S.C. SANTIERUL NAVAL ORSOVA S.A.

Annual report 2016

This is a translation of the Romanian original version of the report. In case of any disputes, the Romanian language version prevails.

ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR FINANCIAL YEAR 2016, ACCORDING TO LAW NO. 297/2004 ON CAPITAL MARKETS, CNVM (*NATIONAL SECURITIES COMMISSION*) REGULATION (CURRENTLY ASF – *FINANCIAL SURVEILLANCE AUTHORITY*) NO.1/2006 AND ORDER OF THE MINISTER OF PUBLIC FINANCES NO.2.844/12.12.2016

Report date: 20 February 2017

- **Name of the company: S.C. ŞANTIERUL NAVAL ORŞOVA S.A.;**
- **Registered office: 4, TUFĂRI Street, ORŞOVA, MEHEDINŢI County;**
- **Telephone/facsimile: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 on 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 CNVM – Securities Record Office – with 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. <u>ANALYSIS OF THE COMPANY'S ACTIVITY</u>

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 83% of the 2016 turnover, most of the ships are designed for intra-community supplies (only one vessel, from those 14 finalized in the year 2016, was internally delivered)

At Agigea Branch, activity which contributes in the bigger part to the turnover consists in letting ships, especially barges, and repairs of river/marine ships. The branch's turnover represents 16.3% of total turnover.

b) Company set up date

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 2016.

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

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 2016, 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:

- **total income, out of which:** **76.981.989 Lei**
    - **Agigea Branch** **12.691.500 Lei**
- **total costs** **73.417.335 Lei**
- **gross profit/loss, out of which:** **3.564.654 Lei**
    - **Agigea Branch** **3.177.371 Lei**
    - **Orsova headquarter** **387.283 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 31.12.2016, the company's available funds in accounts amounted to 21.477.367 Lei, out of which:**
    - **6.166.492 Lei in the Lei account**
    - **15.282.156 Lei in the foreign currency accounts**
    - **14.505 Lei, petty cash**
    - **14.214 lei other values, in petty cash**

Main characteristics of the year 2016, compared with latest past years, could be shortly synthetized by:

- **Maintain of a low demand on the river vessel construction market, on whom our company has the activity, even if regarding the profitability viewpoint our company knows an important growth as against previous year, this thing was realized with very hard efforts of the entire company personnel, selling prices being forwards at a low level.**
- **Better capitalization in the year 2016 of the property advantage over those 5 vessels, technical self-propelled barges, detained at Agigea Branch, demand for letting this type of vessels being good; these vessels -with small periods of non-functioning- had letting contracts for the entire year, in present moment being let and work out of EU.**
- **Our good name which company has on the shipbuilder market in Europe, contributed in good measure at obtaining orders at the level of entire capacity in Orsova.**
- **In year 2016 was finished – in premier- for S.C. Santierul Naval Orsova, given that at the main headquarter in Orsova were built, in premiere, 2 sea going pontoons completely equipped, having followings main characteristics:**

    - **Length = 89.25 m**
    - **Width = 16.5 m**
    - **Height = 4.5 m**

These constructions were realized for BV SCHEEPSWERF DAMEN GORINCHEM Company from Netherlands. Also in 2016, and also in premiere, company finalized a ferry-boat construction, fully equipped, for a Romanian institution- Consiliul Judetean Caras-Severin.

More information and comments regarding these indicators and company's activity are presented in 4 point of the present report and in NOTES to the financial statements, which are attached to this report.

Realization of these constructions with a high-level complexity, as we showed in previous chapter, wasn't possible if the company would not be willing of technical endowments and specialists needed for this type of construction. Thus, endowments, technical culture, organizational system, specific technological fluxes for shipbuilding, allow execution and delivery of inland and maritime vessels of divert types and high complexity, of course, all these reported at the launching capabilities (following the slipway modernization).

Organizational structure and leadership of shipyard manifested a high degree of adaptability "just in time" for clients' request, allowing in the present time of any type of inland vessels hulls for general goods, containers, combustible transport tanker, chemical products, food products, pharmaceutical, passenger transport vessels and coaster vessels requested by the market.

Being aware that the company should maintain an appropriate equipment level in according with actual requests, was done major investments especially before the crisis, 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 have been imported, respectively: board cutting machines with numerical command, painting and blasting equipment, welding sources in gas protective environments, electrical cranes of 80+25 tonnes, but also modernization actions of already used equipments, both at headquarter in Orsova and even at Agigea`s subsidiary.

In the years 2013 and 2014 was done a work for modernization and capacity growing for launching and lifting up of Orsova's slipway, and in present are in course of modernization/repairing works for Agigea`s slipway. Same in Agigea follows as in 2017 to be repaired and modernized one of the technical self-propelled barge (Midia 21) after in the year 2016 was repaired and modernized Midia 6.

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

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; the quality management system was implemented according to ISO 9001.

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

- **Being part of medium-sized shipyard category it has a great capacity to adapt to market demands and it can quickly respond to business diversification trends;**
- **good locations for both the headquarters in Orşova (where Danube enters the country) and the Agigea Branch (Constanţa harbour);**
- **pollution is at normal levels, even if the in the latest period the company confronts with a lack of personnel, parallel with a growth of a medium age of personnel;**
- **personnel structure is balanced and correlated with the requirements of the technological process; skills level is good for all categories of staff, even in the last period company confront with a lack of personnel, parallelly with a growth of medium age of personnel;**
- **existence at the branch of 5 (five) hydroclap barges – lately there has been a sharp increase in rental requests for them, as it was shown;**
- **endowment with specific fixed assets is at an acceptable level, comparable to other competing shipyards; in this respect, before the current crisis, 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, for both the headquarters in Orșova and the Agigea Branch;

- **intra-community supplies and services / exports represent a significant part of the turnover (approximately 90%);**
- **for shipbuilding, there is a certain stability of intra-community clients (from Netherlands, Belgium, Germany, Austria), which demonstrates the company's seriousness;**
- **ships are sold through direct contracts with European seafarers or shipyards that reinforce ship hulls.**

The year 2016 bring not any major modifications in regards shipbuilding requests for marine/inland vessels, even most recent information from the ship market shows that the difficult situation registered in the latest will continue even on next years. This is the reason for whom we consider that a strategy for future should be realistic analyzed, in order to can find – continuously- prices and financing policies to assure activity continuity in performance and competitively conditions.

1.1.2. Assessment of the technical supply activity (domestic sources, foreign sources imports).

In the year 2016 compared to prior year, there were no major changes in terms of supply sources. Equipment was mainly bought from domestic ISO certified suppliers according to the European norms and standards and only a small extent, of approximately 2% of total supplies comes from other companies from the European Community. 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 paint for river/marine ships. Also, according to the handover conditions, the transport of ships to Germany/Netherlands was mainly done with non-resident services providers (DUWVAARTONDERNEMING JOSON BV – OLANDA, KLINK & KNUPPEL – GERMANIA, VIGILIA TRADING BV – OLANDA). A part of vessels transport was realized with a domestic company CNFR NAVROM Galati, on the route Orsova-Regensburg.

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 were:

- **S.C. ARCELOR MITTAL STEEL Galaţi: for medium and thick plates;**
- **S.C. TRIVALENT SRL RM. VALCEA: for black steel pipes, L profiles**
- **S.C. COS SA TARGOVISTE profiles and laminated;**
- **S.C. FRANKSTAHL ROMANIA BUC. profiles and laminated**
- **S.C. PLASMASERV SRL TG. MURES plasma cutting machines spare parts**
- **S.C. DUCTIL Buzău: welding consumables;**
- **S.C. LINDE GAZ Timişoara: technical gases;**
- **S.C. NIMFA COM SRL BUC.: pipes and various profiles;**

- **S.C. PENTAGON SRL TECUCI:** grinding stones;
- **S.C. DAMILA SRL RM. VALCEA** pipes and L profiles
- **S.C. ROMCASA PROD SRL ORSOVA** metal construction and transport
- **S.C. METAL TRANS S.A. Galati** manholes

The main foreign supplier of materials was JULIUS HANDELS GMBH from Austria for profiles and pipes.

The collaboration with sub contractors continued in 2016, at a higher level than previous year. It was imposed this growth of works executed in sub contracting regime specially caused by some syncope appeared in production process, caused, by one hand, by the missing of qualified work force, and on the other hand caused by some delays due to the extremely unfavourable weather conditions and some strangulation on the manufacturing flux. Among the most important collaboration companies are:

- **S.C. PRIMORDIAL SRL Orşova – ship painting;**
- **S.C. SCOICA MAR SRL CONSTANTA – metal constructions;**
- **S.C. GRIMEX SRL TARGU JIU – ship equipment parts and metal constructions**
- **S.C. KRAFT SHIPBUILDING SRL Dr. Tr. Severin – for metal constructions**
- **S.C. SEVERNAV SA Dr. Tr. Severin – metal construction**
- **S.C. EUROBLASTINK REPARATII SRL – ship painting**

1.1.3. Assessment of sales activity

Turnover knows a significantly growth in the year 2016, towards past year (more than double), factors which contributes to this will be presented forward; realized turnover was especially done on the basement of external deliveries and performances: intra-community area for vessels built in Orsova and extra-community for incomes from vessels hiring from Agigea subsidiary.

From 14 vessels finalized and delivered in Orsova in 2016, 13 was delivered in the West-European market, and one was delivered in Romania.

Below is 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:

CLIENT / BENEFICIARY	YEAR 2014	YEAR 2015	YEAR 2016
Rensen Driessen Shipbuilding B.V. (NL)	70%	60%	47,2%
Driessen Shipmanagement (NL)	12%	-	-
DAMEN GROUP (NL)		22%	25,2%
Vos Kaiser GmbH (DE)	-	-	7,0%
WPI SHIP Building BV (NL)	-	-	6,3%
W.A.T. Driessen Holding B.V.(NL)	-	-	5,4%
Consiliul Județean Caraș Severin (RO)	-	-	5,2%
BF Don Quichot B.V. (NL)	-	-	3,7%
Zanen Shipbuilding B.V. (NL)	18%	-	-
GEFO GESELLSCHAFT MBH GERMANY	-	18%	-
TOTAL	100%	100%	100%

Even registered a decrease of share from total sells, towards latest 2 years, group of companies DRIESSEN continued also in 2016 to have first position regarding volume of deliveries (47.2 %+5.4%). In the previous year Rensen Driessen Shipbuilding BV detained 60% from total sells. Contracts already signed for 2017 shows the fact that the percent detained by Rensen Driessen company, from total sells continue to grow.

For all these supplies, the contractual payment terms were ensured either through irrevocable letter of credit 100% or by advance payments of up to 10% and payment of the difference through letter of credits.

For the future, 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:

- Domestic – all shipyards

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

1.1.4. Assessment of aspects related to employees / company staff

Lack of personnel continues to manifest even in the year 2016, 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:

- **at 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 staff number, this fact forced and forcing us to outsource some metal construction works**
- **Not on the last place it is about professionalism of the new hired staff, as long as it is not concurrency at hiring moment.**

Outs of employees, along the 2016, in total number of 75, was realized by:

- **retirements: 14**
- **fires at the employer initiative: 13**
- **individual working contracts expire: 2**
- **agreed by the parties: 46**

To can solve, just in part, this personnel lack, company started in the first days of 2016 a course for training at working place, in the basement of Ord. 129/2000 regarding training for adults, for 23 welders.

A permanent concern of company management was to improve employee staff, following this up to make permanent in the next period, in accordance with the provisions of the Labor Code.

The average number of employees throughout 2016 is 331 compared to 333 employees in the prior year. As of 31.12.2016 the number of employees was of 331, out of which 282 at the headquarters in Orşova and 49 at the Agigea Branch.

Out of the total number, as of 31.12.2016, the situation per activity sectors is as following:

- **329 – industrial activity**
- **1 – medical activity**
- **1 – canteen activity**

The structure is as following:

- **43 – technical, financial, professional and administrative staff, out of which:**
  - **36 persons in Orşova (out of which, 31 with higher education);**
  - **7 persons in Agigea (out of which, 5 with higher education).**
- **4 - foremen, out of which 4 in Orşova;**
- **284 - workers, out of which:**
  - **242 persons in Orşova;**
  - **42 persons in Agigea.**

Personnel structure in terms of gender is as follows:

- **men – 275 persons (272 in prior year);**
- **women - 56 persons (58 in prior year).**

Two unions are legally set up at company level.

Out of the total number of employees, approximately 91% are union members and there are good relationships between management and employees.

Other aspects related to employees / company staff are presented in the NOTES to the financial statements, which are attached to this report.

