved by the general manager and necessary remedial actions are ordered.

At the same time, SNS also has in place the Internal Managerial Control, which operates in accordance with Order no. 600/2018 of the General Secretariat of the Government approving the Internal Managerial Control Code for public entities. Internal Managerial Control is defined as representing the suite of control means exercised across a public entity, including internal audit, as set forth by the management in accordance with the control's own objectives and the legal regulations, in order to ensure the economical, efficient, and effective administration of funds. It also includes the organizational structures, the methods, and the procedures.

The phrase "internal managerial control" highlights the responsibility of all the hierarchical tiers in keeping under control all the internal processes carried out in order to fulfil the general and the specific objectives.

### **Intern audit**

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

The internal audit department is constituted under the administrative subordination of the company's management, exercising a distinct and independent function from the company's activities.

Through its attributions, the internal audit department must not be involved in the exercise of auditable activities or in the elaboration of specific procedures, other than those of internal audit.



The internal audit activity must not be subject to interference of any kind, starting from the establishment of the audit objectives, the actual performance of the specific mission work and up to the communication of its results.

### **Reporting:**

The auditors will report directly to the Management Board which orders the executive management by written decision to implement the recommendations from the internal audit.

### **Elaboration and updating of own rules regarding the exercise of internal audit**

At the company's level, own rules regarding the exercise of audit activity and the internal audit charter were drawn up, documents approved by the Internal Public Audit Service of the Ministry of Economy.

### **Overview of the internal public audit activity pertaining to 2022.**

#### **Internal public audit activity planning**

The internal audit plan for 2022 was developed, registered under no. 168/17.11.2021, accompanied by the supporting report, which includes 3 audit missions requested by the Internal Public Audit Service of the Ministry of Economy, by address no. 250296/ SAPI/27.10.2021. The audit plan for 2022 was approved by the Administrative Council Decision no. 33/25.11.2021 art. 12. At the request of the Board of Directors through BoD Decisions no. 26/24.08.2021 art. 8 and no. 5/24.02.2022 art. 2., 2 ad hoc audit missions were carried out, in total 4 audit missions were carried out internal. A planned audit mission was postponed, being included in the Internal Audit Plan no. 155/10.11.2022, approved by BoD Decision no. 36/12.12.2022.

#### **Internal audit missions carried out in 2022**

In 2022, 4 internal audit missions were carried out, of which 2 missions were included in the Audit Plan for 2022 registered under no. 168/17.11.2021 and 2 ad hoc missions requested by the Board of Directors through BoD Decisions no. 26/24.08.2021 art. 8 and no. 5/24.02.2022 art. 2. Until 17.10.2022, the audit missions were carried out by 2 internal auditors, of which 1 with the management function - head of the internal audit department, 1 internal auditor being on parental leave. Starting from 18.10.2022, she returned to work.

#### **Inspections carried out by the authorities**

During 2022, the following verifications were carried out:

- Partial fiscal inspection by ANAF - DGAMC with the objectives: verifying the legality and compliance of fiscal declarations and/or relevant operations for the fiscal inspection, the correctness and accuracy of the fulfillment of obligations in connection with the establishment of the tax bases and the main fiscal obligations regarding Value Added Tax, the mining royalty and the related profit tax for 2018, 2019 and 2020;
- Ministry of Economy's Control - Ministerial Control Directorate with the objectives: verifying the existence within the entity of a structure with attributions in the field of anti-fraud and anti-corruption and of its organization and functioning, regulated by internal acts, verification of compliance from a legal point of view and of the internal rules regarding the implementation of the SNA, the verification of the actions in the field carried out to find the way of reporting the facts of corruption, other aspects;
- the Prime Minister's Control Directorate of with the objectives: compliance with the legality of the provisions of GEO 87/2020 and HG 603/2022;
- Control of the Court of Accounts of Romania with the objective: control of the state of evolution and the way of administration of the state's public and private patrimony and the legality of the realization of revenues and the execution of expenses, for the period of 2019, 2020 and 2021.

