

ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR FINANCIAL YEAR 2019



ȘANTIERUL NAVAL ORȘOVA S.A.  
Nr. RC J25/150/1991 CIF: RO 1614734  
Capital social: - subscris 28.557.297,5 lei  
                  - varsat 28.557.297,5 lei  
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Codul LEI (Legal Entity Identifier): 254900UAXJ8TPIKLXG79  
Cod IBAN: RO96RNCB0181022634120001- B.C.R. Orșova  
Cod IBAN: RO59BRDE260SV03176142600- B.R.D. Orșova



**ANNUAL REPORT OF THE BOARD OF DIRECTORS ACCORDING TO LAW NO. 24/2017 AND OF THE ASF REGULATION NO. 5/2018 concerning the issuers of financial instruments and market operations AND OF THE MFP ORDER NO. 2844/12.12.2016 FOR THE FINANCIAL YEAR 2019**

**Date of the Report: 24<sup>th</sup> of February 2020**

- Name of the trading company: ȘANTIERUL NAVAL ORȘOVA S.A.;
- Registered office: 4, TUFĂRI Street, ORȘOVA, MEHEDINȚI County;
- Telephone/fax: 0252/362399 0252/360648;
- Single registration code issued by the Trade Register: RO 1614734;
- Registered number with the Trade Register: J25/150/03.04.1991;
- Regulated market where the issued securities are traded: it is a company whose shares are traded on a regulated market, respectively it is listed in the Bucharest Stock Exchange, symbol: SNO
- Subscribed and paid in share capital: 28,557,297.5 Lei
- Class, type, number and core values of securities issued by the company: 11.422.919 common shares, nominative, of 2.5 Lei each;
- The company is registered with ASF – The Department for Evidence of the securities with the Certificate no. 111/02.03.1998, updated on 06.10.2008 further to the increase in share capital as a result of the merger.

## **1. ANALYSIS OF THE COMPANY'S ACTIVITY**

### **1.1. Description of the company's core business**

#### **a) Description of the company's core business**

The main activity of "Şantierul Naval Orşova" S.A. consists in the construction of river ships (NACE code rev.2: 3011 "Construction of ships and floating structures"). This activity represented 82.79% of the 2019 turnover, most of the ships being exclusively designed for intra-community supplies.

The same as in the previous years, at Agigea Branch, the activity which highly contributed to the turnover consisted in renting the ships, especially barges, and repairs of river/marine ships. The branch's turnover has known a significant growth from the previous year, by 4.5% (from 11,1% in the year 2018 to 15.6% in the year 2019).

#### **b) Stipulation of the set up date of Şantierul Naval Orşova SA**

The company was set up under Government Decision No. 19/10.01.1991, by converting and taking over the patrimony of the former Orsova Shipyard from the Ministry of Transports and Telecommunications.

The company is registered with the Trade Register under no. J25/150/1991.

In 1998, it became a privately-owned company, with domestic and foreign capital through the sale of the shares held by the former FPS (*State Owned Property Fund*).

#### **c) Description of any merger or significant reorganization of the company, its subsidiaries or controlled companies during the financial year**

There were no such events in 2019.

The only merger since the company's set up until the present days took place in 2008. It is about a merge by absorption between Şantierul Naval Orşova SA, Mehedinţi County – the absorbing company - and Servicii Construcţii Maritime SA Agigea, Constanţa County – the absorbed company. Following this merge, the headquarters remained in Orşova and the former company in Agigea became a branch of Şantierul Naval Orşova SA. Occasioned by this the social capital of the company increased from 21.643.150 lei to 28.557.297,5 lei, and the number of the shares increased from 8.657.260 to 11.422.919 shares, any share having a nominal value of 2.5 lei/share. Since the merger and until the date of the present report, the social capital and the number of shares remained unchanged.

#### **d) Description of assets acquisitions and/or sales:**

Acquisitions and sales of assets are described in section 4.4 of this report and in the NOTES to the financial statements for 2019, which are attached to this report.

#### **e) Description of the main results of the company's activity assessment:**

**1.1.1. General assessment elements for the period under review (year 2019):**

- total income, out of which: 67.698.135 lei
  - Agigea Branch 10.699.758 lei
- total costs 63.722.823 lei
  - Agigea Branch 9.827.393 lei
- gross profit/loss, out of which: 3.975.312 lei
  - Agigea Branch 872.365 lei
  - Orsova headquarter 3.102.947 lei
- market share held:
  - the production obtained at the headquarters addresses the market share of intra-community river ships, where the company holds a share of approximately 1 - 2%;
  - the rental of ships (barges) through the branch was done especially outside the intra-community area, where the share is below 1%;
- as of 31.12.2019, the company's available funds in accounts amounted to 20.616.842 Lei, out of which:
  - 6.958.278 Lei in the Lei account
  - 13.650.573 Lei in the foreign currency accounts
  - 6.675 Lei, petty cash
  - 1.316 lei other values, in petty cash

The main characteristics of the year 2019, compared with the previous years, could be shortly synthesized by:

- Maintenance of a relatively low demand on the river vessel construction market, on which our company performs activity, even if a price growth was felt for the vessels sale, that was a consequence of raw materials price increase on one hand and of services, on the other hand. Even under these conditions, the company succeeded in having covered the entire production capacity for the year 2019 and also to preserve a level of efficiency comparable to the previous year.
  - An increase of the activity from the Agigea Branch in comparison to the previous year, on one side subsequently to the improving of the operation activity (rental) of the 5 ships, type barges which the company owns at this sub-unit, and on the other side as a consequence of the fact that in the year 2019 there has been contracted and completed a reconversion work of 2 barges in a watercraft type ferry/pontoon, for the transport of lorries and cars. This was reflected also in the operational incomes realized by the branch which have known an increase by 78,5% from the previous year, as already shown.
  - Our good name which our company has on the shipbuilder market in Europe, highly contributed to obtaining new orders.
    - In the year 2019 it was completed the construction of the sixth stainless steel (81,3 ml length) and started – firstly – the construction of a river ship scoped for the transport of passengers with 3 decks which is to be finished in the year 2020.
- More information and comments regarding these indicators and the company's activity are presented under 4 point of the present report and in the NOTES to the financial statements, which are attached to this report.

### **1.1.2 The assessment of the technical level of the trading company**

The activity of the company is diverse, the two offices having different scopes of work, yet complementary, in fulfilling their targets. Thus, the activities carried out include: the intra-community construction and delivery of river ships (head-office in Orșova), the rental of their own barges within the intra-community and extra-community areas and also the repair of ships which belong to third parties (branch in Agigea). For the construction of ships, the company is equipped with the technical means, the necessary specialists for this type of constructions. The organizational system, the technical experience, endowments and the technological flux specific to the building of ships, allow whatsoever, the execution and delivery of river and sea ships of miscellaneous types and with increased complexity.

The Naval Shipyard in Orșova makes available a vast range of products to their clients. At present, the construction of any type of river ship is possible for the transport of goods (containers, fuel tanks, chemical products, food supply, pharmaceuticals) yet also the fabrication of coastal ships and passenger vessels.

Company management team manifested and manifest a continuous preoccupation for production process modernization by acquisition of most modern tools specifically for shipbuilding. Being aware that the company should maintain an appropriate equipment level in according to actual requests, major investments were done, for the acquisition of modern machinery, tools and equipment specific to shipbuilding. Training courses were done, in the country and abroad, qualified employees were selected, competitive equipment specific to shipyards has been modernized both at the site in Orșova and also at the branch in Agigea. Likewise, competitive special machinery were imported, respectively: 80+25t electrical cranes, plate cutting machines with numerical control board, painting and blasting equipment, welding sources in gas protective environments) and IT equipment, together with licenses and necessary programs for the best operation.

In the years 2013 and 2014 was carried out the modernization and capacity increase for launching and lifting of Orșova's slipway, and at present there are in progress of modernization/repairing works for Agigea's slipway, which was started 3 years ago and is about to be completed during the year 2020 (initially this action should have been completed in the year 2019, yet this was not possible because of objective factors related to the delayed delivery of the 14 wedge bogies which are to replace the old ones).

In the year 2019 many state-of-the-art welding machines, automate ones, a gantry crane 5 to., 1 exhaust ventilator, paint gun, welding vacuum system, plasma cutting machine POWERMAX, IT equipment were purchased at the main head-office in Orșova. Likewise, a vast process of repair and modernization was initiated at the auto-cranes MDK 50 to, electric stowers and other transport and lifting installation.

At Agigea Branch, the repairs and modernization of the launching way proceeded, a paint gun, a compressor type AERZEN were purchased, IT equipment for data security, modernization of own installations.

The quality of our products has been the basis for a continuous and intense collaboration with partners from Germany, Netherlands and Belgium.

The entire activity is aimed at satisfying the clients' requirements and increasing product

quality at European level, by giving increased attention to the ships' finishing degree, especially in aesthetic areas.

The implemented quality system is able to cope with the most modern requirements, and the company is certified by Lloyd Register Quality Assurance. The company has obtained during 2019 also the Quality System Certification in compliance with the new standard DIN ISO 9001:2015 (certificate no. 10186440 field Construction and repair of ships and boats).