1.1.5. 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 SC 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/CE and Habitats Directive 92/43/EC), given that the entire company's activity is developed in an area protected by law, 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.

Deserve to be mentioned maintenance of insignificant impact of 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 water heating electrical centrals, with 36 kw power each, and one of 24 KW, type ROMSTAL EKCO. L.1.

During 2016, the company fulfilled all the obligations resulting from 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. 112/26.04.2016, being not present any event having a negative impact on the environment.

1.1.6. Assessment of research and development activities

During 2016 the company did not record any research and development expenses, and for 2017 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 prior years with the right to use them at new constructions to be done in the future.

1.1.7 Assessment of company activities regarding risk management

Starting to the specific main activity of 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, caused by 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 company felt and still feel, fully, effects of economical and financial worldwide crisis.

Therefore, 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, decrease of ship request, accompanied by lowering of selling prices, as an effect of worldwide economical crisis, affected in latest years, including 2016, directly, company's activity.

To overcome this difficult period, executive staff should initiate actions and program aimed at helping with costs management. 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 2016, the company made some transactions for covering the currency risk (hedging).

These operations with derivates was beneficent, being concluded at a parity, more over than the official one from respective period, which contributes in a big measure at assurance of supplementary financial incomes to contribute to coverage of expenses of this nature.

Also, to assure a better security of informatics system and data basis, along the year 2016 was finalized project of reconstruction of computer network and bought an informatics system

based on Oracle technology and a Domain Controller. This project will be finalized in the beginning of 2017.

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

1.1.8. Perspectives on the company's activity

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

- **the company has over 26 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 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 company, has concluded contracts for 2017 which assure 80% of production capacity for 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 8 ships (hydroclap 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. In 2016, part of Agigea Branch's capacities was used for finalising works at the second BT4500 coaster ship, partially executed at the headquarters in Orșova. In present time both coaster vessels type BT4500 are finalized and ready for delivery, if the existing litigation on the role of Arbitration Court in Rotterdam will solution in favour of SNO.**
- **Having in mind concluded contracts, production structure and salary costs evolution for 2017 and those with raw materials and materials, the company has foreseen in the Budget of income and expenses a volume of incomes decreased in comparison, with past year, with cca. 20%. Gross profit budgeted for the year 2017 will know also a decrease cca. 12% (realized in the year 2016 :3.564.654 lei, budgeted for 2017: 3.131.000 lei).**
- **the company also intends for 2017 to have higher investments compared to 2016, mainly consisting in:**
  - **Continue works for finalising the modernisation of the slipway at Agigea; this will increase safety of ships lifting-launching operations;**
  - **Improvement and modernization of office building in Orsova and Agigea Branch**
  - **Reconstruction of clean/potable water and sewage network**
  - **acquisition of an autocrane of 80to**
  - **purchase of welding devices;**
  - **IT equipment for data security and modernisation of computer network;**
  - **running of septic tanks for wastewaters;**
  - **repairing and modernising hydroclap barges at Agigea Branch (MIDIA 21);**
  - **retrofit for oxy gas cutting machine in Orsova**
  - **abkant buying of 6 m between columns,etc.**
  - **profile storage crane modernization**
  - **plasma pipe cutting machine**

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2. COMPANY'S FIXED ASSETS

2.1. The company's main production capacities are located at the headquarters in Orşova (4 Tufări Street, Orşova, Mehedinţi county), and at the branch in Agigea, at the premises of Constanţa South Harbour, Constanţa County.

a) The fixed assets at the headquarters in Orşova are mainly the same like in prior years, but in 2014 the company finalised the modernisation of the skid runner, as already mentioned:

- **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 recently modernized (year 2014) ;**
- **a technological platform that allows the simultaneous assembly of 5 ships and the execution of sections and block sections related to shipbuilding;**
- **5 portal cranes of 80+25 t purchased in recent years for the assembling platform and 2 portal cranes of 16 t purchased in 2009 together with 2 magnetic beams for handling plates in the plates warehouse and the blasting station; 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 2 with OMNICUT plasma, commissioned in 2007 and 2009 respectively;**
- **ACU 9L8 compressors (4 pieces) from HAFI, purchased in 2007, for replacing the old ones that had a much lower yield;**
- **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.**

The company owns 90,715 square meters of land, confirmed by Land Registry excerpts, as following:

- **administrative building (including household annex) - 85,790 square meters;**
- **Graţca area - 4,925 square meters.**

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, being execute cadastral work for registration of this, following as along the year 2017 to be taken a decision regarding his utility, in present time being unutilized. The land of 57,710 square meters in Agigea, where the branch currently develops its activity, is property of the State-Owned Company

“Administraţia Porturilor Maritime Constanţa” (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 2016 was done a series of expenses for repairing and modernizations at the vessel barge MIDIA 6, and slipway.

Regarding the slipway, within year 2015 was done e 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.

The branch’s main fixed assets are:

- **8 marine ships of different types and capacities, out of which:**
    - **5 MIDIA hydroclap barges 940 m^3 (with own propulsion);**
    - **2 marine tub-boats of different powers;**
    - **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 portal 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 traveller bridge 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 wear degree

At 31.12.2016 the company proceeded to re-evaluation, in scope of report by accounting financial situation, of some fixed assets, in according with accounting policies of the company. It is about buildings group and ships group.

The net book value of the company's non-current assets as of 31.12.2016, after revaluation of the transportation ships performed at the end of this year and after reclassification of some fixed assets from property investments to buildings according to IFRS is presented below:

DENOMINATION	BALANCE AS OF 01.01.2016	BALANCE AS OF 31.12.2016
LAND	1.220.578	1.220.578
CONSTRUCTIONS	20.984.189	19.028.061
TECH. INSTAL. AND TRANSP. MEANS	16.979.754	15.343.289
OTHER INSTALL, EQUIP. AND FURNIT.	84.271	68.168
REAL ESTATE INVESTMENTS	-	-
ASSETS IN PROGRESS	141.163	691.499
TOTAL	**39.409.955**	**36.351.595**

The revaluation was performed by a company authorised by ANEVAR (*National Association of Certified Evaluators)*, and the results were recorded and disclosed in 2016, company has done a special report in regards to results about this operation detailed, in order to be presented to share holders 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 31.12.2016. For this category of fixed assets, the company has built up impairment in amount of 287.458,76 Lei, from whom:

- **32.475,91 lei for building headquarter in Agigea**
- **254.982,85 lei for the rest of fixed assets in conservation at the headquarter of the Agigea Branch.**

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

Currently, the company had a file at Orșova Courthouse for a claim related to the recovery of 2,595 square meters of land hold at the former household annex, for which it holds the property title. This action constituted in the past years and besides the land restitution, the applicant, Oprescu Maria, natural person, also solicits compensation of 1,203.84 Lei and claims of 60,000 Lei. In this inflict was disposed a technical judicial expertise and after a completion to the expertise report. Along 2016 this dossier was finished, fond instance rejected the request of judgement calling from the applicant. Also Court rejected the appeal formulated against civilian sentence no. 184/26.05.2016, pronounced by Orsova Courthouse.

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 S.C. 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. S.C. Depozitarul Central S.A. keeps the shareholders' registry, according to the contract no. 24494 dated 17 May 2007.

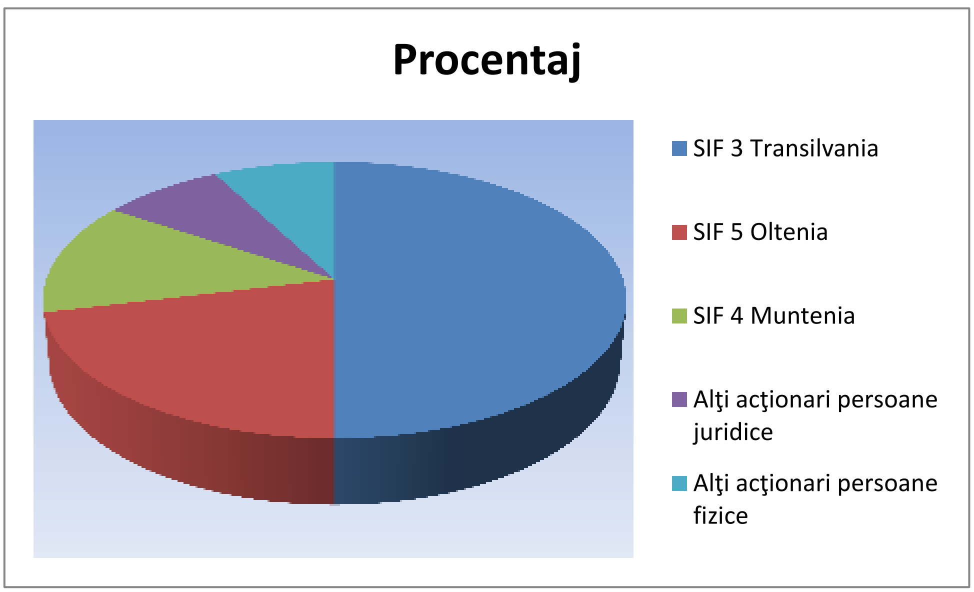
The company's securities are not traded on other domestic or foreign markets.

The share capital of S.C. Şantierul Naval Orşova SA did not register changes in 2016.

According to the shareholders' registry, as of 31.12.2016 the structure of shareholders is as following:

Number of shares		Amount (Lei)	Percentage (%)
SIF 3 Transilvania	5.711.432	14.278.580	49,9998
SIF 5 Oltenia	2.421.858	6.054.645	21,2017
SIF 4 Muntenia	1.504.600	3.761.500	13,1717
Other shareholders – juridical persons	895.739	2.239.348	7,8416
Other shareholders - individuals	889.290	2.223.225	7,7852
	11,422,919	28,557,298	100.0000

SIF = financial investment company



The subscribed and paid in capital is of 28,557,298 Lei, divided into a number of 11,422.919 dematerialised shares, each in amount of 2.50 Lei.

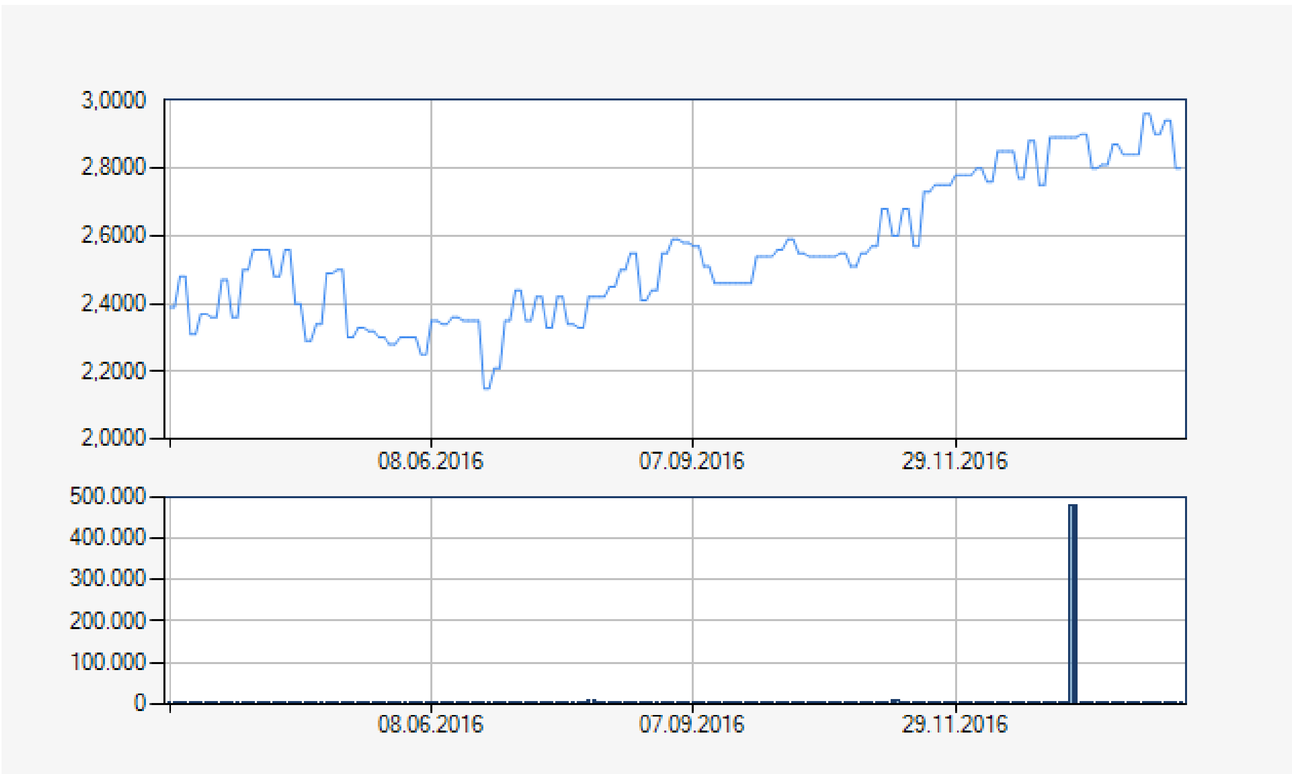
Compared to the shareholder's structure as of 31 December 2015, was not essentials modifications, it has been found, however, a small decrease of shares owned by juridical persons by growth of SIF5 holdings. The company's shares are nominative, dematerialised, ordinary and indivisible.