## 10. Social and environmental aspects

- **Occupational health, safety, and security at the work** – improving the working conditions and making sure activities are carried out under maximum safety conditions are permanently pursued by SNS. Moreover, the Company aims to constantly monitor and maintain its employees' occupational health, thus employees benefit from a voluntary insurance, pursuant to a health insurance contract, the object of which is to access medical services / medical investigations at various medical service providers nationwide.
- **Consumer health and safety and responsibility for the product** – throughout last year there were no major incidents related to non-compliances of products sold by SNS S.A - Salrom.
- **Local community** – both through social responsibility actions and its own sponsorships, the Company actively contributes to the development of the local communities in which it operates. Resources are allocated for the recurring organisation of various events, thus indirect economic benefits being generated, as well, for the respective communities.
- **Employees' rights** – All of the employees' rights stated in the CLA, corroborated with the other internal procedures, were complied with indiscriminately.
- **Preparations for emergency situations** – the mining sector may present significant risks to its employees' health and safety and, at times, for the neighboring communities. In order to have the most effective preparation for, and management of, these emergency situations that might occur, the Company regularly organizes specific emergency situation simulation exercises, both at the Company's headquarters and within its branches, in collaboration with the local authorities.
- **Management of human resources** – drawing in capable and well-qualified personnel for a specific area of work represents a priority for SNS and is manifested through the implementation of transparent and impartial employment practices and, later on, by prohibiting any form of discrimination.
- **Environmental performance**
  - **Effluents and waste** – SNS pays particular attention to the assessment of the impact the specific activities carried out have upon the environment, various prevention and protection procedures being implemented in this respect. The measures taken allowed the adequate management and efficient reuse of the generated waste, which led to an increase, from the previous year, in the quantity of waste that was handed over in 2022 to an authorized economic operator to be recycled and disposed of has increased compared to the previous year.
  - **Biodiversity** - salt mining activities might have a potential negative impact on biodiversity and can influence ecosystems to a significant extent, if the rules and conditions are not respected, according to the legal provisions in force. One of the Company's production areas overlaps with the boundaries of Buila-Vânturărița National Park, in Vâlcea county. Also, at Salina Târgu Ocna in the western vicinity of the Gura Slănic Solution Salt Section, at a distance of approximately 500 m, there is a Natura 2000 site - a site of community importance ROSCI 0318 - Magura Tg. Ocna. The activity of the two branches does not affect the lands located in the perimeter of the protected natural areas.

- **Environmental complaints** – given the nature of the activities carried out, exploitation areas may witness situations that disturb good neighborliness, with environmental complaints being filed as a result. These are handled using a targeted approach, with the involvement of both branch managers and the general manager and, in cases where property is damaged, the Company grants compensation to the aggrieved parties.

### **11. Economic performance**

The company is backed by the financial outturns achieved, whereas the company's commitment to maintaining and enhancing its economic performance also includes the initiative to draw up and publish 2 reports: the Directors' Report and the Non-financial Report. The company's development strategy pursues strengthening the market leader status, in regard to the salt market in general and salt for human consumption in particular. As described above, the Company intends to purchase, for the first time, mining equipment, which is set to help streamline production.

The company is a member of the European Salt Producers' Association (EUSALT) and, in this capacity, takes part in meetings and assemblies organized by the association and receives various materials related to salt quality, production and market tendencies.

## 1. Observance of the income and expenditure budget - lei

Name of indicator	Achieved 2021	Achieved 2022	Budgeted 2022
<b>Net turnover</b>	<b>364,767,443</b>	<b>497,917,707</b>	<b>478,324,722</b>
<b>Operating income</b>	<b>374,525,372</b>	<b>495,295,181</b>	<b>506,354,215</b>
Production sold	344,344,269	499,440,097	452,694,662
Revenues from the sale of goods	27,657,101	6,627,014	25,430,060
Revenues from services	30,147,172	40,092,111	35,000,531
<b>Operating expenses</b>	<b>304,393,073</b>	<b>360,901,906</b>	<b>409,075,408</b>
Expenses with raw materials and consumables	29,150,580	43,847,281	52,432,057
Merchandise expenses	14,768,704	3,665,052	16,992,699
Personnel expenses	129,590,467	140,891,261	152,461,546
Other operating expenses	113,929,710	152,153,158	145,952,851
<b>OPERATING RESULT (EBIT)</b>	<b>70,132,299</b>	<b>134,393,275</b>	<b>97,278,807</b>
<b>EBITDA</b>	<b>87,085,911</b>	<b>154,738,429</b>	<b>124,896,090</b>
Financial income	2,173,445	10,634,212	3,579,829
Financial expenses	459,003	534,645	388,526
<b>FINANCIAL RESULT:</b>	<b>1,714,442</b>	<b>10,099,567</b>	<b>3,191,303</b>
<b>CURRENT OPERATING RESULT</b>	<b>71,846,741</b>	<b>144,492,842</b>	<b>100,470,110</b>
TOTAL INCOME	376,698,816	518,074,575	510,629,309
TOTAL EXPENSES	304,852,076	373,581,733	409,464,034
<b>GROSS RESULT</b>	<b>71,846,740</b>	<b>144,492,842</b>	<b>101,165,275</b>
Profit tax (current and deferred)	11,655,695	23,743,448	16,732,691
<b>NET RESULT FOR THE FINANCIAL YEAR:</b>	<b>60,191,045</b>	<b>120,749,395</b>	<b>84,432,584</b>