**ŞANTIERUL NAVAL ORŞOVA SA** has at its disposal:

- A Quality Manual – revision 4/12.01.2015
- Procedures :
  - Documents control – revision 1/03.03.2011
    - Registration Control – revision 1/27.05.2014
    - Control of non-conform product – revision 2/ 12.01.2018
    - Corrective actions – revision 2/12.01.2015
    - Preventive actions – revision 2/12.01.2015
- Working instructions
  - Purchased material/products' acceptance
  - Release from storages – revision 1/13.10.2012
  - Testing the product provided by the Client – revision 1/13.01.2012
  - Maintenance of the equipments– revision 1/08.11.2012

The favourable technical situation of Orşova Shipyard is given by the following facts:

- good geographical locations for both the headquarters in Orşova (where Danube enters the country) and the Agigea Branch (Constanța harbour);
- Being part of medium-sized shipyards category, it has a great capacity to adapt to market demands and it can quickly respond to business diversification trends;
- pollution is at normal levels(pollution does not form a disturbing factor);
- the range of deliveries and external services is over 95% of the turnover;
- The company makes use of qualified staff, in compliance with the requirements of the technological process; we though notice the tendency of an average age increase of the employees;
- endowment with specific fixed assets is to an acceptable level, comparable to other competing shipyards; in this respect, the company started an investment programme aimed on one hand at increasing the weight of active fixed assets, and on the other hand at replacing obsolete fixed assets with more efficient ones that can lead to enhanced productivity; by means of this strategy, the company intended to ensure increased flexibility and efficiency of fixed assets and bringing them to a technical and technological level that would allow global alignment and building of products that meet the standards required by foreign partners;
- the trading of the ships supposes the conclusion of direct contract agreements with the naval shipyards which reinforce the body of ships or with European navigators;
- for shipbuilding, there is a certain stability of intra-community clients (from Netherlands, Belgium, Germany, Austria);

During the year 2019, no major changes were noticed in the request for new sea/river vessels, this being situated at a medium level, and the most recent information on the naval market show

that the present situation will be maintained also throughout the year 2020, yet also in the years to come. That is why, we consider that a strategy for the future must be realistically analyzed, in order to find – further on – a price politics and financing which would ensure the continuity of the activity by performing and competitive terms.

### **1.1.3 Assessment of the technical supply activity (domestic sources, foreign sources imports).**

In the year 2019, there were some important changes in terms of main supply sources of raw materials and materials. As in the previous years, the equipment was mainly bought from domestic ISO certified suppliers according to the European norms and standards. Still, when at the last commercial analyses the cost-quality report was more favourable to the import or intra-community purchase, the company chose this possibility; we especially refer to ship plate, SS-steel plate, profile pipes. In terms of intra-community acquisitions, we mainly talk about those materials that are not produced in Romania or for which the clients have imposed a certain quality standard; such materials are laminated parts and paints for river/marine ships. Also, according to the handover conditions, the transport of ships to Germany/Netherlands was mainly done in a combined manner, namely on the segment Orsova-Regensburg, the transport was Romanian: CNFR NAVROM GALATI, and on the route Regensburg-Rotterdam with non-resident services providers (DUWVAARTONDERNEMING JOSON BV – THE NETHERLANDS, CLASSIC CHARTER GMBH – GERMANY, VIGILIA TRADING BV- THE NETHERLANDS, DONAU SCHWARZMEER SCHIFFAHRTS – GERMANY).

Material inventories were always at an optimum level, which ensured business continuity, hence there were no interruptions in the manufacturing process due to lack of raw materials and materials.

The main domestic suppliers of raw materials and materials, according to the value of the supplies and to their importance were:

- **LIBERTY GALATI** which is the new description of **ARCELOR MITTAL STEEL** Galați who changed its name due to a replacement of the shareholder who owns the management of the company for medium and thick plates;
- **DUCTIL Buzău:** welding consumables;
- **LINDE GAZ Timișoara:** technical gases
- **PENTAGON SRL TECUCI:** grinding stones
- **NIMFA COM SRL BUC.:** pipes and various profiles
- **MAIRON S.A. GALATI** various profiles
- **INOX METAL SSR** SS-steel plates and pipes
- **COS SA TARGOVISTE** profiles and laminated
- **THYSSSENKRUPP MATERIALS** corner profiles, steel

Out of the external suppliers of materials, we list the most important:

- **INDUSTEEL BELGIUM** for stainless steel
- **JULIUS HANDELS GmbH** in Austria, for profiles and pipes
- **MET INVEST** in Ukraine, for ship plate

- **MAKSTEL AD** in Macedonia for black steel
- **SSAB EMEA** in Sweden for hardox plate

The collaboration with sub contractors continued also in the year 2019, approximately at the same level as during the previous year. These collaborations were necessary for the progress of the activity, referring to hull painting, steel construction, hull equipments, hull transport, etc. By the collaboration companies we are mentioning the most important:

- PRIMORDIAL SRL Orșova ship painting;
- EUROBLASTINK REP SRL CONSTANTA – for the ship painting activity
- GRIMEX SRL TARGU JIU ship equipment parts and steel structures
- ELECTROSCOICA MAR SRL – for steel structures
- CNFR NAVROM SA GALATI hull transport Orsova-Regensburg
- KRAFT SHIPBUILDING SRL Dr. Tr. Severin – for steel structures
- BERG BANAT zinc coating

#### 1.1.4 Assessment of sales activity

Turnover knows an increase of approx. 27,2%, from the previous year. It is to be mentioned that while the income from the ships' construction activity increased by approx. 19,14%, the income from the ships' renting activity increased by approx 20%, and the income from the repair of ships have known a significant increase – by 82,06% from the year 2018. The turnover was realized, and especially because of the external deliveries and services: intra community for the vessel built in Orsova and extra community for incomes resulted from renting the ships from Agigea Branch.

All 7 vessels finalized and delivered from Orsova in 2019 were scoped to be delivered to the West-European market.

Please see below a comparative statement of intra-community supplies and Romania, for the last three years, expressed in percentage of total ship delivered (according to IFRS 8):

<u>CLIENT / BENEFICIARY</u>	<u>YEAR</u> <u>2017</u>	<u>YEAR</u> <u>2018</u>	<u>YEAR</u> <u>2019</u>
RensenDriessenShipbuilding B.V. (NL)	59,6%	72,6%	71,63%
Zeendecat BV (NL)	13,8%	-	-
Vos Kaiser GmbH (DE)	-	-	12,27%
WPI SHIP Building BV (NL)	12,4%	-	-
ZanenShipbuilding B.V. (NL)	14,2	-	16,10%
Concordia Damen Shipbuilding BV	-	27,4%	-
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

According to the above mentioned information, the company Rensen Driessen continued also in 2019 to detain the first position regarding the amount of the deliveries.

The contractual payment terms were ensured either through irrevocable letters of credit 100% or by advance payments of up to 10% and payment of the difference through letter of credits.

For the future, just as during the previous years, the main concern of the board and executive management is to find solutions for concluding contracts at prices that would ensure development in cost-effective conditions and with guaranteeing the price payment by means of irrevocable guarantee letters. This is also due to the fact that under the new foreign conditions on the market in which we operate, rapid and unexpected changes can always occur from one day to another.

Under the new market conditions, competition in this activity field is quite tough, because most orders come from the European Community and business partners are more demanding in terms of quality work. The company has a technical and technological level that meets these requirements and we believe it is able to win more contracts compared to its competitors.

The company's main competitors in terms of shipbuilding and repair works are the following, just as in the previous years:

- Domestic – all shipyards
- Abroad – especially shipyards in China and Korea, and then Poland, Serbia, Turkey, Slovakia, Czech Republic and Ukraine.

#### **1.1.5 Assessment of aspects related to employees / company staff**

Lack of personnel continues to manifest also in the year 2019, all steps taken at executive level by recruiting new skilled workers in the trades of welders and locksmiths could not fully solve this deficit. This fact had more unfavorable consequences for company:

- on one hand, it is registered an aging phenomenon of the staff, which will continue also in the next period;
- on the other hand, it is registered a decrease of qualified staff number, especially on the main works (welders and locksmiths) this fact forced and forcing us to outsource some metal construction works, fact which will not be present concurrency at the hiring.
- Not on the last place it is a growth of working force fluctuation.

Nevertheless, during the year 2019, the number of staff increased by 1,42% in comparison to the year 2018.

The average number of employees throughout 2019 is 356 employees compared to 351 employees in the previous year. As of 31.12.2019, the number of employees was of 386, out of which 346 at the headquarters in Orșova and 40 at the Agigea Branch.

Out of the total number, as of 31.12.2019, the situation per activity sectors is as following:

- 384 – industrial activity
- 1 – canteen activity
- 1 – medical activity

The structure is as following:

- 50 – technical, financial, professional and administrative staff, out of which:
- 43 – employees in Orșova (out of which 32 with higher studies);
- 7 – employees in Agigea (out of which 5 with higher studies).



- 6 foremen, out of which 6 in Orsova;
- 330 workers, out of which:
- 297 employees in Orsova;
- 33 employees in Agigea.

Personnel structure in terms of gender is as follows:

- men – 332 persons (315 in the previous year);
- women - 54 persons (57 in the previous year).

During the year 2019, a number of 73 new employees and 63 releases were registered; the latter were released through: retirements, dismissals for reasons of employee's character, expiry of the individual labour contract and with agreement from the parties, the latter being the most common cause.

In order to solve, part-wise this lack of staff, the company started a large recruiting action of qualified staff from Orsova, as well as from the surrounding areas. In order to settle a direct contact with the persons looking for a job, the company took part on various occasions, in the General Stock of the workplaces organized by AJOFM Mehedinti. Unfortunately, it was only part-wise succeeded to cover the necessary for the year 2019, this issue being present also in the year 2020.

A permanent preoccupation of the company's management was to improve the skills of its employees, following that this activity becomes a permanent one also in the next period, according to the provisions in the Labour Code.

At the level of the company, there are legally, two unions formed.

Out of the total of employees, approximately 95% are members of a union, and the relations between the administration and the employees on good terms.

Other aspects concerning the employees/the company's staff have been shown in the NOTES to the financial situations which are integer part of the present report.