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 the law, each share subscribed and paid in by shareholders gives them the right to a vote in the General Assembly 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 is presented below:



As it can be see, variation interval was included between 2,04 lei/share and 2.96 lei/share (45%).

3.2. Description of company's policy on dividends

In the latest years, approach regarding net profit was different, in according with the level of profit, shareholder's interests and respecting the legal dispositions.

Up to 2009, as long as amounts in the income statement were more significant, the General Assembly of Shareholders approved the distribution of dividends from net profits, which represented approximately 50-60% of net profits. The value in Lei/share was between 0.4-0.75 Lei/share.

Size, in absolute value of the brute dividend per share, was established in according with performances of the company.

In entire period where it was approved dividends distribution, their pay was done in the term concluded by General Assembly of Shareholders, being not registered delays and complaint from share holders.

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

In the year 2012 and 2013, company registered losses, as it can not be possible dividends distribution.

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

2016`s profit follows to be partially used for dividends distribution and as own financing source, as it is mentioned in at the point 4.3 in present report, after losses coverage from reserves and other elements of own capitals, in according with decision of ordinary general meeting of shareholders.

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 2016 or in prior years, hence there are no liabilities towards holders of such securities.

3.6. The General Assembly of Shareholders of 17.04.2015 appointed the company's new Board of Directors consisting of 5 members, for a period of 4 years, with the following structure:

- **Mr Fercală Mihai - president**
- **Mr Firu Floriean - member**
- **Mr Ionescu Lucian - member**
- **Mr Voiculescu Dan - member**

This is a translation of the Romanian original version of the report. In case of any disputes, the Romanian language version prevails.

Following, during the year 2016, in the general meeting of shareholders from April 2016, Board of Directors was completed with the fifth administrator, being chosen in this function Mr. Pantea Marius Ion.

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.

Related to the board members, we mention that interested parties can obtain more information from the company's web site www.snorsova.ro, section: About → contact.

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 2016, 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 2016 refer to: organizational measurements precursory to General Assembly of Shareholders from 15.04.2016,analysis of fixed assets revaluation from 31.12.2015, achievements compared to the provisions from the income and expenses budget, substantiation of income and expenses budget, approval of external contracts, analysis of developments in the litigation with VEKA Netherlands at the Court of Arbitration in Rotterdam, analysis of some nonconformities at Code of Corporate Governance, 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 decommissioning, approval of various salary-related claims coming from unions, solving various current issues on the meeting agenda, etc.

3.7. As regards 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.

At the beginning of 2015, following to some organizational measurements and new flowchart approved by administrators, was disbanded the post of Production Manager, thus as 31.12.2016 the executive management has the following structures:

- Ing. Sperdea Mircea	**-**	**General Manager**
- Ec. Caraiman Gheorghe	**-**	**Economical Manager**
- Ing. Stoinel Florin	**-**	**Technical Manager for Production Preparation**
- Ing. Cândea Alexandru	**-**	**Agigea`s Branch Manager**

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 deputy 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. 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 2016, Mr Sperdea Mircea held a number of 12,000 shares, representing 0.11 % of the share capital.

Mr Caraiman Gheorghe was transferred in 1992 from S.C.Textila Cazanele Orşova from the same position, and as of 31.12 2016 he held a number of 1,000 shares, representing 0.01% of the share capital.

Mr Stoinel Florin graduated the Mechanics Faculty of the Timisoara "Politechnica" University in 1995 and was immediately employed as an engineer with the Design Department of S.C. Şantierul Naval Orşova SA. During 01.10.1998 - 14.11.2005 he was the head of the Design Department and on 15.11.2005 he was appointed technical manager in charge with manufacturing. As of 31.12.2016 he held a number of 400 shares in S.C.Şantierul Naval Orşova SA.

Mr Cândea 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 Construcţii Maritime SA Constanţa, being transferred from MIHEI Shipping Constanţa 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. As of 31.12.2016, 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.

3.8. 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.

3.9. Other aspects on CORPORATE GOVERNANCE

The General Extraordinary Assembly 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 adaptions 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 S.C. ASSOCIATED BUSINESS AUDITORS S.R.L. Timişoara. More details regarding honorarium and other information can be found in Notes at the financial situations.

Company has published on his own website www.snorsova.ro **stage of conformation with code of corporate governance relevant at 31.12.2015. According to the provisions of the Corporate Governance Code of Bucharest Stock Exchange, the issuer S.C. Șantierul Naval**

Orșova S.A. publishes on its website details of maximum importance for shareholders, respectively:

- **general meetings details regarding course of him:**
  - **convenors**
  - **materials related to the agenda**
  - **special proxy model**
  - **shareholders' rights and the rules and procedures of participation to the general meetings**
  - **decisions taken in the meetings**
  - **detailed results of the vote**
- **current reports, media notes**
- **financial calendar**
- **reports with annual, biannual, quarterly financial information**
- **information on the members of the board of directors and executive management, including contact details**
- **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. Board of Directors election has as basement a transparent procedure, candidatures being public.

The company performs activities related to social responsibility and environment, and instructed employees are appointed for handling these issues.

However, towards the year 2015 when in according with Report regarding stage of conformance with code of corporative governance was published, existed some stipulations from CCG which company doesn't accomplished, during the year 2016 was solved part of them, from whom we remember:

- **starting with year 2016 all published materials are in Romanian and English language**
- **in April 2016 was completed the Board of Directors with the fifth member**
- **in the present moment are in elaboration and approval stage :**
  - **internal standing orders of Board of Directors with his responsibilities, management key functions of the company and interests conflicts**
  - **issuance of a policy with regards to forecasts**
  - **procedure of Administrator evaluation**

Having in mind shareholders structure, in according with whom 85% of shares are owned by the three SIFs (SIF3, SIF4, SIF5) administrators was proposed/elected as being the representative of them, as in this moment none of the administrator it is not independent.

4. FINANCIAL-ACCOUNTING SITUATION

Starting with 2012 year, in the basement 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 approval of the Accounting regulations in conformity with

International Standards Reporting Standards, applicable to by companies whose securities are traded on a regulated market, the company passed to these standards reporting.

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

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 of 08 February 2013, the Board of Directors has approved this HANDBOOK.

The audit of the financial statements for 2016 was performed by A.B.A. AUDIT SRL Timisoara, based on contract no. 405/22.07.2013, which initial validity was for 2 years and subsequent was prolonged, by GMS in April 2015, for 2 more years (until April 2017).

4.1. Financial position as of 31.12.2016

According to IFRS, as of 31.12.2016, the financial position compared latest 2 years is as following:

ASSETS, LIABILITIES, EQUITY	*31.12.2016 Lei*	*31.12.2015 Lei*	*31.12.2014 Lei*	*YEAR 2016/2015 GROWTH/ DECREASE (%)*
I. Total tangible assets, out of which:	**36.351.595**	**39.416.407**	**38.424.322**	**92,2**
- land and constructions	20.248.639	22.204.767	20.706.695	**91,2**
- technical installations and transportation means	15.343.289	16.986.206	16.781.898	**90,3**
- other tangible assets	759.667	225.434	935.729	**336,9**
II. Intangible assets	**56.102**	**89.139**	**11.630**	**62,9**
III. Real estate investments	**0**	**0**	**852.504**	**-**
IV. Other non-current assets	**138.554**	**63.506**	**146.000**	**218,2**
A. TOTAL NON-CURRENT ASSETS	**36.546.251**	**39.569.052**	**39.434.456**	**92,4**
I. Inventories	**38.953.852**	**57.377.477**	**37.941.253**	**67,9**
II. Trade receivables and other receivables	**3.944.403**	**2.976.149**	**1.217.185**	**132,5**
III. Other short-term financial investments	**0**	**0**	**0**	**-**
IV. Cash and cash equivalents	**21.477.367**	**8.399.122**	**12.409.408**	**255,7**
V. Receivables related to current tax	**0**	**0**	**12.509**	**-**
VI. Expenses paid in advance	**42.990**	**59.669**	**70.322**	**72,1**
B.TOTAL CURRENT ASSETS	**64.418.612**	**68.812.417**	**51.650.677**	**93,6**
TOTAL ASSETS	**100.964.863**	**108.381.469**	**91.085.133**	**93,2**
I. Equity	**28.557.298**	**28.557.298**	**28.557.298**	**100,0**
II. Social capital adjustments	**23.496.414**	**23.496.414**	**-**	**100,0**
III. Share premium	**8.862.843**	**8.862.843**	**8.862.843**	**100,0**

ASSETS, LIABILITIES, EQUITY	*31.12.2016 Lei*	*31.12.2015 Lei*	*31.12.2014 Lei*	*YEAR 2016/2015 GROWTH/ DECREASE (%)*
IV. Reserves	53.243.274	53.271.082	51.130.304	99,9
V. Other reserves from IAS29 application	16.962.110	16.962.110	-	100,0
VI. Profit/Loss of the year	2.792.859	396.807	4.641.541	703,8
VII. Profit/Loss carried forward	(1.075.167)	(1.718.437)	(6.356.370)	62,6
VIII. Carried forward coming fom first time application of IAS29	(40.458.524)	(40.458.524)	-	100,0
VI. Profit distribution	(178.216)	(29.545)	(236.841)	603,2
VII. Other equity elements	(3.721.670)	(3.918.225)	(3.243.065)	95,0
C.TOTAL EQUITY	88.481.221	85.421.823	83.355.710	103,6
I. Liabilities related to deferred tax	3.721.670	3.918.225	3.243.065	95,0
D. TOTAL LONG TERM LIABILITIES	3.721.670	3.918.225	3.243.065	95,0
I. Short term loans	-	10.449.333	-	-
-II. Trade payables and other payables, including derivatives	8.167.598	8.143.405	4.004.320	100,3
III. Provisions	594.374	448.683	482.038	132,5
E. TOTAL CURRENT LIABILITIES	8.761.972	19.041.421	4.486.358	46,0
TOTAL EQUITY AND LIABILITIES	**100.964.863**	**108.381.469**	**91.085.133**	**93,2**

<u>Non-current assets</u>: This category of assets, even totally registered a decrease of 7.6 % against last year, especially on a value loose on account of amortization, in his structure it can be observed a growth of positions of other corporal assets, growth which is reflected by position of corporate assets in course of execution. A significant growth it is registered also at the position intangible assets representing amount immobilized for custom taxes and debts regarding postponed impost

<u>Stocks</u> registered an important decrease with 32.1 %, specially based on the production in execution (33.36%) and stocks from raw materials depot. Big fluctuation of in progress production, from a period to another, can be explained by the long cycle of manufacturing for the vessels. Year 2016 knows an important growth of sells (double) against 2015, so this growth felt in the unfinished production volume at the end of 2016.

<u>Trade receivables and other receivables</u> In total active assets, a significant growth it is meet also at trade receivables and other receivables, especially on the base of the sold of invoices remained not cashed at 31.12.2016 at Agigea Branch (a growth of 144.77%).

<u>Cash and cash equivalents,</u> registered an increase with 155% against year 2015, as a consequence of the fact that the company succeed to cash up totally the vessels delivered in the year 2016 at the headquarter.

<u>Totally, current assets</u> knows a decrease of 6.4%.