	<b>2022</b>	<b>2021</b>
<b>Revenue from tourism/Total Turnover</b>		
Revenue from tourism (A)	46,850,116	36,014,472
Turnover (B)	497,917,707	364,767,443
(A/B)	9.41%	9.87%
<b>Margin EBITDA</b>		
EBITDA (A)	154,738,429	87,085,911
Turnover (B)	497,917,707	364,767,443
(A/B)	31.08%	23.87%
<b>Margin net profit</b>		
Net Profit (A)	120,749,394	60,191,050
Turnover (B)	497,917,707	364,767,443
(A/B)	24.25%	16.50%
<b>ROE</b>		
Net Profit (A)	120,749,394	60,191,050
Equity (B)	583,816,394	510,585,268
(A/B)	20.68%	11.79%
<b>Operating income/average number of employees</b>		
Operating income (A)	495,295,181	374,525,372
Average number of employees (persons (B)	1,410	1,437
(A/B) (thousand lei/employee )	351	261
<b>Total debt/equity ratio</b>		
Total liabilities (TS +TL) (A)	157,945,661	106,595,466
Equity (B)	583,816,394	510,585,266
(A/B)	27.05%	20.88%
<b>Outstanding debts compared to turnover (maximum indicator)</b>		
Outstanding debts_(A)	0	0
Turnover (B)	497,917,707	364,767,443
(A/B)	0%	0%
<b>Outstanding receivables compared to turnover (maximum indicator)</b>		
Outstanding receivables (A)	25,294,407	24,546,352
Turnover (B)	497,917,707	364,767,443
(A/B)	5.08%	6.73%
<b>Share of "Average cash availability (cash and bank accounts including short-term investments)" in relation to turnover (minimum indicator)</b>		
Average cash availability (home and bank accounts including short-term investments (A)	303,463,238	229,203,953
Turnover (B)	497,917,707	364,767,443
(A/B)	60.95%	62.84%
<b>Share of expenses for social actions in total turnover (% of turnover)</b>		
Social expenditure (A)	5,272,450	4,521,956
Turnover (B)	497,917,707	364,767,443
(A/B)	1.06%	1.24%

### **3. Profitability indicators:**

	<b><u>2022</u></b>	<b><u>2021</u></b>
<b>Gross margin on sales</b> (EBIT/Turnover)	26,99%	19,23%
<b>Net profit compared to sales</b> (Profit after tax/Turnover)	24,25%	16,50%

The gross sales margin in 2022 has a level of 27.72%, above that of 2021.

### **4. Liquidity indicators and rate of debt:**

	<b><u>2022</u></b>	<b><u>2021</u></b>
<b>Liquidity</b> (Current assets/Current liabilities))	3.74	4.60
<b>Rate of debt (%)</b> (Debt capital/Own equity)	0.21%	0.48%

### **11. Litigations**

The Company is a party to numerous litigations as defendant. These litigations concern claims for pecuniary rights demanded by employees or former employees, claims and indemnifications for lands impaired as a result of mining exploitations, fiscal aspects, collections of receivables and other litigations. The company management carefully assessed the possible impact of these litigations and set up provisions, as of December 31, 2022, for those litigations that risk receiving judicial resolutions unfavorable to the Company, as they are described in note 25.5 in the financial statements.

### **12. Asset stock-taking**

The annual inventory stock-taking of the assets was carried out based on the decision of the General Manager no. 21/10/09/2021 and in accordance with the provisions:

- Accounting Law no. 82/1991 republished;
- Order of the Ministry of Public Finance no. 2861/20.10.2009 regarding the organization and performance of the inventory of assets, liabilities, and equity.

Decision no. 33/02.11.2022 had a schedule for carrying out the annual inventory of the Company's assets and liabilities, a schedule that was respected.

The stock-taking results and the Stock take Committee's proposal on adjusting the differences found during stock-taking were approved by the Board of Directors as per Decision no. 7/17.03.2022. In regard to implementing the legal provisions on the performance of stock-taking, documents that are issued and archived, other procedures related to the approval of outturns at branch level and across the entire Company, as well as to the manner of capitalizing upon the stock-taking results and upon assets approved for scrapping, there is "Work instruction IL-SNS-96 on decommissioning fixed assets that are/are not fully amortized, fixed assets identified as inventory items, and the scrapping of tangible and intangible assets".