#### **1.1.6 Assessment of the impact of the company's core business on environment**

As a whole of actions, documents or programmes that identify, describe and assess the potential material effects on environment, the environmental policy of Santierul Naval Orsova SA is closely related to both the company's economic policy and compliance with the principles of the European Directives on environment protection (EC Directive 2002/42/EC, SEA Directive 2001/42/EC and Habitats Directive 92/43/EC, Directive 2004/35/EC on liability for environmental damage and the DRM Directive), given that the entire company's activity is developed in an area protected by law, in the area of the National Park "Portile de Fier" focusing on the following main directions:

- integration of environmental considerations in the development and adoption of the company's plans and programmes;
- better use of primary resources of raw materials and energy, hence minimising waste, waste water, air and water pollution, and decrease of costs per product tonne;
- continuous improvement of environmental issues, especially the material ones, based on environment management programmes, action plans (integrant part of the environmental permit) with targets, objectives, timelines and responsibilities;

- increase education related to environment protection by providing the organisational frame and implementing projects on waste water disposal, waste storage (especially hazardous ones), soil protection;
- compliance with Romanian environment legislation and alignment to the European Union's Directives;
- mitigation of impact of the company's core business on environment;

The company has a monitoring system for all environment factors by specialised institutes and companies, based on firm contracts.

It worths mentioning the maintenance of insignificant impact on the environment in activity of heating and hot water furnishing for company's employees, following the conservation from 01.09.2010 of heating central, heating of our company (administrative centre and locker rooms) being done presently helped by 8 (eight) water heating electrical centrals, with 36 kw power each, and one of 24 KW, type ROMSTAL EKCO. L.1, and for the preparation of warm water there are installed high capacity electrical heaters.

In the same idea, in the second half of the year 2019, it began the modernization of auto-cranes of the company, operation still going on at present, in order to minimize their impact on the environmental factors.

During 2019, the company fulfilled all the obligations resulting from the Environment Permit no. 21/27.02.2013, valid for a period of 10 years, until 27.02.2023, complying also with the obligation of self-monitoring discharged wastewater imposed by the Waste Water Management Permit no.144/11.05.2018, avoiding the occurrence of any effect with a negative impact on the environment (the proof that the control documents of the representatives of the environmental authorities, not having any measures from their side during the year 2019).

#### **1.1.7 Assessment of research and development activities**

During 2019, likewise during the other years, the company did not record any research and development expenses, and for 2020 it does not intend to incur such expenditure, due to the fact that the technical design of the built ships is usually provided by clients or they use designs bought in previous years with the right to use them at new constructions to be done in the future.

#### **1.1.8 Assessment of company activities regarding risk management**

Starting from the specific of the main activity of the company, respectively shipbuilding and floating structures construction, and also fact that our products are sold in intra community area, can be identified a series of risks. In this moment, because of the concurrencies medium, of quick swings at European level and worldwide it is normal as the exposure degree (vulnerability) at risks to be much higher than in the past periods. Also, therewith the company felt and still feels, fully, the effects of the economic and financial worldwide crisis.

Therefore, the list of potential risk sources could include:

- market risk
- price risk
- currencies risk
- environment risk
- information security risks
- Cash-flow risk, etc.

As it was shown before, the decrease of ship request, accompanied by lowering of selling prices, as an effect of worldwide economic crisis, affected in latest years, including 2019, directly, the company's activity.

To overcome this difficult period, the executive staff had to initiate actions and program aimed at helping with costs management, thus ensuring its resistance on the river ship market. This aims at reducing costs according to the evolution of foreign markets, which continues to be a basic concern of the company's management.

Considering the estimates/forecasts on the exchange rate developments for 2019-2020, the company made some transactions for covering the currency risk (hedging) same as in the past periods. These operations with derivatives were effective, being concluded at a parity, more over the official one from the respective period, which contributed to a big measure at assurance of supplementary financial incomes to contribute to coverage of expenses of this nature. Favourable rate difference registered in the year 2019 from such operations overcome 200 thousands lei.

Also, to assure a better security of informatics system and data basis, company continued action started in the previous years- when a project of reconstruction of computer network and bought an informatics system based on Oracle technology – by purchasing new IT equipments which ensure security.

Other aspects related to the risk management (credit, currency, liquidity) are presented in the NOTES to the financial statements, which are an integrant part of this report.

### **1.1.9 Perspectives on the company's activity**

In terms of the company's business perspectives, we can say the following:

- the company has over 28 years of experience in shipbuilding and repairs; these are performed at quality standards imposed by foreign clients and the company's name is already well-known to the West-European shipbuilders;
- the financial crisis has resulted in reduced demand for ships and sale price decreases, so that starting with 2009 the company was forced to resize its headcount; this action continued until early 2013; as of 2014, no layoffs have been done;
- In the present, the company has concluded contracts for 2020 which assure 100% of production capacity for the entire year. Negotiation which are done in the present, for new contracts signing, give us a perspective of activity continuation, by new contract signing, for the next years also
- as regards the Agigea Branch, it currently has 7 ships (hydro-clap barges, marine tugboats, floating cranes, which are described at section 2.1 b of this report), out of which 5 barges have been repaired and obtained the exploitation authorisations; the branch also has endowments and capacities required for shipbuilding and repairs.
- Considering the concluded contracts, the production structure and salary costs evolution and those with raw materials and materials, the company has foreseen in the Budget of

income and expenses a volume of incomes increased in comparison, with the past year, yet close, to the one realized in the year 2019.

- the company also intends for 2020 to have investments, mainly consisting in:
  - Continue works for finalising the modernisation of the slipway at Agigea, namely replacement of wedge bogies ; this will increase safety of ships lifting-launching operations;
  - Purchase of welding equipment, especially for the head-office in Orșova (welding procedure and robots)
  - IT equipment
  - Purchase of RX device for non-destructive testing of the welds
  - Purchase of 5 tf profile fence crane
  - Purchase of cutter for plate cutting
  - Purchase of special tools and devices
  - Endowment with pipe cutting machinery and profiles of various angles
  - Purchase of SDVs for 200 to press for pipe trimming
  - Fabrication of roof and bridge with 2 hooks of 1,5 to each above the 200 to press

## 2 **COMPANY'S FIXED ASSETS**

2.1 The lands and the most important buildings and production equipment within the company's property is located on sites, on one side, at the main head-office in Orsova (no. 4 Tufari street, town of Orsova, Mehedinti County) and on the other side at the head-office in Agigea, at the premises of Constanța South Harbour, Constanța County. During the year 2019, no major changes were produced regarding their consistency, the largest investment expenses were those related to the repair, replacement and modernization of those existing, as shown. We stipulate that at the head-office in Orsova, a floating dock was re-classified, in the sense that it was taken out from the category of fixed assets and was transferred to stocks, its sale being approved, by the Administration Board; at the branch in Agigea, one of the 2 sea tug-boats was taken out of operation, because of its advanced physical wear-out and the head-office building in Constanta, was re-classified from fixed assets to building investments (being rented).

a) In Orsova, the company owns a property amounting to land 90.715 sm, confirmed by the excerpts from the Land Register, as follows:

- Administration head-office (including the attached establishment) – 85.790 sm;
- Gratca area - 4.925 sm.

The fixed assets existing at the head-office in Orsova mainly consist of:

- a lifting-launching hold of 1,800 t with ten wires on a length of 100 linear meters – used for launching ships with a maximum length of 135 linear meters and a width of 15 linear meters, which one was modernized in 2014;

- a technological platform that allows the simultaneous assembly of 5 ships and the execution of sections and block sections related to shipbuilding;
- 5 gantry cranes of 80+25 t purchased in recent years for the assembling platform and 2 portal cranes of 16 t together with 2 magnetic beams for handling plates in the plates warehouse and the blasting station and one 5 t gantry crane, purchased in 2019; these offer much more safety and lead to increased productivity by replacing the existing crane trucks, which were obsolete;
- 1 cutting machine in OMNIMAT coordinates based on computer programmes and 3 with OMNISCUT plasma, commissioned in 2007 and 2009 and 2018;
- Hydraulic press for plate bending, bought in 2017
- Compressors (4 pcs.) type ACU 9 L8 from HAFI;
- a horizontal automated blasting and painting line purchased in 2009 for plates of up to 3000 mm width;
- buildings, storages, material warehouses, administrative building, a floating dock;
- cranes of 10 - 50 t, welding and painting equipment, plate rolling machine, 2 hydraulic bending-off presses for profiles of 200 t for profiles moulding at the retreat areas (stern, fore part), etc.

b) At the Agigea Branch, the company owns 210 square meters of land located in Constanța, with a building where the company's former administrative headquarters was located until 2009, before the merger. Currently, the company's offices are in Agigea, and the building in Constanța was let, in the past years; in the year 2016 was putted in conservation, lacking solutions for renting. During the last part of the 2019 this building was rented, being reclassified, as shown. The cadastral in tabulation work was suspended until the litigation with the Town Hall in Constanta is closed, this litigation concerns certain amendments brought to this building by the old owner. The land of 57,710 square meters in Agigea, where the branch currently develops its activity, is property of the State-Owned Company "Administrația Porturilor Maritime Constanța" (Administration of Maritime Harbours), and the branch has a usage contract for the harbour area with this company.

Main fixed assets owned by the Branch are the same as previous years, mentioning that within the year 2019 were done a series of expenses for repairing and modernizations of the vessel barges and slipway.

Regarding the slipway, within 2015 was done the first stage of replacing damaged railways, in the year 2016 was solved problem of traction system for vessels launching, improvement action continues also along 2017 and 2018. In 2019, the investment plan considered also the replacement of the wedge bogies at this stowage. The 14 bogies which need replacement were fabricated during 2019 and are to be replaced during 2020, together with the replacement of the girders; these operations were included in the investment program for the year 2020.