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

<u>Of the equity and liabilities elements</u> we highlight:

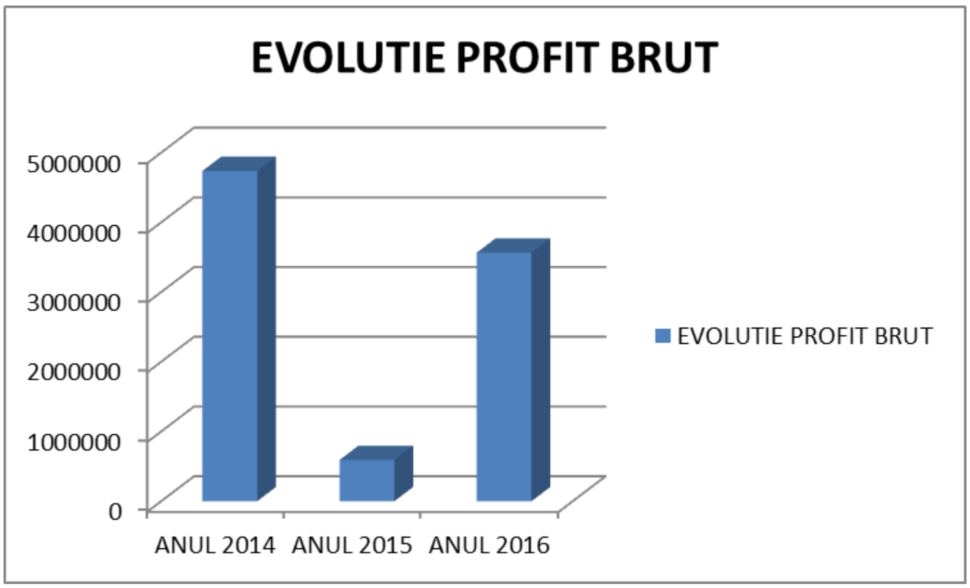
- **position of the exercise which registered a growth of more than seven times; while in the year 2016 was more profitable than the previous year; meanwhile the year 2015 realized profit was of 396.807 lei, at 31.12.2015 this is 2.792.859 lei.**
- **Short-term bank-loans: at the end of the past year company had no credits whilst at 31.12.2015 volume of these growth at 10.499.333 lei, while on 31.12.2016 the company had no loans**
- **Provisions knows also a growth of 32%, especially on the base of not done holidays.**

4.2. PROFIT AND LOSS (COMPREHENSIVE INCOME)

In the year 2016 company knows a good rentability, being inside the prevails of budget for incomes and expenses, rate of brute profit being 4.7%, calculated as a report between brut profit and total incomes. In comparison with previous year brut profit knows a growth of more than six times, as results below:

- Gross profit provisioned in BIE year 2016	**3.400.000 lei**
- Gross profit realized in 2016 year	**3.564.654 lei**
- Gross profit obtained in 2015 year	**590.898 lei**

An evolution of the brut profit for the past 3 years it is shown in below diagram:



As we shown at the point 1.1.1 from the present report, activity at Agigea Branch, consisting in special in vessels hiring (hydro clap barge type MIDIA) and vessels reparations, was the one whom sustained more this result, meantime the shipbuilding activity from headquarter in Orsova was profitable, even over that was budgeted, representing a qualitative step comparative with previous year when registered a loss of 1.317.937 lei

In the below table are played, synthetic, in structure, 2016-year realization comparative with those from the previous year and with prevails from BIE, with accurate of income and expenses of these 2 years was presented in according with regulations from OMFP no. 2844/2016 for approval of regulations in conformance with IFRS.

INDICATORS	*ACHIEVEMENTS PRIOR YEAR (2015)*	*FI NANCIAL YEAR 2016*			*COMPLISHMENT DEGREE (%)COMPARED TO:*	
		INCOME AND EXPENSES BUDGET PROVISIONS	*ACHIEVEMENTS*	*FROM WHOM IN AGIGEA BRANCH*	*ACHIEVEMENTS 2015*	*INCOME AND EXPENSES BUDGET PROVISIONS*
TOTAL INCOME, out of which:	**38.441.679**	**78.983.960**	**76.981.989**	12.691.500	**200,2**	**97,5**
- Operating income	**37.226.748**	**77.783.960**	**75.841.447**	12.480.773	**203,7**	**97,5**
- Financial income	**1.214.931**	**1.200.000**	**1.140.542**	210.727	**93,9**	**95,1**
TOTAL EXPENSES, out of which:	**37.850.781**	**75.583.960**	**73.417.335**	**9.514.129**	**194,0**	**97,1**
- operating expenses	**36.611.800**	**74.383.960**	**72.363.795**	**9.266.780**	**197,7**	**97,3**
- financial expenses	**1.238.981**	**1.200.000**	**1.053.540**	**247.349**	**85,0**	**87,8**
GROSS PROFIT / LOSS BEFORE TAX, out of which:	**590.898**	**3.400.000**	**3.564.654**	**3.177.371**	**603,3**	**104,8**
- operating profit/loss	**614.948**	**3.400.000**	**3.477.652**	**3.213.993**	**565,5**	**102,3**
- financial profit/loss	**(24.050)**	**-**	**87.002**	**(36.622)**	**361,8**	**-**
CURRENT AND DEFERRED PROFIT TAX (PAYABLE OR RECEIVABLE -/+)	**(194.091)**	**(516.800)**	**(771.795)**	**-**	**397,7**	**149,3**
NET PROFIT / LOSS	**396.807**	**2.883.200**	**2.792.859**	**-**	**703,8**	**96,9**
NUMBER OF SHARES	**11.422.919**	**11.422.919**	**11.422.919**	**-**	**100,0**	**100,0**
NET PROFIT / LOSS PER SHARE (Lei/share)	**0,0347**	**0,2524**	**0,2445**	**-**	**704,6**	**96,9**

4.2.1. Analysis of operating activity

In 2016 was finalized and delivered a number of 14 vessels (in 2015: 5 vessels), in total value of 13.957 thousands euro (in 2015: 5.852 thousands euro), respectively 62.078 thousands lei (in 2015: 26.047 thousands lei), at a medium parity of 4.4930 lei/€ (in 2015: 4.4508 lei/€), against a rate of 4.5 take in consideration in BIE basement. This important growth o sells it is caused on the first place by the specific of our activity, respectively long term manufacturing products, but also to the structure of production.

So, at the end, of past year was in unfinished production 3 vessels, which was almost finished, but was finalized and delivered at the beginning of the year 2016.

In the current year was delivered following types of vessels:

- **2 pontoons**
- **6 tanker vessels of 40-110 m long**
- **2 barges of 76-88 m long**
- **3 container vessel with 110 m long**

- **1 ferry-boat with 2 pontoons**

Decline of the vessels market registered in the past years, as a consequence of movements produced on external market, special decrease of the goods transport volume, but also of the big number of the vessels in progress, at divert shipyards worldwide, continued also in 2016 as it was shown.

Even, same condition, SC SANTIERUL NAVAL ORSOVA SA succeded to have covered full capacity in Orsova and Agigea branch, where were succeeded all 5 vessels to be external hired, on a period which covers 2016/2017.

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.

4.2.2. Analysis of financial income and expenses

As it was shown, more of 95% from company's income was mainly coming from foreign sales and services, it was permanently exposed to the foreign currency risk (parity Lei/Euro). On the other hand, payments towards part of the suppliers, among them the plate supplier S.C. ARCELOR MITTAL STEEL Galaţi being the most important, have also been performed in Euro.

For all year 2016 company continues protection measures of rate protection, by hedging operations, gain from these transactions being over 200.000 lei. So, from financial activity registered a profit of 87.002 lei (previous year registered a loss of 24.050 lei). More information in connection with respective influences can be done in Notes to financial situations.

Company had contracted bank credits in the first trimester of year 2016, after, caused by the rhythm delivery/cashing up, was not necessary contracting more credits. In 31.12.2016, company had no credits and enough available amounts in account to can financial sustain activity from his own sources.

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

4.2.3. Provisions and impairment

At 31.12.2016 company, analyzing seniority of materials stocks, of some vessels existing in progress, of which selling value is estimated to be under the costs level registered `till now, also the shares detained to other companies, litigious receivable proceeded to an increase or decrease of those already constituted, in according with real situation of them, resulting the following situation (provisions sold and depreciations at the end of the year):

		- Lei-
a)	**For impairment of tangible assets**	**287.458,76**
b)	**For impairment of financial assets (shares hold at KRITOM Greece (Crete)**	**684,495,00**
c)	**Provisions for litigation, guaranties and holidays**	**594.374,00**
d)	**Adjustment for impairment of inventories**	**7.176.048,41**
e)	**Adjustment for impairment of receivables (clients/debtors)**	**3.556.934,33**

TOTAL PROVISIONS AND IMPAIRMENT 12.299.310,50

Compared to prior year it can't be seen major changes in his structure.

Regarding volume of depreciation, cca. 94%from total amounts represents depreciation for those two coaster vessels coaster type, for whom the company is in a litigation, for many years with Dutch company Veka; description of this litigation it can be found in point 4.5 from present report.

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

4.3. Analysis of profit/loss of the year and net profit distribution

Gross profit realized at 31.12.2016 it is in amount of 3.564.654 lei. Given the legal provisions on profit tax calculation, the company has considered the non-taxable income and the non-deductible expenses for its determination, as these are similar to income/expenses elements.

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

Non-deductible expenses consist of provisions for litigations, impairment of current assets, tangible assets and financial assets, bad debts, untaken holidays related to 2016 and other salary rights, fines and penalties and other expenses, including sponsorships.

A detailed presentation of these income and expenses elements can be found in the Notes to the financial statements, which are an integrant 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	3.564.654
2.	Profit tax	771.795
3.	**Net profit (1-2),**	**2.792.859**
4.	Legal reserves (5%)	178.216
5.	**NET PROFIT TO BE DISTRIBUTED**	**2.614.643**

We are mentioning that the company still has registered in the account of reported result (account 1177 the amount of 33.995,30 lei profit resulted after passing to IFRS`s application (operation done in 2012)).

As of 31.12.2016, the company has registered in account 117 "Profit/Loss carried forward" and account 118 "Reported result coming from adoption for the first time of IAS 29" following amounts:

- **5.907.571,68 lei (account 1171), representing losses uncovered previous years (2012 and 2013 years)**
- **11.339 lei (account 1174) representing losses from bookkeeping errors**
- **40.458.523,95 lei, accounting loss resulted from first time adoption of IAS 29.**

Given the above, the Board of Directors of S.C. Şantierul Naval Orşova SA suggests to the general assembly of shareholders as in according with art. 19 from Law No. 82/1991 Law of accounting, of points 176-178 from first annex of Order no. 2844/2016 for accounting regulation in according with IFRS, also art. 73 of Law no. 31/1990, republished, with ulterior modifications (Law of companies) to approve:

- **Previous years losses cover remained uncovered in amount of 5.907.571,68 lei, also losses resulted from accounting corrections in amount of 11.339 lei, and other reserves (account 1068 representing net profit distributed in previous financial exercises as own financing sources)**
- **Approval of losses from accounting losses resulted from first time adoption of IAS29, respectively amount of 40.458.523,95 lei, existing in debt at the account 118 "Reported result coming from adoption for the first time of IAS 29" using follows own capitals:**
    - **Account 1028 "Social capital adjustments", for the amount of 23.496.413,77 lei**
    - **Account 1061.02 "Legal reserves for IAS29 application", for the amount of 6.618.312,95 lei**
    - **Account 1068.02 "Other reserves from IAS29 application" for the amount of 10.343.797,23 lei**
- **Approval of apportionment of the amount 33.995,30 lei, resulted profit from IFRS appliance, as own financing source**
- **Approval of net profit distribution afferent to the year 2016, in amount of 2.614.643 lei, determined as before showed, on the following destinations:**
    - **2.284.583,80 lei as dividends, representing 0,2 lei/share**
    - **330.059,20 lei as own source of financing (at the company disposal).**

4.4. Cash flow, financial resources, investment expenses, payment of liabilities.

For a normal activity progress (financial resources assurance, on one hand and bank guarantees letter and opening L/C import) company continued also in 2016 to beneficiate of banks sustain, in according with real needs of the company. In the year 2016 company asked to be decreased the ceiling for the multi-options and multi foreign exchange, approved by BRD, from 3 million euros to 2 million euros, ceiling proved to be enough for financing company needs.

Same time beneficiates of a limit for currencies risk covering in amount of 906.000 euro.

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 400.000 EURO.

These ceilings were used specially for issuance of bank guarantee advance payment letters and credits engagements.

As of 31.12.2016, BRD had issued for our company a number of 3 (three) guarantee letters in total amount of 280.700 € and 231.024,66 RON from whom:

- **1 letter of bank return advance payment for advance payment guarantee in amount of 190.500 €, for Dutch company Rensen-Driessen Shipbuilding, availability until 30.09.2017**
- **1 letter of good execution bank guarantee, issued in favour of Consiliul Judetean Caras-Severin, in amount of 90.200 € availability until 20.07.2017**

- **1 letter of good payment guarantee in amount of 231.024,66 lei, availability until 31.01.2018, issued in favour of Compania Nationala Administratia porturilor maritime Constanta.**

Investment expenses decreased in 2016 by 39% compared to prior year. In figures, the volume of investment expenses amounts to 2.181.180 Lei (in 2015: 3.582.470 Lei), out of which:

- **840.669 Lei in Orșova**
- **1.340.511 Lei in Agigea**

As from the BIE it is registered a realization degree of 61%. Some of unrealized objectives from the 2016 schedule was included again in schedule for 2017.

As in the past year most important investments volumes was registered in Agigea Branch, where was expenses with repairing and modernization of the barge "MIDIA 6" and to the slipway. Respective amounts, in part, was capitalized (growth inventory value of fixed assets), other part was in course investments at the end of 2016.

At headquarter in Orsova was putted in functioning following most important objectives:

- **welding equipments**
- **computer network modernization**
- **modernizations and new equipments for existing those**
- **server machines and other IT systems**

In the analyzed period company had not contracted any credits for investments, all fixed assets acquisitions being done from own sources.

Throughout the year, the company paid in due times all its liabilities towards suppliers, employees, state budget, banks and other creditors.

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

4.5. Litigation; actions before courts

As of 31.12.2016, the company had few domestic litigations and 1 action in progress before the Court of Arbitration for transports and marines TAMARA from Rotterdam - Netherlands.

Actions in courts in Romania refer to:

- **employment litigations: 8 dossiers on the role of Mehedinti Court in these, the company has quality of intimate for pretensions (patrimonial responsibility) for the amount of 11.576 lei.**
- **A dossier on administrative and fiscal Court, where the company is intimate, and refers to disproof of some accessories calculated by the Ministry of the Public Finances (AJFP Mehedinti) for the amount of 68.089 lei. After the dossier was gained by fond, Appel Court Craiova sent back the dossier to re-judgement at Mehedinti Court. Our contestation was accepted, in the present moment our dossier is at Appel Court from Craiova where it is judged the recourse for the amount of 31.421 lei, difference being recognized by AJFP Mehedinti as to be wrong calculated.**
- **A dossier with no. 2240/101/2016, stage fond, on the roll to Mehedinti Court, process with AJFP Mehedinti and DGRFP Craiova, in whom we requested cancelation of decision no. 36/25.02.2016, regarding main payment obligations and accessories in total amount of 83.281 lei concluded in our burden by the intimate DGRFP Craiova and cancelation of the decision MHG_AIF 1228/04.07.2016 issued by AJFP Mehedinti, regarding solutions for rejection of our complain regarding point 5 from chapter 1.1 " Measurements" from**

disposal no. 37/24.09.2015 regarding measurements concluded by fiscal control authorities. Fond court rejected our contestation by the Verdict 1375/09.11.2016, and we promoted appeal against this decision.

- **At Agigea Branch are rolling many dossiers from past years, in divert stages, in whom our company is intimate.**

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, S.C. 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 of 14.10.2010 and pay, besides the contractual price, an additional price due to delayed transmission of the changes to the technical documentation.

The company engaged a Romanian and a Dutch law office for sustaining 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 passed more than one year from agreement signing, Dutch company doesn`t respected assumed obligations, so it is imposed as within 2017 to be restarted procedures at the Arbitration Court.

The company has set up impairments for all these amounts.

5. INVENTORY OF PATRIMONY AS OF 31.12.2016

The company has performed an annual stock take of assets and liabilities according to the provisions of the Order of the Minister of Public Finances no. 2861/2009. 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 the Agigea branch.

The main conclusions of the stock take are the following:

- **there are no inventory minuses or pluses at any of the inventoried units;**
- **there were some issues related to the stock take of fixed assets because the persons responsible for administering these goods have transferred between them various fixed assets without concluding any related documents; these situations were solved on spot by the commissions appointed for each unit;**
- **They were found even this time existing, on terrain, of some goods- fixed assets, small inventory, various materials, protection equipment – that can no longer be used in the production process due to their age and obsolescence and recommended their cassation and decommissioning; the lists with these goods were sent to the Board of Directors – for approval – and to the specialised committees set up at company level for the legal proceedings;**
- **commissions noted also existence of goods property of third parties, special goods appertaining to foreign clients, sent to us to be mounted on the vessels in**

progress which was in custody at the date of inventory. Lists with these materials/equipments was sent for confirmation to the owner of respective goods.

- **the stock take was performed with the actual participation of the external auditors and no deficiencies were reported.**

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 accounting regulations in accordance 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, which are annexed to present report.

President of the Board of Directors,

PhD Ec. Mihai Fercală

SEPARATE FINANCIAL STATEMENTS 2016

OPIS

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This is a free translation of the original Romanian financial statements together with the Independent Auditor's Report of Şantierul Naval Orşova SA. In the event of any discrepancy between this translation and the original document, the original Romanian financial statements together with the Independent Auditor's Report of Şantierul Naval Orşova SA shall prevail.

Reference	STATEMENT OF FINANCIAL POSITION			
IAS 1.10(a), 113	**As at 31 December**	*Note*	**2016**	**2015**
			RON	**RON**
	Assets			
	Fixed assets			
IAS 1.54(a)	Tangible assets	*15*	36,351,595	39,416,407
	Freehold land and land improvements	*15*	1,220,578	1,220,578
	Buildings	*15*	19,028,061	20,984,189
	Plant and machinery, motor vehicles	*15*	15,343,289	16,986,206
	Fixtures and fittings […]	*15*	68,168	84,271
	Tangible assets in progress	*15*	691,499	141,163
IAS 1.54(c)	Intangible assets	*16*	56,102	89,139
	Other intangible assets	*16*	56,102	89,139
IAS 1.54(h)	Trade receivables and other receivables	*15*	70,550	27,221
IAS 1.54(o), 56	Deferred tax assets		68,004	36,285
IAS 1.60	**Total fixed assets**		**36,546,251**	**39,569,052**
IAS 1.54 (g)	Inventories	*19*	38,953,852	57,377,477
IAS 1.54(h)	Trade receivables and other receivables	*20*	3,944,403	2,976,149
IAS 1.55	Accrued expenses	*20*	42,990	59,669
IAS 1.54(d)	**Short term investments**	*21a*	6,116,440	0
"IAS 1.54(i)	Cash and cash equivalents	*21b*	15,360,927	8,399,122
IAS 1.60	**Total Current Assets**		**64,418,612**	**68,812,417**
	Total Assets		**100,964,863**	**108,381,469**
	Equity			
IAS 1.54(r), 78(e)	Share capital	*22*	28,557,298	28,557,298
	Adjustments to Share capital	*22*	23,496,414	23,496,414
IAS 1.55, 78(e)	Share premium	*22*	8,862,843	8,862,843
IAS 1.54(r), 78(e)	Reserves	*22*	53,243,274	53,271,082
	Other reserves from the application of IAS 29	*22*	16,962,110	16,962,110
	Result for the period	*22*	2,792,859	396,807
IAS 1.55, 78(e)	Retained earnings	*22*	(1,075,167)	(1,718,437)

Reference	STATEMENT OF FINANCIAL POSITION (continued)			
IAS 1.10(a), 113	**As at 31 December**	Note	**2016** **RON**	**2015** **RON**
	Retained earnings from the application for the first time of IAS 29	*22*	(40,458,524)	(40,458,524)
	Profit appropriation	*23*	(178,216)	(29,545)
	Other elements of equity	*23*	(3,721,670)	(3,918,225)
	Total equity		**88,481,221**	**85,421,823**
	Liabilities			
	Long-term liabilities			
IAS 1.54(o), 56	Deferred tax liabilities		3,721,670	3,918,225
IAS 1.60	**Total long-term liabilities**		**3,721,670**	**3,918,225**
	Current liabilities			
IAS 1.54(m)	Short-term loans	*24*	0	10,449,333
IAS 1.54(k)	Trade payables and other debts, including derivatives	*27*	8,167,598	8,143,405
IAS 1.54(l)	Provisions	*26*	594,374	448,683
IAS 1.60	**Total current liabilities**		**8,761,972**	**19,041,421**
	Total Liabilities		**12,483,642**	**22,959,646**
	Total Equity and Liabilities		**100,964,863**	**108,381,469**

The separate financial statements were approved by the Board of Directors on February 24, 2017 and were signed by:

Administrator, Dr. Ec. Mihai Fercală	Prepared by, Ec. Gheorghe Caraiman

Reference	STATEMENT OF COMPREHENSIVE INCOME			
IAS 1.10(b), 81(a)	**For the financial year ended at 31 December**	**Note**	**2016** **RON**	**2015** **RON**
	Continuing operations			
IAS 1. 82(a) *IAS 1.99,103*	Income	*5*	64,898,033	28,523,482
	Other income	*6*	10,943,414	8,703,266
	Total Operational Income		**75,841,447**	**37,226,748**
	Expenses related to inventories	*7*	(30,076,624)	(14,312,554)
	Utility expenses	*8*	(1,410,957)	(1,007,693)
	Employee benefits expenses	*9*	(20,718,145)	(11,921,748)
	Depreciation and amortization expenses	*15,16*	(6,545,276)	(3,667,996)
	Gains/losses on disposal of property		0	9,374
	Increase/(Decrease) of receivables allowances and inventory write-down	*10*	(27,652)	331,112
	Increase/(Decrease) of provision expenses	*26*	(145,691)	33,355
IAS 1.99, 103	Other expenses	*11*	(13,439,450)	(6,075,650)
	Total Operational expenses		**(72,363,795)**	**(36,611,800)**
	The result of operational activities		**3,477,652**	**614,948**
	Financial income	*12*	1,140,542	1,214,931
IAS 1.82(b)	Financial expenses	*12*	(1,053,540)	(1,238,981)
	Net financial result	***12***	**87,002**	**(24,050)**
IAS 1.85	**Result before taxation**		**3,564,654**	**590,898**
	Current income tax expenses	*13*	(803,514)	(180,896)
	Deferred income tax expenses		(34,790)	(138,378)
	Deferred income tax income		66,509	125,183
IAS 1.85	**Result for continuing operations**		**2,792,859**	**396,807**
IAS 1.82(f)	**Result for the period**		**2,792,859**	**396,807**
	Other comprehensive income			
IAS 1.82(g)	Reevaluation of tangible assets		(206,024)	2,111,233
IAS 1.85	**Other comprehensive income after taxation**		**(206,024)**	**2,111,233**

Reference STATEMENT OF COMPREHENSIVE INCOME (continued)

Reference	For the financial year ended at 31 December	Note	2015	2016
IAS 1.10(b), 81(a)			**RON**	**RON**
IAS 1.82 (i)	**Total comprehensive income for the period**		2,586,835	2,508,040
	Attributable profit			
IAS 1.83(b)(ii)	Shareholders	*23*	2,792,859	396,807
	Profit for the period		**2,792,859**	**396,807**
	Total attributable comprehensive income			
IAS 1.83(b)(ii)	Shareholders		2,586,835	2,508,040
	Earnings per share			
IAS 33.66	Basic earnings per share	***23***	0.24	0.03
IAS 33.66	Diluted earnings per share	***23***	0.24	0.03
	Continuing operations			
IAS 33.66	Basic earnings per share	*23*	0.24	0.03
IAS 33.66	Diluted earnings per share	*23*	0.24	0.03

The separate financial statements were approved by the Board of Directors on February 24, 2017 and were signed by:

Administrator,
Dr. Ec. Mihai Fercală

Prepared by,
Ec. Gheorghe Caraiman

Reference STATEMENT OF CHANGES IN EQUITY

		Attributable to equity holders								
IAS 1.108,109		**Share capital (Note 22)**	**Share premium account**	**Revaluation reserve (Note 22)**	**Other reserves**	**Retained earnings**	**Result for the period (Note 23)**	**Other elements of equity**	**Profit appropriation**	**Total equity**
	Balance at December 31, 2014	**52,557,298**	**8,862,843**	**23,135,669**	**27,994,635**	**(6,356,370)**	**4,641,541**	**(3,243,065)**	**(236,841)**	**83,355,710**
IAS 1.106(d)(i)	Loss/ Net profit for the period	-	-	-	-	4,641,541	(4,244,734)	-	-	396,807
	Profit appropriation	-	-	-	-	-	-	-	(29,545)	(29,545)
	Transfer in reserve	-	-	(3,661,393)	29,545	(3,608)	-	(675,160)	236,841	(4,073,775)
	Revaluation reserve	-	-	5,772,626	-	-	-	-	-	5,772,626
	Allowances from application of IAS 29	23,496,414	-	-	16,962,110	(40,458,524)	-	-	-	-
	Balance at December 31, 2015	**52,053,712**	**8,862,843**	**25,246,902**	**44,986,290**	**(42,176,961)**	**396,807**	**(3,918,225)**	**(29,545)**	**85,421,823**
IAS 1.106(d)(i)	Loss/ Net profit for the year	-	-	-	-	367,262	2,396,052	-	-	2,763,314
	Profit appropriation	-	-	-	-	-	-	-	(178,216)	(178,216)
	Transfer in reserve	-	-	(433,515)	178,216	276,008		196,555	29,545	246,809
	Revaluation reserve	-	-	227,491	-	-	-	-	-	227,491
	Allowances from application of IAS 29	-	-	-	-	-	-	-	-	-
	Balance at December 31, 2016	**52,053,712**	**8,862,843**	**25,040,878**	**45,164,506**	**(41,533,691)**	**2,792,859**	**(3,721,670)**	**(178,216)**	**88,481,221**