The branch's main existing endowments in Agigea are:

- 7 marine ships of different types and capacities, out of which:
  - o 5 MIDIA hydroclap barges 940 m<sup>3</sup> (with own propulsion);
  - o 1 marine tug-boat;
  - o 1 floating crane of 60 t without propulsion;

- building and launching slipway for lifting ships, has 14 files, on whom can be executed works of launching/lifting up vessels, with the following sizes:
  - maximum length = 90,00 m
  - maximum width = 18,00 m
  - maximum height = 3,60 m
  - empty weight of the ship = 1,800 t
- 1 travelling crane 16 feet x 16 m/ 8 feet x 32 m;
- 2 KB cranes 674,25 feet x 15m/8 feet x 35m;
- 1 gantry crane of 80 t purchased in 2008 and 2 OMNIMAT cutting machines;
- a horizontal automated painting and blasting line purchased in 2009 for plates up to 3000 mm width;
- production halls (for metallic works, engine assembly, ship equipment);
- technical gas network;
- workshops for woodwork activities, electric repairs, turnery (with the possibility of processing parts with a maximum diameter of 600 mm and maximum length of 11.000 mm with a gantry crane of 5 feet x 16,5 m), etc;
- covered and uncovered storage areas:
  - material warehouse 60 x 60 = 3600 square meters;
  - work platform 40 x 30 = 1200 square meters;
  - work platform 120 x 40 = 4800 square meters.

## 2.2 Description and analysis of the company's properties of wear degree

At 31.12.2019 the company proceeded to re-evaluation, in scope of report by accounting

DENOMINATION	BALANCE AS OF 01.01.2019	BALANCE AS OF 31.12.2019
LAND	1.201.941	1.201.941
CONSTRUCTIONS	20.439.782	18.516.839
TECH. INSTAL. AND TRANSP. MEANS	17.199.019	16.098.044
OTHER INSTALL, EQUIP. AND FURNIT.	72.968	73.640

the financial situation, accounting to their right value, reflecting the results of this assessment in the financial situations drawn up for that year. The net book value of the company's non-current assets as of 31.12.2019, after re-assessment is presented below:

REAL ESTATE INVESTMENTS	104.911	179.427
ASSETS IN PROGRESS	0	2.862.195
<b>TOTAL</b>	<b>39.018.621</b>	<b>38.932.086</b>

The revaluation was performed by a company authorised by ANEVAR (*National Association of Certified Evaluators*), and the results were recorded and disclosed in the financial situations of the year 2019; the company has done a special report in regards to the results of this operation detailed, in order to be presented to shareholders for approval, report which completes this presentation.

Part of the fixed assets from the category of equipment was in conservation in the past years and was in the same situation at 31.12.2019. For this category of fixed assets (other than buildings) there were constituted depreciations in the total value of 382.036 lei.

Besides the lands that were re-classified as fixed assets held in scope of selling, approved by the administrators during the previous years to be sold by bidding, during the year 2019 a new asset is added, namely the floating dock. The sale of this asset is estimated to be realized in the year 2020. The value of the fixed assets withheld by the company in view of the sale at 31.12.2019 amounts 318.158 lei.

The input value by categories and the value of assets depreciation, as well as other information on non-current assets are presented in the NOTES to the financial statements.

### 2.3 Potential issues related to property rights on the company's tangible assets

At this moment, the company has no litigations regarding property rights.

## 3 MARKET OF SECURITIES ISSUED BY THE COMPANY AND CORPORATE GOVERNANCE

### 3.1 Romanian and foreign markets where the company's securities are traded

The shares of Şantierul Naval Orşova are listed and traded since 1998 at the Bucharest Stock Exchange with the symbol SNO. In this moment shares are traded on STANDARD category. Depozitarul Central S.A. keeps the shareholders' registry, according to the contract no. 24494 dated 17 May 2007.

The company's securities are not traded on other domestic or foreign markets.

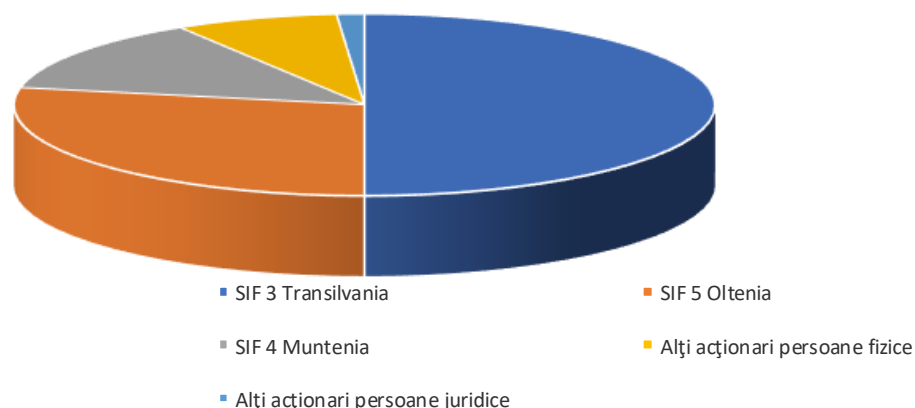
The share capital of Şantierul Naval Orşova SA did not register changes in 2019.

According to the shareholders' registry, as of 31.12.2019, the structure of shareholders is as following:

	<u>Number of shares</u>	<u>Amount (Lei)</u>	<u>Percentage (%)</u>
SIF 3 Transilvania	5.711.432	14.278.580	49,9998
SIF 5 Oltenia	3.200.337	8.000.843	28,0168
SIF 4 Muntenia	1.504.600	3.761.500	13,1718
Other shareholders natural persons	844.408	2.111.020	7,3922
Other shareholders legal persons	162.142	405.355	1,4194
	<u>11.422.919</u>	<u>28.557.298</u>	<u>100,000</u>

*SIF = financial investment company*

DETINERI ACTIONARI SNO 31.12.2019



The subscribed and paid in capital is of 28,557,298 Lei, divided into a number of 11,422,919 nominal dematerialised shares, each in amount of 2.50 Lei.

On 31.12.2019, compared to the shareholder's structure as of 31 December 2018, no modification has been noticed in what the ownership of significant shareholders are concerned, yet a slight increase of shareholders legal persons has been noticed, compared to shareholders natural persons. The company's shares are ordinary and indivisible.

The identification data of each shareholder, their contribution to the share capital, number of shares and participation weight in total share capital are mentioned in the shareholders registry held by the registrar company (Depozitarul Central București)

According to the law, each share subscribed and paid in by shareholders gives them the right to a vote in the General Meeting of Shareholders, the right to elect or to be elected in the company's



governing bodies, the right to participate in profit distribution or any other rights deriving from the shareholder position.

By holding the share, the shareholder automatically adheres to the company's articles of incorporation and subsequent amendments.

The evolution in share prices over one year of the company Santierul Naval Orsova SA, respectively 5 years, together with the amount of traded shares for this period is presented below: (source: Stock Exchange Bucharest).



As it can be seen, according to the data shown on the BVB site, the variation interval of the trading cost in the last year was included between 2,48 lei/share and 4.40 lei/share (increase 77.4%). If we refer to the last 5 years, we notice that the smallest trading cost was registered at the beginning of May 2016 (2,29 lei/share), and the biggest cost was registered at the beginning of the month of February 2020 (4,4 lei/share).

### 3.2 Description of company's policy on dividends

In the last 10 years, the politics on dividends may be concluded as follows:

The approach concerning the destination of the net profit was different, according to the level of the profit, to the interest of the shareholders and to the legal provisions;

- Until 2009, as long as the amounts from the profit account were more significant, the General Meeting of the Shareholders approved the distribution of dividends from the net profit to be divided which represented approx. 50-60% of the net profit. The value in lei/share was ranged between 0.4-0.75 lei/share. Size, in absolute value of the gross dividend per share, was established according to the performances of the company. During the entire period where the dividends' distribution was approved, their payment was done within the term concluded by the General Meeting of the Shareholders, without being registered delays or complaints from the share holders.

During the period 2010-2011 when the profit was at a relatively low level, the General Meeting of Shareholders decided this amount to remain at company disposal, as own financing source, without being distributed dividends.

In the year 2012 and 2013, the company registered losses, thus dividends distribution was not possible.

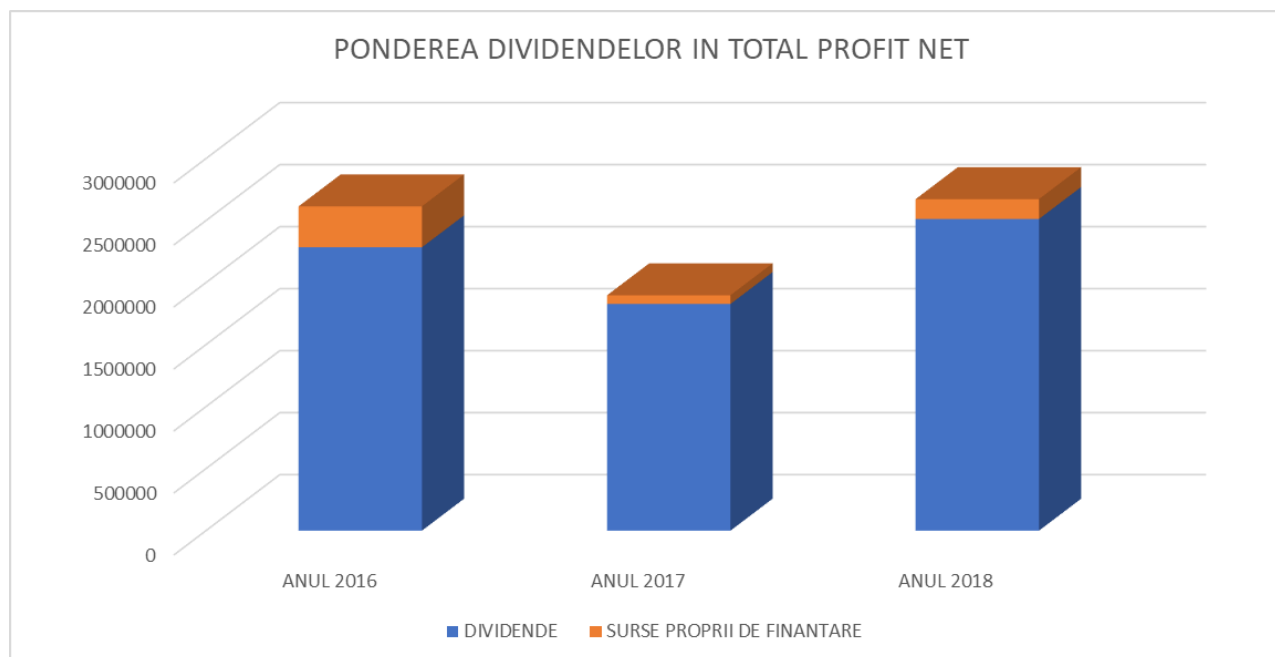
In the years 2014 and 2015, the company registered a profit, this was used for partial coverage of losses from the previous years.

In the year 2016, after covering losses from previous years from " Other reserves", the net profit for that year was distributed, according to the Decision of the Ordinary General Meeting of Shareholders from 07 April 2017, a gross dividend of 0.2 lei/share for:

- For the financial year 2017 it was approved a gross dividend of 0.16 lei/share, and for the year 2018 the amount of the gross dividend was 0.22 lei/share.

- For the year 2019, the general meeting of the shareholders is to discuss and approve the division manner of the net profit, after the deduction of the legal spare, amounting to 3.006.285 lei (which is superior to the year 2018: 2.672.848 lei).

The evolution of the dividend share and of the internal financing sources in total net profit, within the last 3 years is illustrated in the diagram below:



### 3.3 Description of any activities relating to purchasing own shares

From the set up to current days, there was no decision on the purchase of own shares, so that the company did not incur such operations.

### 3.4 Number and nominal value of shares hold by subsidiaries

The company does not have subsidiaries in other cities. Starting with 2008, Șantierul Naval Orsova has a branch in Agigea, as mentioned at section 1.1 c).

### 3.5 Issuance of bonds and/or debt securities

The company did not issue bonds or other debt securities in 2019 or in prior years, hence there are no liabilities towards holders of such securities.

## 4 MANAGEMENT OF THE ISSUER

4.1 The General Meeting of Shareholders (AGOA) of 18.04.2019 appointed the company's new Board of Directors for a period of 4 years, with the following structure:

- **MISTER FERCALA MIHAI** – Romanian citizen, born on the date of 28.03.1950 in the town of Mihaileni, County Botosani, economist. He has been elected as member of the Board of Directors of the company starting with 24.03.2000, and in the year 2003 he becomes the president of the C.A. On the date of 31.12.2019, Mr. Fercala Mihai withheld a number of 1.000 shares, representing 0.0087% of the share capital of the company.

- **MISTER CIUREZU TUDOR** – Romanian citizen, born on the date of 24.11.1954 in the town of Sarbatoarea, County Dolj, economist. During the period April 2007-April 2011 he was a member of the C.A. He returns to this position starting with the year 2019. On the date of 31.12.2019, he withheld a number of 16.500 shares, representing 0.14% of the share capital of the company.
- **MISTER FIRU FLORIEAN** – Romanian citizen, born on the date of 19.07.1953 in the village of Cerneti, County Mehedinti, economist. He has been a member of the C.A from the year 1999. On the date of 31.12.2019, he withheld a number of 10.000 shares, representing 0.09% of the share capital of the company.
- **MISTER IONESCU LUCIAN**– Romanian citizen, born on the date of 20.03.1954 in the town of Ramnicu Valcea, County Valcea, economist. He has been a member of the C.A from the year 2007. On the date of 31.12.2019, he didn't withhold any share at the company.
- **MISTER PANTEA MARIUS IOAN** – Romanian citizen, born on the date of 17.04.1974 in the town of Oradea, County Bihor, economist. He has been a member of the C.A from the year 2016. On the date of 31.12.2019, he withheld a number of 25 shares of the company.

Additional information regarding the preparation and professional experience of the administrators may be found in their CVs on the company's website: [www.snorsova.ro](http://www.snorsova.ro), section: About – contact.

The company does not have knowledge of agreements or family relationships between the board members and other persons, due to which the board members could have been appointed to these positions.

According to the legal provisions and those included in the company's articles of incorporation, the Board of Directors had a couple of meetings in 2019, in order to analyse and discuss the company's current issues, which fall under the responsibility of this governing body.

The main issues discussed, analysed and approved in the meetings of the Board of Directors in 2019 refer to:

- organizational measurements precursory to the General Meeting of Shareholders from 17/18.04.2019,
- substantiation of the BVC, analysis of accomplishment in comparison to the BVC provisions,
- analysis of accomplishment of the investment program for the year 2019
- approval of transaction for protecting the exchange rate, hedging type,
- approval of external contracts for ships' construction,
- analysis of developments in the litigation with VEKA Netherlands at the Court of Arbitration in Rotterdam
- approval of global ceilings in relationships with banks,
- approval of internal audit plans and analysis of the internal audit engagements' conclusions,
- approval of goods' disposals and other aspects whose competence for approval is under the C.A. responsibility
- approval of the collective labour contract negotiated with the unions during 2019/2020, solving various current issues on the meeting agenda.

**4.2** As regards the executive management, we highlight that starting with March 2011, the Board of Directors has validated the appointment of Mr Mircea Ion Sperdea as General Manager, by concluding a mandate agreement. On April 2015 was prolonged mandate of Mr. Sperdea Mircea Ion for a 4 years period. In April 2019 the mandate of Mr. Mircea Ion Sperdea was extended for a period of 1 year, namely until April 2020.

At 31.12.2019 the executive management has the following structures:

- Eng. Sperdea Mircea	-	General Manager
- Ec. Visescu Marilena	-	Economical Manager
- Eng. Stoinel Florin	-	Technical Manager for Production Preparation
- Eng. Căndea Alexandru	-	Agilea`s Branch Manager

During the first semester of the year 2019, the position of economic director was occupied by Mr. Caraiman Gheorghe who starting with the 1<sup>st</sup> of July 2019 was retired for age limit, and the vacant position was occupied by Mrs. Visescu Marilena, starting with the same date.

Mr Sperdea Mircea was previously the head of the company's supply department. In 1996, he was promoted to commercial manager and between November 2000 and the end of 2010 he was appointed general manager.

We inform the shareholders that according to the legal provisions (amendment to Law no. 31/1990 – Company Law, republished), the company suspended the employment contract of the general manager as of 1 March 2011. The company, represented by the president of the Board of Directors – Mr Fercală Mihai - and Mr Mircea Ion Sperdea have concluded and signed a mandate agreement for 2 years and this one was prolonged successively as shown. This agreement refers to the fact that based on the delegation provided by the company's Board of Directors, the General Manager shall exert some of the management attributions of this body, to the extent permitted by the law and in order to fulfil the company's activities. As of 31.12.2019, Mr Sperdea Mircea held a number of 12,000 shares, representing 0.11 % of the share capital.

Mrs. Visescu Marilena was employed in this company, starting with the year 1987, immediately after having graduated the Economical Sciences in Craiova, field of specialization finances-accounting, in the position of economist. Starting with 01.11.1990 she was elected as head of the accounting department until 30.06.2019 when she was promoted to the position of economical director. On 31.12.2019 she withheld a number of 10 shares at the Company Santierul Naval Orsova SA.

Mr Stoinel Florin graduated the Mechanics Faculty of the Timisoara "Politehnica" University in 1995 and was immediately employed as an engineer with the Design Department of Şantierul Naval Orşova SA. During 01.10.1998 - 14.11.2005 he was the head of the Design Department within Santierul Naval Orsova SA. During the period 01.10.1998-14.11.2005 he has worked as head of the design department, and on 15.11.2005 he was appointed technical manager in charge with preparation of the fabrication process. On 31.12.2019 he held a number of 400 shares in S.C.Şantierul Naval Orşova SA.

Mr Căndea Alexandru graduated the Gheorghe Asachi Mechanics Faculty in Iaşi, with a major in Machinery Construction Technology in 1977. Starting with March 2004 he was chief

engineer at the former company Servicii Construcții Maritime SA Constanța, being transferred from MIHEI Shipping Constanța and starting with February 2007 he was General Manager at the same company. In 2008, after the merger between the two companies, he became branch manager. On 31.12.2019, he did not hold shares in SNO.

Except for the general manager, who has a mandate agreement with the company, as already mentioned, all the other directors are appointed as executive directors by the Board of Directors and they are employees of the company with employment contracts concluded for indefinite period.

The company does not have knowledge of agreements or family relationships between the directors and other persons due to which the above-mentioned.

**4.3** The company does not have knowledge about involvement of the persons mentioned at sections 3.6 and 3.7 in litigations or administrative procedures in the last 5 years or to have had restrictions on occupying management positions within the company.

#### **4.4 Other aspects on CORPORATE GOVERNANCE**

The General Extraordinary Meeting of Shareholders on 06.04.2012 approved the new form of the company's articles of incorporation. This new concept of articles of incorporation aimed at eliminating from the old content of some provisions that are reproductions of legal texts regulating the functioning of companies, hence simplifying and clarifying the statutory provisions on one hand and on the other hand, this will generate much more stability, meaning that it will not require changes and adaptation to the legal changes in the field.

For the internal control, the Board of Directors has contracted the internal audit to an authorised company; respectively ASSOCIATED BUSINESS AUDITORS S.R.L. Timișoara. More details regarding the fee and other information can be found in the Notes of the financial situations.