The separate financial statements were approved by the Board of Directors on February 24, 2017 and were signed by:

Administrator,
Dr. Ec. Mihai Fercală

Prepared by,
Ec. Gheorghe Caraiman

Reference	STATEMENT OF CASH FLOWS			
IAS 1.10(d), 113	**For the financial year ended at 31 December**	**Note**	**2016** **RON**	**2015** **RON**
	Cash flows from operating activities			
	Profit for the period		2,792,859	396,807
	Adjustments for:			
	Amortization of intangible assets		5,308,509	4,480,579
	Depreciation of fixed assets		34,703	57,538
	Net expenses/(net income) with provisions		145,691	(33,355)
	Loss from the sale of tangible assets		0	144,000
	Expenses from revaluation of assets		0	174,235
	Current income tax expenses		803,514	180,896
	Deferred income tax expenses		34,790	138,378
	Deferred tax income		(66,509)	(125,183)
	Cash - flows from operating activities before changes in working capital		9,053,557	5,413,895
	Changes in working capital			
	Changes related to inventories		18,423,625	(19,436,224)
	Changes related to trade receivables and other receivables		(1,008,779)	(1,726,000)
	Changes in accrued expenses		16,679	10,653
	Changes in trade payables and other liabilities		(12,602)	4,833,822
	Cash generated / (used) from / (in) operating activities		26,472,480	(10,903,854)
	Income tax paid		(751,486)	(99,873)
IAS 7.31,32	Paid Interest		(36,172)	(73,250)
IAS 7.10	**Net cash from operating activities**		**25,684,822**	**(11,076,977)**
	Cash flows from investing activities			
IAS 7.31	Interest received		24,586	46,454
IAS 7.16(a)	Proceeds from sale of property, plant and equipment		0	153,374
IAS 7.16(a)	Purchases of tangible and intangible assets		(2,181,830)	(3,582,470)
	Short term investments		**(6,116,440)**	**0**
IAS 7.10	**Net cash used in investing activities**		**(8,273,684)**	**(3,382,642)**

Reference	STATEMENT OF CASH FLOWS (continued)			
IAS 1.10(d), 113	**For the financial year ended at 31 December**	**Note**	**2016**	**2015**
	Cash flows from financing activities			
IAS 7.17(d)	Proceeds from loans / (loans refunds)		(10,449,333)	10,449,333
IAS 7.10	**Net cash from (used in) financing activities**		**(10,449,333)**	**10,449,333**
	Net cash and cash equivalents decreases		**6,961,805**	**(4,010,286)**
	Cash and cash equivalents at 1 January		8,399,122	12,409,408
	Cash and cash equivalents at 31 December		**15,360,927**	**8,399,122**

The separate financial statements were approved by the Board of Directors on February 24, 2016 and were signed by:

Administrator:
Dr. Ec. Mihai Fercală

Prepared by:
Ec. Gheorghe Caraiman

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Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

IAS 1.10(e) **1. Reporting company**

IAS 1.138 (a),(b) **Şantierul Naval Orşova S.A**. is a company headquartered in Romania. The registered office address of the Company is: Tufari Street, no.4, Orşova, Mehedinți county.

IAS 1.51(a)-(c) The separate financial statements in according with IFRS have been prepared for the year ended 31 December 2016. The Company's main activity is: **construction of ships and floating structures (NACE code: 3011).**

IAS 1.112(a) **2. Basis of preparation**

a. Statement of compliance

IAS 1.16 The company has prepared the annual financial statements for the year ended 31 December 2016 in accordance with International Financial Reporting Standards as adopted by European Union, applicable to companies whose securities are admitted to trading on a regulated market, according to the Order of the Minister of Finance no. 881/2012 regarding the application of International Financial Reporting Standards by companies whose securities are admitted to trading on a regulated market and the Order of the Minister of Finance no. 2844/2016 approving the Accounting Regulations in accordance with International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market, including subsequent amendments and additions.

IAS.10.17 The financial statements have been authorized for issue by the Board of Directors on February 24th, 2017.

The financial statements have been prepared using the historical cost basis except the following significant items from the statement of financial position, for which the Company has used the fair value model:

IAS 1.117(a)

- Investment properties
- Plant
- Naval means of transport

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

IAS 1.112(a) **2. Basis of preparation (continued)**

a. Functional currency and presentation currency

IAS1.51(d),(e) These financial statements are presented in RON, which is also the functional currency of the Company. All financial information presented in RON, rounded to 0 decimal places. All financial information presented in RON, without decimals rounded (rounding the RON fractions over 50 money, including the neglect of money fractions to 50). Where amounts are presented in other currency than RON, it will be specified accordingly.

b. Professional judgements and key assumptions

The preparation of financial statements in accordance with IFRS requires the use of management's professional judgment, estimates and assumptions which affects the application of accounting policies and the reported value of assets, liabilities, income and expenses. Actual results may differ from estimated values.
The estimates and assumptions are reviewed regularly. Revisions of estimates are recognized in the period in which the estimate was revised and in future periods affected by the change.

IAS 1.122,125,129,130 Information regarding professional judgments that are critical in applying accounting policies which can significantly affect the values presented in the financial statements are included in the following notes:

- Note 18 –Investment property classification;
- Note 24 – Loans.

c. New International Financial Standards not applied by the Company

The entity does not apply some IFRS or new stipulations regarding IFRS issued, but not in effect at the date of the financial statements. The company cannot estimate the impact of applying these stipulations and intends to apply them when they come into force. Among the issued, but not adopted standards, the company will not face the situation to prospectively apply neither of them. These are:

- IFRS 9 *Financial Instruments* incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition of financial instruments, published in July 2014 with the entry date on or after 1 January 2018. In the EU, this standard is pending approval.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

IAS 1.112(a) **2. Basis of preparation (continued)**

- IFRS 14 applies to a company's first annual financial statements in accordance with IFRS, starting from 1 January 2016 or after. IFRS 14 was published in January 2014. In the EU, this standard was not yet approved.
- IFRS 15 applies to a company's first annual financial statements in accordance with IFRS starting from 1 January 2018 or after. IFRS 15 was published in May 2014 and it was approved in UE in September 2016 with the entry date on or after 1 January 2018.
- IFRS 16 Lease Contracts applies to a company's first annual financial statements in accordance with IFRS, starting from 1 January 2019 or after. IFRS 16 was published in January 13th, 2016. In the EU, this standard is pending approval.
- Amendments to IFRS 7 Financial Instruments: information provided in January 2017. At the European Union level, these are pending approval.
- Proposed amendments to IFRS 10 regarding the sale or contribution of assets between an investor and its associates or joint ventures, published in September 2014 with the entry date on or after 1 January 2016. In the EU, for the approval of this standard, a schedule has not been yet determined.
- Amendments to IAS 12 regarding *Recognition of Deferred Tax Assets for Unrealised Losses*, published in January 2016 with the entry date on or after 1 January 2017. At European Union level these are in process of approval.
- Clarifications to IFRS 15 "Revenue from contracts with customers" born in April 2016 with effect from 1 January 2018. At EU level, these are pending approval.
- Amendments to IFRS 2: "Classifications and ratings of transactions relating to stock-based payments" arising in June 2016, with effect from 1 January 2018. At EU level, these are pending approval.
- Amendments to IFRS 4: "Application of IFRS 9 financial instruments IFRS 4 Insurance Contracts", which appeared in September 2014 with entry into force after 1 January 2018. At EU level, these are pending approval.
- IFRIC 22 "Foreign currency Transactions and advanced considerations" appeared in December 2016 with entry into force after 1 January 2018. At EU level, it is pending approval.
- Amendments to IAS 40 "Investment property transfers" that appeared in December 2016 with entry into force after 1 January 2018. At EU level, these are pending approval.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

IAS 1.112(a) **2. Basis of preparation (continued)**

d. Presentation of financial statements

IAS 8.28(f) The Company applies IAS 1 *Presentation of Financial Statements* (2007) revised, which has been enforced on 1 January 2009. As a result, the Company presents in the Statement of Changes in Equity all changes related to shareholders' equity, while changes in equity unrelated to shareholders are presented in the Statement of Comprehensive Income.

Comparative information has been presented so that they are in accordance with the revised standard. As the impact of change in accounting policy is reflected only on presentation aspects, there is no impact on earnings per share.

IAS 1 Presentation of Financial Statements is basis for the financial statements presentation to ensure comparability both with the entity's financial statements for previous periods and with the financial statements of other entities.

The Company has adopted a presentation based on liquidity in the Statement of Financial Position and a presentation of income and expenses according to their nature in the Statement of Comprehensive Income, considering that these methods of presentation provide more relevant information than other methods that have been permitted by IAS 1.

IAS 1.57 The aggregation method is optional depending on the manner in which the Company's management considers relevant information for the presentation of the financial position, respectively financial performance.

Separate financial statements are prepared using the historical cost principle, except for buildings, means of shipping and property investments reclassified in accordance with IAS 40 which are presented at their fair value.

For assets and liabilities that were presented at their fair value the company has applied IFRS 13.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

IAS 1.112(a) **2. Bases of preparation (continued)**

e. Standards and interpretations available in the current period

The following standards, issued by the International Accounting Standards Board and adopted by the European Union, are available in the current period:

IAS 1	Presentation of financial statements	Fundamental Accounting Principles, structure and content of financial statements, mandatory posts and the concept of true and fair view, completed with amendments applicable from 1 January 2013.
IAS 2	Inventories	Defining of the accounting process applicable to inventories in the historical cost system: evaluation (first in - first out, weighted average cost and net realisable value) and the perimeter of allowed costs.
IAS 7	Statement of Cash Flows	Analysis of cash variations, classified into three categories: cash-flows from operating activities, cash-flows from investing activities, cash-flows from financing activities.
IAS 8	Accounting policies, Changes in Accounting Estimates and Errors	Defining the classification, the information that need to be disclosed and the accounting treatment of certain items in the income statement.
IAS 10	Events after the reporting period	Requirements for when events after the reporting period should generate an adjustment to the financial statements: definitions, terms and conditions, particular cases (dividends)
IAS 12	Income Taxes	Definition of tax accounting processing on the period result and detailed stipulations on deferred taxes, supplemented by amendments applicable from 1 January 2013.
IAS 16	Property, plant and equipment	Accounting treatments, net book value calculation and relevant principles regarding depreciation for most types of property, plant and equipment.
IAS 17	Leases	Defining lessee and lessor, accounting treatments regarding location-financing contracts and simple location contracts.
IAS 18	Revenue	Revenue recognition principles for ordinary activities from certain types of transactions and events (fair value principle, the principle of linking expenditure to income, the percentage of advancement services, asset sharing, etc.)
IAS 19	Employee benefits	Accounting principles regarding employee benefits: short and long term benefits, post-employment benefits, advantages on equity and allowances on termination of employment, with revisions made in 2011, applicable from January 1, 2013.