According to the provisions under the Code of Corporate Governance of BVB, the issuer Șantierul Naval Orșova S.A. publishes on its website details of maximum importance for shareholders, respectively:

- current reports, media notes
- details concerning the progress of the General Meeting – convenors, materials corresponding to the agenda, special power of attorney, rules and procedures for participation to the general meeting, shareholder's rights, detailed result of the vote, resolutions made within the general meeting;
- reports with the trimester, semester and annual financial situations; including their contact dates, yet also the changed came in the structure of the Administration Board of Directors;
- data concerning the consultant committees formed up at the level of the C.A.;
- financial calendar
- decisions of the General Shareholders' Meeting
- incorporation, in force

The current Board of Directors consists only of non-executive members and the decision-making process of this management body is not dominated by a person or a group of persons, due to its organisation. The election of the members of the Board of Directors is based on a transparent procedure, nominations are public. The company performs activities related to social responsibility and environment, and instructed employees are appointed for handling these issues.

The audit committee and the retribution committee operates within the Administration Board of Directors. The internal regulation for operation of the CA and of the two committees subordinated is public. During the year 2018 the assessment of the administrators was performed. Also during this year, the prevision politics were drawn up.

Given the share of approx. 91% which the SIFs (SIF3, SIF4, SIF5), withhold in the share capital, the administrators were proposed/elected as being their representatives, thus at the present moment none of the administrators is independent.

## **5 FINANCIAL-ACCOUNTING SITUATION**

Starting with the year 2012 , according to the provisions under the Order of the Minister of Public Finances no. 881 / 25.06.2012 on the application of International Financial Reporting Standards (IFRS) and of the Order no. 1286/01.10.2012 regarding the approval of the Accounting regulations in conformity with International Standards Reporting Standards, applicable to by companies whose securities are traded on a regulated market, on certain movable values, the company passed to these standards reporting.

For the financial year 2012, the annual individual financial statements based on IFRS were prepared by restating the information in the accounting conducted based on Order MFP no. 3055/2009, and starting with the financial year 2013 accounting shall be conducted based on IFRS provisions as reporting basis.

2012 was the first year of applying IFRS and in order to ensure comparative data with prior periods we restated the data for both 01.01.2011 and 31.12.2011, hence we adjusted (restated) 3 years.

In December 2012, the “Handbook for accounting policies in accordance with IFRS” was prepared, and in the meeting from 08 February 2013, the Board of Directors has approved this HANDBOOK.

The audit of the financial statements for 2019 was performed by A.B.A. AUDIT SRL Timisoara, based on the contract no. 405/22.07.2013, whose initial validity was for 2 years and subsequently prolonged, for 2 more years and in 2017 was prolonged for 3 more years, until 30.04.2020, in according with AGOA resolution from 07.04.2017.

### **5.1 Financial position as of 31.12.2019**

**ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR FINANCIAL YEAR 2019**

**According to IFRS, as of 31.12.2019, the financial position compared to the last 2 years is as following:**

<b>ASSETS, LIABILITIES, EQUITY</b>	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>31.12.2017</b>	<b>YEAR 2019/2018</b>
	<i>Lei</i>	<i>Lei</i>	<i>Lei</i>	<b>GROWTH/ DECREASE (%)</b>
<b>I. Total tangible assets, out of which:</b>	<b>36.069.891</b>	<b>39.018.621</b>	<b>35.283.844</b>	<b>92,44</b>
- land and constructions	19.718.780	21.641.723	18.556.275	91,11
- technical installations and transportation means	16.277.471	17.303.930	16.477.745	94,07
- other tangible assets	73.640	72.968	249.824	100,92
<b>II. Intangible assets</b>	<b>3.083</b>	<b>3.933</b>	<b>33.227</b>	<b>78.39</b>
<b>III. Tangible assets in course of execution</b>	<b>2.862.195</b>	<b>0</b>	<b>0</b>	<b>-</b>
<b>IV. Real estate investments</b>	<b>517.515</b>	<b>0</b>	<b>0</b>	<b>-</b>
<b>IV. Other non-current assets</b>	<b>110.824</b>	<b>162.464</b>	<b>200.498</b>	<b>68,21</b>
<b>A. TOTAL NON-CURRENT ASSETS</b>	<b>39.563.508</b>	<b>39.185.018</b>	<b>35.517.569</b>	<b>100,96</b>
<b>I. Inventories</b>	<b>44.839.962</b>	<b>47.861.022</b>	<b>42.125.722</b>	<b>93,69</b>
<b>II. Trade receivables and other receivables</b>	<b>2.091.262</b>	<b>7.379.937</b>	<b>6.685.934</b>	<b>28,34</b>
<b>III. Other short-term financial investments</b>	<b>6.677.460</b>	<b>8.470.227</b>	<b>8.363.880</b>	<b>78,83</b>
<b>IV. Cash and cash equivalents</b>	<b>13.939.382</b>	<b>6.638.636</b>	<b>9.566.768</b>	<b>209,97</b>
<b>V. Receivables related to current tax</b>	<b>318.158</b>	<b>68.853</b>	<b>68.853</b>	<b>462,08</b>
<b>VI. Expenses paid in advance</b>	<b>67.119</b>	<b>55.869</b>	<b>23.394</b>	<b>120,14</b>
<b>B. TOTAL CURRENT ASSETS</b>	<b>67.933.343</b>	<b>70.474.544</b>	<b>66.834.551</b>	<b>96,39</b>
<b>TOTAL ASSETS</b>	<b>107.496.851</b>	<b>109.659.562</b>	<b>102.352.120</b>	<b>98,03</b>
<b>I. Equity</b>	<b>28.557.298</b>	<b>28.557.298</b>	<b>28.557.298</b>	<b>100,00</b>
<b>II. Social capital adjustments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>III. Share premium</b>	<b>8.862.843</b>	<b>8.862.843</b>	<b>8.862.843</b>	<b>100,00</b>
<b>IV. Reserves</b>	<b>52.191.937</b>	<b>53.054.695</b>	<b>48.265.387</b>	<b>98,37</b>
<b>V. Other reserves from IAS29 application</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>V. Profit/Loss of the year</b>	<b>3.205.050</b>	<b>2.852.126</b>	<b>2.721.336</b>	<b>112,37</b>
<b>VI. Profit/Loss carried forward</b>	<b>7.431.918</b>	<b>6.353.858</b>	<b>5.555.872</b>	<b>116,97</b>
<b>VII. Carried forward coming from first time application of IAS29</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>VIII. Profit distribution</b>	<b>(198.765)</b>	<b>(179.278)</b>	<b>(823.621)</b>	<b>110,87</b>
<b>IX. Other equity elements</b>	<b>(4.290.219)</b>	<b>(4.498.960)</b>	<b>(3.718.330)</b>	<b>95,36</b>
<b>C. TOTAL EQUITY</b>	<b>95.760.062</b>	<b>95.002.582</b>	<b>89.420.785</b>	<b>100,8</b>
<b>I. Liabilities related to deferred tax</b>	<b>4.299.942</b>	<b>4.498.960</b>	<b>3.718.330</b>	<b>95,58</b>
<b>D. TOTAL LONG TERM LIABILITIES</b>	<b>4.299.942</b>	<b>4.498.960</b>	<b>3.718.330</b>	<b>95,58</b>
<b>I. Short term loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>-II. Trade payables and other payables, including derivatives</b>	<b>6.804.366</b>	<b>9.618.869</b>	<b>8.422.623</b>	<b>70,74</b>
<b>III. Advance registered incomes</b>	<b>1.246</b>	<b>2.277</b>	<b>3.308</b>	<b>54,72</b>
<b>IV. Provisions</b>	<b>631.235</b>	<b>536.874</b>	<b>787.074</b>	<b>117,58</b>
<b>E. TOTAL CURRENT LIABILITIES</b>	<b>7.436.847</b>	<b>10.158.020</b>	<b>9.213.005</b>	<b>73,21</b>



ASSETS, LIABILITIES, EQUITY	31.12.2019 <i>Lei</i>	31.12.2018 <i>Lei</i>	31.12.2017 <i>Lei</i>	YEAR 2019/2018 GROWTH/ DECREASE (%)
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>107.496.851</b>	<b>109.659.562</b>	<b>102.352.120</b>	<b>98,03</b>

**Non-current assets:** This category of assets, even totally is preserved at a level similar to the previous year. In the structure, thus, a loss of value has been noticed according to the depreciation, on one side, yet an increase of the tangible assets in course of execution on the other side.

**Stocks** registered an decrease with 6,31 %, from 31.12.2018, especially based on the production in execution and stocks from materials stored. Big fluctuation of in progress production, from a period to another, can be explained by the long cycle of manufacturing for the vessels.

**Trade receivables and other receivables** In total active assets, a significant decrease is also met at trade receivables in comparison to the previous year (by 71.66%). At the end of the year 2019, the company had current receivables non-cashed and a good part of these receivables were liquidated during the beginning of 2020, by cashing in. Other information related to the trade receivables and other receivables can be found in the Notes to the financial situations.

**Cash and cash equivalents,** registered a decrease by 109,97% against the year 2018, as a direct connection to the increase of the receivables from the previous position.

**Totally, current assets** know an increase by 3,61 %.

More information on all these elements can be obtained by consulting the Notes to the financial statements attached to this report.

Own capitals, even if they register a total growth of 0,8%, especially because of the increase of the results reported (116,78%) and the result of the fiscal year (112,37%). A decrease has been registered under the Reserves, in relation to the decrease of Other elements of own shares.

Otherwise, the provisions have known a decrease by 17,58%, especially because of the non taken leaves and benefices by the employees.

Commercial debts also registered a decrease of 29.26%.

The internal capitals and debts have known a decrease by 1,97%.

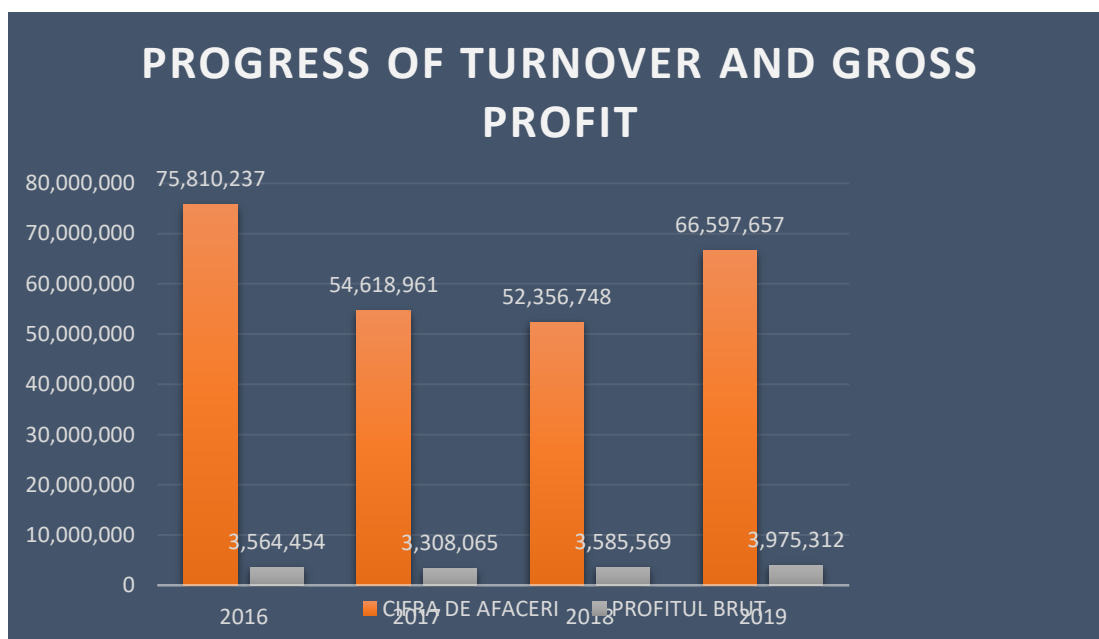
## 5.2 PROFIT AND LOSS (COMPREHENSIVE INCOME)

The gross result prior to taxation realized in the year 2019 is above the one realized in 2018 (increase by 10,9%), but also above the one stipulated in the BVC, the exceeding registered is by 10,4%. These accomplishments were possible under the conditions in which the turnover for 2019 registered a decrease, from the previous year by 27,4%.

In comparison to the previous year and BVC provisions, the gross profit evolution is presented as follows:

- Gross profit provisioned in BVC year 2019 3.600.000 lei
- Gross profit realized in 2019 3.975.312 lei
- Gross profit obtained in 2018 3.585.569 lei

An evolution of the gross profit for the past 4 years is shown in the diagram below:



In the table below there are written, synthetically, in structure, the realizations of the year 2018 in comparison to those from the previous year and to the provisions from the income and expenses budget, with the stipulation that the income and expense of the 2 years have been shown according to the provisions from the OMFP no. 2.844/2016 for the approval of the Regulations according to the Standards of Financial Reporting.

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INDICATORS	ACHIEVEMENTS PRIOR YEAR (2018)	FINANCIAL YEAR 2019			ACCOMPLISHMENT DEGREE (%) Year 2019 from:	
		BVC PROVISIONS	ACHIEVEMENTS	OUT OF WHICH AT THE BRANCH	ACCOMPLISHMENTS YEAR 2018	BVC PROVISIONS
TOTAL INCOME, out of which:	53.117.435	61.085.000	67.698.135	10.699.758	127,4	110,8
- Operating income	52.518.555	60.485.000	66.694.538	10.376.350	127,0	110,3
- Financial income	598.880	600.000	1.003.597	323.408	167,6	167,3
TOTAL EXPENSES, out of which:	49.531.866	57.485.000	63.722.823	9.827.393	128,7	110,9

- operating expenses	49.008.941	56.885.000	63.353.281	9.761.177	129,7	111,4
- financial expenses	522.925	600.000	369.542	66.216	70,7	61,6
GROSS PROFIT / LOSS BEFORE TAX, out of which:	3.585.569	3.600.000	3.975.312	872.365	110,9	110,4
- operating profit/loss	3.509.614	3.600.000	3.341.257	615.173	95,2	92,8
- financial profit/loss	75.955	-	634.055	257.192	834,8	-
CURRENT AND DEFERRED PROFIT TAX (PAYABLE OR RECEIVABLE -/+)	(733.443)	(547.200)	(770.262)	-	105,0	140,8
NET PROFIT / LOSS	2.852.126	3.052.800	3.205.050	-	112,4	105,0
NUMBER OF SHARES	11.422.919	11.422.919	11.422.919	-	100,0	100,0
NET PROFIT / LOSS PER SHARE (Lei/share)	0,2497	0,2673	0,2806	-	112,4	105,0

It is to be noticed that out of the total gross profit, approx. 78% was realized at the main head-office in Orsova and 22% by the branch in Agigea. Considering that the accomplishment of the branch to the turnover is approx. 15.6%, we may conclude that at the level of this sub-unit, a better rentability was registered than at the main office. We underline that at the level of the branch was registered a better use of the installations scoped for the steel structure activities, in comparison to the previous years which created the premises of increasing its effectiveness. A high input in the realization of the total gross profit also had the profit realized out of the financial activity, both at the main office and also at the branch, as to be shown in what follows.

### 5.2.1 Analysis of the operating activity

In 2019, as already shown in the operation incomes, a range of 4/5 came from the head-office in Orsova where it was finalized and delivered a number of 7 vessels (in 2018: 6 vessels), in a total value of 11.639 thousands of Euro (in 2018: 9.831 thousands of Euro), respectively 55.138 thousands of lei (in 2018: 45.747 thousands of lei), at an average parity of 4.7373 lei/€ (in 2018: 4.6532 lei/€), against a rate of 4.6 lei/euro having taken in consideration for the BVC substantiation.

Even though, per total, the operational incomes were higher than those from the previous year (increased by 27,4%) yet also from those stipulated in the BVC (exceeding by 10,3%), still, the profit from operation was inferior to the one realized in the year 2018 and also to the one stipulated through the BVC, registering a realization percentage of 95,2% and respectively 92,8%. This situation is owed especially to the building of vessels activities from the main head-office and is caused by objective causes; it is about the impossibility of supplying within the country, from the traditional suppliers, of certain materials with naval specificity which determined their purchase from external markets, at higher prices, on one side, and on the other side to be able to obey the delivery terms according to the contract, the externalization of certain works was necessary which also meant additional costs.

The ships built in Orsova were scoped totally to the intra-community deliveries, namely the Netherlands and Germany. In what the structure/type of ships built are concerned, it may be

stipulated that it is similar to the one in the past years. Subsequently, during the current year (2019), the following types of ships were delivered:

- 4 TANKS 110 m length
- 2 TANKS with a length of 85-86 m;
- 1 STAINLESS STEEL TANK 81.3 m length.

Decline of the vessels market registered in the past years, as a consequence of movements produced on external market, especially the decrease of the goods transport volume, but also of the big number of the vessels in progress, at several shipyards worldwide, continued also in 2019 as it was shown.

Even so, under these terms, SANTIÉRUL NAVAL ORSOVA SA succeeded in having covered the entire capacity of production in Orsova and Agigea branch, where all the 5 barges were rented to certain companies in Turkey, during most of the year.

Other information on the analysis of the main financial indicators can be found in the NOTES to the financial statements, which are an integrant part of this report.

#### 5.2.2 Analysis of financial income and expenses

As already shown, both the ships built in Orsova and also the rental of the barge ships in Agigea were carried out by the clients abroad (intra and extra-community) which made that the company be permanently exposed to the monetary risk (parity lei/euro). Hence, during 2019, the company continued the measures to protect the exchange rate, through hedging operations, the profit from these transactions being over 200 thousand lei. Thus from the financial activity, there has been realized a profit of 200 thousands lei. More information related to the named influences may be found in the Notes to the financial situations.

The company did not contract bank credits during 2019 due to a balanced in-cash flow. Subsequently, on 31.12.2019, the company did not have credits and had enough availabilities in the account to support the financing of its current activity, but also that for the investments, out of internal sources.

Other information on the financial activity is shown in the NOTES to the financial statements.

#### 5.2.3 Provisions and impairment

As in the previous years, the company found it useful for an accurate reflection on the status of certain tangible assets under preservation, financial assets, old stocks without movement, certain vessels existing in the production in case of fabrication, whose sale is estimated to be under the level of the costs cumulated up to the present moment, litigation receivables, as well as for holiday leaves and other salary rights corresponding to the year 2019 and which are to be paid during 2020, to form depreciations and provisions.

The real situation of these depreciations and provisions, in sold at 1.12.2019, is the following:

a) For impairment of tangible assets

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382.036,26

b) For impairment of financial assets (shares hold at KRITOM Greece (Crete)	684.495,00
c) Provisions for litigation, holidays and retirement bonus	631.235,00
d) Adjustment for impairment of inventories	6.840.829,22
e) <u>Adjustment for impairment of receivables (clients/debtors)</u>	<u>819.723,98</u>

<b>TOTAL PROVISIONS AND IMPAIRMENT</b>	<b>9.358.319,46</b>
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Compared to the previous year, a decrease may be seen, in absolute numbers, by 2.538.873 lei, especially because of certain non-cashed receivables and which during the year 2019, the debtor companies which were declared as being insolvent were supported on the company's costs. Together with the supporting of the respective amounts per costs, it was proceeded to the cancellation of the depreciation formed during the past years, through their passing-accordingly to incomes.