Reference	NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU
IAS 1.112(a)	**2. Basis of preparation (continued)**

IAS 20	Accounting for Government Grants and Disclosure of Government Assistance	Accounting principles for direct or indirect public aid (clear identification, concept of fair value, restraining subsidized connection etc.).
IAS 21	The Effects of changes in Foreign Exchange Rates	Accounting treatments of abroad activities, foreign currency transactions and restating financial statements of a foreign entity.
IAS 23	Borrowing Costs	The definition of borrowing costs and accounting treatments: the notion of qualifying asset, how to capitalize borrowing costs in the amount of qualifying assets.
IAS 24	Related Party Disclosures	Details of related party relationships and transactions (legal and natural persons) who exercises control or significant influence over one of the group's companies or the management.
IAS 26	Accounting and Reporting by Retirement Benefit Plans	Principles and information on the retirement schemes (funds), distinguishing defined contribution schemes and defined-benefit.
IAS 27	Separate Financial Statements	IAS 27 outlines when an entity must consolidate another entity, how to account for a change in ownership, how to prepare separate financial statements, and related disclosures. The financial statements prepared by the company for year ended 31 December, 2014 are separate financial statements, therefore, consolidated financial statements are not applicable in this case. The Transilvanian Financial Investment Company, headquartered in Braşov, Nicolae Iorga Street, No. 2, helds, in present, 49,9998% of the share capital of SC Șantierul Naval Orşova SA, so, they have obligation to prepare the consolidated financial statements.
IAS 28	Investments in Associates	Defining the evaluation and information principles regarding investments in associates, except those held by: a) Venture capital organizations b) Mutual funds, unit trusts and similar entities, including insurance funds with an investment component which are considered to be at their fair value through profit or loss or classified as held for trading and accounted in accordance to IAS 39.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

IAS 1.112(a) **2. Basis of preparation (continued)**

IAS 29	Financial Reporting in Hyperinflationary Economies	The financial statements of an entity whose functional currency is the currency of a hyperinflationary economy should be presented in the current unit of measure at the financial statement preparation date, meaning non-monetary elements should be restated using a general price index from the date of purchase or contribution. IAS 29 provides that an economy is considered to be hyperinflationary if, among other factors, the cumulative index of inflation exceeds 100% over a period of three years. Continuous decrease of inflation and other factors related to the characteristics of the economic environment in Romania indicates that the economy whose functional currency was adopted by the Company, ceased to be hyperinflationary, affecting periods beginning 1 January 2004. Thus, amounts expressed in the measuring unit, current at 31 December 2003 are treated as the basis for the carrying amounts in the financial statements of the Company.
IAS 31	Interests in Joint Ventures	Accounting principles and policies to joint venture operations performed assets or holdings in a joint venture.
IAS 32	Financial instruments: presentation	Rules of presentation (classification of debt equity, expenses or income/equity).
IAS 33	Earnings per Share	Principles of determination and representation of earnings per share.
IAS 36	Impairment of Assets	Key definitions (recoverable amount, fair value less costs of disposal, value in use, cash-generating units), the frequency of impairment tests, accounting for the impairments, and for goodwill impairment.
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	Defining provisions and approach of estimating provisions, individual cases examined (including the problem of restructuring).
IAS 38	Intangible Assets	Definition and accounting treatments for intangible assets, recognition and measurement policies on the processing costs for research and development etc.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

IAS 1.112(a) **2. Basis of preparation (continued)**

IAS 39	Financial Instruments: Recognition and Measurement	Recognition and measurement principles regarding financial assets and liabilities, the definition of derivatives, hedge accounting operations, the issue of fair value etc.
IAS 40	Investment Property	Establishing the evaluation method: fair value model or cost model, transfers between different categories of assets etc.
IFRS 1	First-time Adoption of International Financial Reporting Standards	The procedures for financial statements according to IAS / IFRS optional exemptions and mandatory exceptions to retrospective application of IAS / IFRS, supplemented by amendments applicable from 1 January 2013.
IFRS 5	Non-current Assets Held for Sale and Discontinued Operation	Defining an asset held for sale and discontinued operations, and the, evaluation of these elements.
IFRS 7	Financial Information: Disclosures	Financial information related to financial instruments are referring primarily to: (i) information about the significance of financial instruments; and (ii) information about the nature and extent of risks arising from financial instruments, supplemented by amendments applicable from 1 January 2013.
IFRS 10	Consolidated Financial Statements	Establishing principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.
IFRS 11	Joint Arrangements	Establishing principles for financial reporting for entities that hold interests in jointly controlled commitments..
IFRS 12	Disclosure of Interests in Other Entities	Requires an entity to disclose information that will enable users of its financial statements to evaluate: the nature and risks associated with interests held in other entities; and the effects of those interests on the financial position, financial performance and its cash flows.
IFRS 13	Fair value measurement	The definition of fair value, establishing, in a single IFRS, a framework for measuring fair value, requiring the presentation of information on fair value.

Reference	NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

IAS 1.112(a) 117(a)

3. Significant accounting policies

The accounting policies presented below have been applied consistently in all periods presented in these financial statements by the Company, except for matters described in note 2 (e) of changes in accounting policies.

IAS 1.41 Certain comparative amounts have been reclassified to conform with current year presentation.

a. Foreign currency

(i) Transactions in foreign currency

The Company's foreign currency transactions are registered at exchange rates communicated by the National Bank of Romania ("NBR") for the transaction date. Foreign currency balances are converted in RON at the exchange rates communicated by NBR for the balance sheet date. Gains and losses resulting from the settlement of transactions in a foreign currency and the conversion of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss in the financial result.

b. Financial instruments

(ii) Share capital

The share capital may be increased or reduced on the basis of decision of the extraordinary General Assembly of shareholders, under the conditions and in accordance with law No. 31/1990, company law, republished. Prior to any capital increase by subscription of new consideration, the company will proceed to update the value of tangible and intangible fixed assets owned. Ordinary shares are classified as equity.

c. Tangible Assets

IAS 16.73 (a) (i) Recognition and evaluation

Tangible assets are initially measured at cost, (those purchased from suppliers) or if the input value received as a contribution in kind to the establishment of share capital or increase of share capital.

For subsequent recognition of plant, naval means of transport and investment properties, the company has opted for the revaluation model (fair value model).

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

IAS 1.112(a) 117(a)

3. Significant accounting policies (continued)

Some of the tangible non-current assets were revalued based on government decisions ("GD") no. 945/1990, no. 26/1992, no. 500/1994, no. 983/1998, no. 403/200 and no. 1553/2003 by indexing the historical cost with indices prescribed in the respective government decisions. Increases of the tangible non-current assets' value resulting from these revaluations were initially credited to revaluation reserves and thereafter, except for the reevaluation made under GD. 1553/2003, in equity, in accordance with the respective government decisions. GD 1553/2003 foresaw the need to adjust the index value by comparing the utility value and market value. At 31 December 2006, the Company proceeded to review the value of buildings and special constructions using the opinion of specialists employed in the Company.

On 31 December 2007, the Company has not proceeded to review the value of fixed assets at the Orşova headquarters, instead Agigea Branch conducted a revaluation of fixed assets from the structures and ships category, before the merger, for the old company: SC Servicii Construcţii Maritime SA Agigea. During the years 2007, 2008 and 2009 were recorded entries in the technological equipment category and other intangible assets category which led to a presentation in the financial statements, of the assets from these categories both at historical cost indexed in accordance with government decisions (" GD "), which have been applied to date, as well as historical cost.

At 31 December 2009 the Company revalued the buildings and special constructions using the opinion of an independent external evaluator.

At 31 December 2010 and 31 December 2011 the Company has not made any revaluations of tangible assets held.

On 31 December 2012, the Company proceeded to the revaluation of naval buildings and vehicles, both at headquarters in the town of Orşova, as well as at Agigea branch using the opinion of an independent external evaluator.

On 31 December 2013, the Company revalued naval vehicles, both at headquarters in the town of Orşova, as well as at Agigea branch using the opinion of an independent external evaluator.

On 31 December 2014, the evalued naval vehicles, using the opinion of an independent external evaluator.

On 31 December 2015, the Company proceeded to the revaluation of naval buildings and vehicles, both at headquarters in the town of Orşova, as well as at Agigea branch using the opinion of an independent external evaluator.

On 31 December 2016, the Company proceeded to the revaluation of buildings and naval vehicles amounted to the nature of shipping assets located at Agigea branch using the opinion of an independent external evaluator.

Reference	NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU
IAS 1.112(a) 117(a)	**3. Significant accounting policies (continued)**

Regarding the accounting treatment of revaluation differences, these were made in accordance with IAS 16 as follows:
If the carrying amount of an asset is increased as a result of a revaluation, the increase shall be recognized in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss.
If the carrying amount of an asset is impaired as a result of a revaluation, the decrease shall be recognized in profit or loss. However, the decrease shall be recognized in other comprehensive income to the extent that the revaluation surplus shows a credit balance for the asset. Reduction recognized in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

The Company has used the net value model. The amount of the revaluation surplus was credited to revaluation reserve balance for those non-current assets which fair value was higher than the net book value. For the non-current assets which fair value has been less than the carrying amount, firstly the revaluation surplus has been decreased and after that if necessary it has been reflected as an operating expense in the profit and loss statement.
Maintenance and repairs of tangible assets are recorded as an expense when incurred. Significant improvements of tangible non-current assets that increase the value or useful life or significantly increase the capacity to generate economic benefits are capitalized as asset.
Assets that have the nature of inventory objects, including tools are recorded as an expense when purchased and are not included in the account value of the tangible assets.

(ii) Reclassification to investment property

The transfer to or from investment properties shall be made if, and only if, there is a change in use.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

IAS 1.112(a) 117(a) **3. Significant accounting policies (continued)**

(iii) Depreciation of tangible non-current assets

Depreciation is the equivalent to irreversible impairment of an asset, as a result of normal use, natural factors, technical progress or other causes. Fixed assets' depreciation shall be accounted as an expense (recognized in profit or loss).
The company uses straight-line depreciation method for all tangible assets owned, by dividing the book value equally, over its useful life. The depreciation method is applied consistently to all assets of the same type and with identical conditions of use. If tangible assets are placed in conservation, the company did not account the depreciation expense, instead at the end of the period, the company will record a corresponding expense adjustment for the impairment of the asset. The degree of impairment will be determined as much as possible by a certified evaluator.
A significant change in the conditions of use of tangible assets or aging may justify a revision of the useful life. Also, if the tangible non-current assets are placed in conservation (their use is discontinued for a long period), the useful life can be revised.
The residual value and service life shall be reviewed at least at each financial year end.

Depreciation is calculated on the fair value, using the straight-line method over the estimated useful life of the assets as follows:

Asset	Years
Constructions	5 - 45
Equipment	3 - 20
Other equipment and furniture	3 - 30

Lands are not a subject of depreciation, as they are deemed to have an indefinite life.

The management continually evaluates the development plan. The effect of lifetime review, based on GD. 2139/2004, was reflected in the depreciation expense in the year 2005 and in future periods in the amount of depreciation expenses without any temporary differences.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

IAS 1.112(a) 117(a) **3. Significant accounting policies (continued)**

(iv) Derecognition

The account value of a fixed asset shall be derecognised:
- when disposed, or
- when no future economic benefits are expected from its use or disposal.

The gain or loss arising from the derecognition of a fixed asset shall be included in profit or loss when the item is derecognised. Gains shall not be classified as revenue.

d. Intangible Assets

(1) Cost

(i) Software

Costs for the development or maintenance of computer software programs are recognized as an expense when they occur. Costs that are directly associated with identifiable and unique products, controlled by the Company and will probably generate economic benefits exceeding costs for a period longer than one year are recognized as intangible assets. Direct costs include the development team staff costs and an appropriate proportion of overhead expenses.

Expenditure which results in extending the useful life and increasing the benefits of software over the initial specifications are added to the original cost. These costs are capitalized as intangible assets if they are not part of tangible assets.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

IAS 1.112(a) 117(a)

3. Significant accounting policies (continued)

(ii) Other intangible assets

All other intangible assets are recognized at cost.

Intangible assets are not revalued.

(2) Amortization

(i) Software

Software development costs capitalized and they are amortized using the straight-line method over a period between 3 and 5 years.

(ii) Other intangible assets

Patents, trademarks and other intangible assets are amortized using the straight-line method over their useful life. Software licenses are amortized over a period of 3 years.

e. Investment property

An investment property is a real property (land or a building - or part of a building - or both) owned rather to earn rentals or for capital appreciation or both, rather than:

(a) used for production or supply of goods or services or for administrative purposes; or

(b) to be sold in the ordinary course of business.

For the evaluation after recognition, the company uses the fair value model, this accounting treatment has been applied to all investment properties.

A gain or loss arising from a change in fair value of investment property shall be recognized as an income or as an expense in the statement of comprehensive income for the period.

In determining the fair value of investment property, the company uses the services of certified values.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

IAS 1.112(a) 117(a) **3. Significant accounting policies (continued)**

f. Inventories

Inventories are assets:

- Held for sale in the ordinary course of business;
- In process for sale in the ordinary course of business;
- Raw materials and consumables

Measurement of inventories

Inventories are required to be stated at the lower value between cost and net realizable value.
Inventories should not be reflected in the statement of financial position an amount greater than the amount that can be obtained through their sale or use. In this case, the inventories value should be decreased to the net realizable value by reflecting a write-down.