Regarding the volume of depreciation at stock materials, approx. 94% from total amounts represents depreciation for those 2 coaster vessels coaster type, for which the company is in a litigation, for several years with the Dutch company Veka; description of this litigation can be found at point 5.5 of the present report.

Other information on provisions and adjustments for impairment of assets are shown in the Notes to the financial statements, which are an integer part of this report.

### 5.3 Analysis of the result and net profit distribution

Gross profit realized at 31.12.2019 is amounting to 3.975.312 lei. Given the legal provisions on profit tax calculation, according to the legal provisions, the company has considered the non-taxable income and the non-deductible expenses for its determination, as these are similar to income/expenses elements.

It was also considered that for the activity at the canteen which is administered by the company, the company owes a specific tax according to the Law no. 170/2016.

Non-taxable incomes refer mainly to resumption in income of provisions that originally were set up as non-taxable expenses.

Non-deductible expenses consist of sponsorship. provisions, impairment (according to the above presentation), losses from non-cashed receivables, fines and penalties and other expenses.

A detailed presentation of these income and expenses elements can be found in the Notes to the financial statements, which are an integer part of this report.

After deduction of the reserve fund of 5% from the net profits, as per the law, the following situation has resulted:

No.	Indicator	Amount
1.	Gross profit	3.975.312
2.	Profit tax + specific tax	770.262
3.	<b><u>Net profit (1-2).</u></b>	<b><u>3.205.050</u></b>
4	Legal reserves (5%)	198.765

5.	NET PROFIT TO BE DISTRIBUTED	3.006.285
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At the general ordinary meeting of the shareholders, for approval of the financial situations for the year 2019, the distribution manner of the net profit will be settled, according to the data above.

#### 5.4 Cash flow, financial resources, investment expenses, payment of liabilities.

For obtaining guarantee letters, the opening of credit letters, for suppliers, and also for a possible covering of the necessary of financing sources, the company continued also in 2019 to benefit from the bank's support, according to the real needs of the company. In the year 2019 the company had the ceiling for the multi-options and multi foreign exchange, approved by BRD, 2 million Euro, ceiling proved to be enough for the financing needs of the company.

At the same time, the company benefited from a limit for currencies risk covering in amount of 2.069.000 USD, on an increase by 39% from the year 2018.

These ceilings were guaranteed with a mix of guarantees consisting of mortgages, pledges, assignment of receivables on export contracts (guarantee letters opened for external contracts) and cash collateral in amount of 401.201 EURO. They were used specially for issuance of bank guarantee advance payment letters, the company not needing bank credits during 2019.

As of 31.12.2019, this ceiling was partially used, two guarantee letters were issued, totally amounting to 446.678,8 lei, in favour of the National Company Administration of the Maritime Harbour Constanta.

Investment expenses realized in 2019 knew an increase by 114,78% compared to the previous year. In figures/In absolute digits, the expenses volume was at a level of 5.033.567 lei ( in the year 2018: 2.343.567 lei) from which:

- 2.099.913 Lei in Orșova
- 3.023.654 Lei in Agigea

As from the BVC it is registered a realization degree of 104,87% (the BVC provided a value of the investments of 4.800.000 lei).

At headquarter in Orsova was put into operation the following most important objectives:

- Gantry crane 5 to
- Automate welding equipments
- Plasma cutting machine
- industrial vacuum cleaners
- modernizations and provision of additional devices to the already existing installations
- modernization of the auto-cranes MDK and of other transport and lifting installations
- paint gun
- IT equipment
- Exhaustor ventilator VE 30 MNX to ensure the working climate in closed spaces

The purchase of these equipments was scoped to reduce the physical effort, to increase productivity of work, to remove the manual cleaning of the difficult and thin spaces, to reduce the manpower costs, to secure the IT systems.

At the branch in Agigea, out of a total of expenses for this scope, over 90% refers to repair works and modernization carried out to the launching way and replacement of the wedge bogies.

Out of the total expenses with investments carried out during 2019, 43.14% were capitalized and the rest have been highlighted on 31.12.2019 as investments pending execution.

During 2019, no transfer of assets was registered, only discarding of certain fixed means which could no longer be used in the production process.

During the period analyzed the company did not contract any credits for investment, all the acquisitions of fixed means were carried out of internal sources.

During the entire year, the company ensured a financial balance, thus its obligations to the suppliers, to the working staff and to the state budget, as well as to the banks and other creditors could be paid in time.

Other information (including cash flow statement) can be found in the Notes to the financial statements, which are an integrant part of this report.

## **5.5 Litigation; actions before courts**

The status of the litigations on 31.12.2019 is somehow simple, to the extent to which a part of the old files were solved, from the previous years, and in 2019, a single claim was filed at the court in Constanta where our company has the position of applicant, namely the request for a bond returning of 5.765 lei paid on the occasion of having solved the claim upon execution formed against foreclosure triggered by the named Bunea Ion. On 31.12.2019, the company has pending, in Romanian courts, several actions in execution, especially to the branch in Agigea, yet what is most important to be underlined is the fact that this litigation with the company Veka from the Netherlands, claim which was judged several years at the Court of Arbitration in transports and maritime "TAMARA" from Rotterdam – The Netherlands, was concluded with a favourable decision to SNO.

Synthesizing the actions pending at the courts in Romania, these refer to:

- commercial litigations: 1 file pending at the court in Satu Mare in which our company is counter-defendant for the amount of 4.554 lei. In this file, the plaintiff INNOTEHNIC Satu Mare formulated, at its turn, a reconventional request for the amount of 24.383 lei. This litigation was initially judged at the Court in Satu Mare which rejected our request, fact for which our company formed a claim pending court at the Court in Satu Mare, in cause being settled the realization of a specialized technical survey.

In Agigea branch, as already shown, several claims are pending from the previous years, in different phases in which our company is the plaintiff.

The file at the Court of Arbitration in Rotterdam refers to the statement of claim introduced by our client VEKA Shipbuilding BV Netherlands related to the shipbuilding and delivery contracts no. 247, 248, 249, 250 concluded on 14.12.2010.

The mentioned ships could not be delivered in due time because the client did not comply with its obligations according to the contractual provisions.

In this file, Șantierul Naval Orșova S.A. stated its own claims, so that VEKA to be obliged to take over 2 coaster ships executed based on contracts no. 247 and 248 from 14.10.2010 and pay, besides the contractual price, an additional price due to delayed transmission of the changes to the technical documentation and the contracts 249 and 250 whose scope was not realized, because the client did not fulfil their contractual obligations to be cancelled.

The company engaged a Romanian and a Dutch law office for supporting its interests in this file.

Having in mind that both companies signed an agreement regarding closing this litigation, was concluded to be suspended, temporarily, litigation from Maritime Arbitration Court from Rotterdam. Even if more than 2 years from the conclusion of the agreement had passed, the Dutch company doesn't respect the assumed obligations, so our company requested during the year 2017 the restarting of the procedures at the Arbitration Court.

During the year 2018, upon a first term, the arbitrators only part wise settled related to the ship which made the scope of the contract C247, and then – they also settled for the contract 248.

Subsequently, the final resolution was to oblige the company Veka upon the opening of the letters of credit for the price agreed at each of the 2 ships, the payment of penalties of 100.000 euro for each vessel and further on 10.000 euro for each day of delay up to the concurrence of the amount of 1.000.000 euro, for each ship. The decision was pronounced in the month of June 2019. Subsequently to the request of our lawyers – during the month of August 2019 – the arbitrators have issued a new resolution through which they settled that the expenses for arbitration must be the responsibility of the Dutch partner. Up to this date, the debtor did not obey, following that at the level of the company's management, after having discussed the matter with the lawyers, there is to be settled which will be the ways to be followed for the execution of the resolution.

## **6 INVENTORY OF PATRIMONY AS OF 31.12.2019**

The company has performed an annual stock take of assets and liabilities for 2019 according to the provisions of the Order of the Minister of Public Finances no. 2861/2009 and to the Manual with the inventory procedures issued at the level of the company. In this respect, there are internal decisions for the set-up of a central stock take commission and respectively sub-commissions for all units within the company, the headquarters and Agigea branch.

The main conclusions of the stock take are the following:

- At the inventory of fixed assets, the commission found differences and objects of inventory in usage, in the sense that the people in charge with the management of these assets shared various fixed assets or objects of inventory without drawing up the corresponding documents. These situations were solved, operatively, on spot, by the commission appointed for each inventory.



- At the other inventories no differences were noticed in the quantity or value between the documents and the real situation;
- On the occasion of the inventory, the commissions noticed the existence of certain assets which should be taken out of the inventory. The proposals of the commission are cassation or taking out of operation and they will be discussed and analyzed at the level of the managing board, from the point of view of their necessity and opportunity of this measure, after which they will be submitted for the approval of the Management Committee;
- For the unusable or damaged materials, separate inventory lists were created, and they are to be analyzed by the special commissions within the company, and according to the conclusions, it will be proceeded accordingly.
- At the head-office in Orsova, certain materials were detected to belong to third parties in temporary custody on the date of the inventory. For these assets, separate lists were drawn up and sent for confirmation, to the owners of the named assets, according to the legal provisions;
- For the annual inventory of the patrimony, also external auditors were present in compliance with the legal obligations which are to be considered applicable, and they checked at random, various inventories for existence of real stock; no deficiencies were detected.

For the preparation of the balance sheet, the company complied with the rules approved through legal norms and data was taken over from the updated synthetic balances and according to the Law no. 82/1991, republished, and the applicable accounting regulations (Order no. 2844/12.12.2016 for approving the accounting regulations in compliance with the International Financial Reporting Standards).

For additional information, the interested shareholders have available the Notes to the financial statements, which are presented separately of this report and are attached to the present report.

President of the Board of Directors,  
PhD Ec. Mihai Fercală