Cost of inventories

The primary basis for accounting inventories is the cost .
The cost of inventories should comprise all costs of acquisition and processing and other costs incurred in bringing the inventories to the shape and place in which they are currently.
Price differences over the cost of acquisition or production should be disclosed separately in the accounts and are recognized in cost of the asset.
Regarding the method of valuation, the company used, until December 31, 2010, the weighted average cost method, but starting from January 1, 2011, the company is using the first-in - first out method. This change in the accounting policy was necessary in order to be consistent with the accounting policy applied by the main shareholder, SIF Transilvania (49.9998% of the share capital, as shown), and which are preparing the consolidated financial statements. Our company is included in the scope of consolidation.

The cost of finished goods and work in progress includes materials, labor and indirect production costs associated. Where necessary, adjustments are made for wasted or obsolete inventories. The net realizable value is calculated as the selling price less costs to complete and costs necessary to make the sale

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

IAS 1.112(a) 117(a) **3. Significant accounting policies (continued)**

g. Impairment

(i) Financial assets (including receivables)

A financial asset or group of financial assets is impaired if, and only if, there are any objective evidence of impairment arising as a result of one or more events that occurred after the initial recognition of the asset, and these events have an impact on future cash flows of the financial asset or group of financial assets that can be estimated reliably. On each financial year date, the company examines whether there is any objective evidence that the financial asset or a group of financial assets is impaired. The loss is given by the difference between the asset's book value and the present value of future cash flows using the effective interest rate of the financial asset at initial recognition.

If in a subsequent period, an event occurring after the recognition of the impairment will determine an increase of the asset's value, the impairment will be reversed.

h. Employee benefits

The Company makes payments to pension funds, health funds, unemployment funds, allowances and vacations for all staff. These expenses are recognized in the statement of comprehensive income for the period covered. At retirement, the company granted, as a stimulant, two salaries to every person who ceases contractual relationship with the company.

The Company does not operate any other pension plan or retirement benefits so it has no other obligations in respect of pensions.

During the year, according to the collective labor agreement, depending on the possibilities of the company, employees can receive awards, financial aid for deaths in the family, serious and incurable illness etc.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

IAS 1.112(a) 117(a) **3. Significant accounting policies (continued)**

i. Provisions

Provisions are recognized when the Entity has a present legal or constructive obligation, arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits and when a reliable estimate can be made of its amount.

(1) Provisions for annual vacations and other similar staff rights.

Company debt regarding annual employee vacations is recognized in proportion to the duration of untaken vacation days by the end of the year. At the balance sheet date, a provision for the estimated obligation is recognized, provision which includes both the actual amount of untaken vacation days and related social contributions. Also, for the retirement of employees who are qualified for this matter, the company established a provision according to the collective agreement stipulations through the valid period.

(2) Provisions for litigation

For those pending lawsuits, in which the company is the defendant and courts have not issued a final and executory judgment, the company made provisions for the amounts estimated. The amounts paid to the company customers, for any damage caused to the ship during transport, and which have failed to be recovered from the insurance company which issued the insurance policy and for whom there is a pending lawsuit, are treated similarly.

(3) Provisions for guarantees

For river vessels produced by the Company, it is stipulated in the export contracts that the seller is obliged to guarantee the proper execution, for a period of 6-9 months from date of sale (ownership transfer), depending on the complexity of the ships.
Provisions made for this purpose are based on calculation of the average share of total claims paid customer deliveries during the last period (previous year).

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

IAS 1.112(a) 117(a) **3. Significant accounting policies (continued)**

j. Revenue

Revenue refers to goods sold and services rendered.

Sales revenues include sales of ships and services provided (rentals and ship repairs) made in the ordinary course of business (excluding value added tax).

Revenue is recognized upon delivery of goods to the buyer or carrier, delivery against invoice, and for export products, after being charged and all the customs formalities are completed, or delivered to the place specified in the contract (port of destination), with the transfer of risks to the buyer.

Revenue is measured at the fair value of the counter performance received or to receive.

Interest incomes are recognized using the effective interest method in proportion to the relevant period of time, based on the principal and the effective rate until the maturity date or for a shorter period if this period is linked to the transaction costs, when it is established that the company will obtain such income.

IFRS 7.20,24 **k. Financial income and expenses**

Interest income is recognized as the income generates, on an accrual basis using the effective interest method in proportion to the relevant time, based on the principal and the effective rate over the period to maturity or a shorter period if this period is link to transaction costs, when it is established that the company will obtain such income.
Income from financial assets or dividends receivable from entities in which the Company is a shareholder, are recognized in the financial statements of the financial year in which they are approved by the General Meeting of each entity.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

IAS 1.112(a) 117(a)

3. Significant accounting policies (continued)

l. Income tax

The Company records current income tax using the taxable income from tax reporting, determined by the relevant Romanian legislation.

Income tax obligation for the reporting period and prior periods is recognized to the extent that is not paid.
If the amounts paid on the current and prior periods exceed the amounts due for those periods, the excess is recognized as recoverable amount.

Recognition of deferred tax assets and liabilities

Deferred income tax is, using the balance sheet method, based on temporary differences arising between the tax bases of assets and their carrying amount. Deferred tax assets are recognized to the extent that there is the possibility of achieving future taxable profit from which the temporary differences can be recovered.

4. Determination of fair value

Certain accounting policies of the Company and disclosure requirements demand the determination of fair value for both financial and non-financial assets and liabilities. Fair values were determined for evaluation and / or disclosure purposes based on the methods described below. Where appropriate, additional information about the assumptions used in determining the fair value are presented in the notes that are specific to the asset or the liability.

In the assessment of tangible and intangible assets, fair value measurement is an option. Fair value assessment is made for categories of assets and is treated as a revaluation. The excess resulting from revaluation directly affects equity, unless previously it was recognized as a revaluation loss. Revaluation losses affect the statement of comprehensive income, unless there is an added value previously accounted directly in equity. There are differences between the two asset structures in terms of how to determine the fair value.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

4. Determination of fair value (continued)

IAS 16 “Property, plant and equipment” asserts that: *“After recognition as an asset, an item of tangible assets whose fair value can be measured reliably shall be carried at a revalued amount, representing its fair value at the revaluation date minus any subsequent accumulated depreciation and any accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ significantly from that which would be determined using fair value at the balance sheet date.”* **[9]**

IAS 38 ”Intangible Assets” indicates: *“The purpose of revaluations under this standard, fair value shall be determined by reference to an active market”*.**[10]**

If IAS 16 “Property, plant and equipment” allows the determination of fair value through other methods if there isn't an active market, IAS 38 “Intangible Assets” narrow the assets that can be revalued, showing that only the assets for which an active market exists, can be revalued.

A special structure of non-current assets is the investment property. IAS 40 “Investment Property” offers two options for their evaluation: cost model or fair value model. As compared to IAS 16“ Property, plant and equipment”, where, if cost model is applicable, entities are only encouraged to disclose the fair value in the notes, IAS 40 “Investment Property” requires the estimation of fair value, for evaluation (fair value model) or to present in the notes (cost model).

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

4. Determination of fair value (continued)

For in assets held for continuing use, it can sometimes be difficult to estimate fair value minus costs of disposal. In the absence of a reliable basis for estimating the amount that an entity could obtain, from the sale of these assets in an arm's length transaction between knowledgeable, willing parties, IAS 36 ”Impairment of Assets” indicates that the entity may use the asset's value as its recoverable amount (fair value is equal with the value in use).

As of January 1, 2013 requirements are applicable to the valuation of assets and liabilities at fair value under IFRS 13 “Fair Value Measurement”. IFRS 13 applies to assets and liabilities held by an entity for which, in accordance with other standards, it is required or permitted a fair value measurement or disclosure about fair value is required.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.. The price used to assess the asset or liability at fair value is not adjusted by the amount of transaction costs because they are not a feature of the asset or liability, but a feature of the transaction.

Fair value assessment of an asset or liability considers the characteristics of the asset or liability which that market participants would consider in determining the price of the asset or liability at the measurement date.

Fair value measurement is performed on the assumption that an asset or liability is traded between market participants according to the normal conditions of sale of an asset or the transfer of a liability that characterizes the market at the measurement date. A normal transaction involves access to the market for a period that precedes evaluation enabling typical marketing activities and usual for those trading the respective assets or liabilities.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

5. Revenue

		2016 RON	2015 RON
IAS 18.35(b) (i)	Sales of goods	63,212,971	26,676,789
IAS 18.35(b) (ii)	Rendering of services	1,685,062	1,809,730
IAS 18.35(b) (iv)	Commissions	-	-
IAS 40.75 (f) (i)	Incomes from rental of investment properties	-	36,963
	Total	**64,898,033**	**28,523,482**

The Shipbuilding sales revenues from Orsova, registered a significant increase due to changes in particular delivery deadlines and specific requirements of the company's production. We refer to the fact that a ship tank and 2 pontoons in the amount of 4,016,545 EUR were almost completed by the end of 2015 were delivered, this has led to an increase in deliveries in the year 2016 in relation to 2015 with 137%. With all these increases, the construction market of inland waterway ships/maritime continued to be poor and in the year 2016.
These presentations are made by the Company in accordance with IFRS 8.

6. Other income

	2016 RON	2015 RON
Rental income (other than rental of investment property)	10,912,204	8,597,931
Income from compensations and penalties	-	27,946
Other operating incomes	31,210	77,389
Total	**10,943,414**	**8,703,266**

Same as last year, the amounts entered in the position of rental income relates mainly to those from ship exploitation (hydro clap barge) rented at Agigea branch. The Company managed to rend the 5 barges during almost the whole year of 2016, aspect which lead to an increase of income. In 2016 repairs were made to Midia 6 barge. It is expected that after the repairs and upgrades and also after the contracts signed in 2015, these barges will be rented also in 2017. The barges were rent, in all cases, by extra-community companies.

These presentations are made by the Company in accordance with IFRS 8. 6

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

7. Expenses related to inventories

	2016 RON	2015 RON
Raw materials	16,463,081	7,638,237
Consumables, including:	12,981,592	6,179,921
Auxiliary materials	11,254,499	*5,296,218*
Fuel	740,196	*402,531*
Spare parts	549,361	*241,321*
Other consumables	437,536	*239,851*
Materials in the form of small inventory	345,934	321,139
Materials not stored	272,044	150,215
Goods for resale	15,307	25,043
Trade discounts received	(1,334)	(2,001)
Total	**30,076,624**	**14,312,554**

8. Utility expenses

	2016 RON	2015 RON
Electricity	1,357,482	932,446
Water	53,475	52,224
Other expenses	-	23,023
Total	**1,410,957**	**1,007,693**

IAS 1.104

9. Personnel expenses

	2016 RON	2015 RON
Salaries	16,571,082	9,596,495
Social security contributions	4,147,063	2,325,253
Total	**20,718,145**	**11,921,748**
Number of employees	**330**	**333**

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

10. Receivables allowances and inventories write-down

	2016 RON	2015 RON
Bad debts written off	-	3,095
Impairment of current assets	153,003	113,843
Income from current assets Impairment	(125,351)	(448,050)
Total	**27,652**	**(331,112)**

IAS 1.97 **11. Other expenses**

	2016 RON	2015 RON
Maintenance and repair expenses	166,266	126,302
Royalties and rental expenses	932,848	413,181
Insurance premiums	223,459	151,545
Commissions and fees	21,589	74,066
Protocol, promotion and advertising	32,908	36,829
Transport of goods and personnel	2,826,837	911,039
Travel	1,318,034	796,266
Postage and telecommunications	53,336	58,757
Bank commissions and similar charges	134,931	176,208
Other third party services	6,639,323	2,687,955
Other taxes, duties and similar expenses	425,285	365,108
Expenses with the environment protection	6,203	10,599
Fixed assets reevaluation	-	174,235
Losses from the fair value of investment property	-	-
Compensations, fines and penalties	594,558	22,147
Other operating expenses	63,873	70,813
Total	**13,439,450**	**6,075,650**

The increase of operational income lead to an increase of operational expenses. Expenses with transportation of goods and people have also grown. They refer to the transport of river ships built at headquarters, on the route: Orşova - Rotterdam, or other delivery points from the Netherlands / Germany indicated in commercial contracts. While in 2015, 5 ships were delivered, in 2016 a total number of 14 ships were delivered. We specify that in accordance with contractual provisions, the transfer of ownership shall occur with the delivery of the ships in these points, throughout the transport risks being our task.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

11. Other expenses (continued)

Due to lack of personnel and to ensure the delivery of the vessels, the company proceeded to the subcontracting of works of building ships, more than in previous years, highlighted the increase in costs and in the services performed by third parties.

Travel expenses and postings increased from last year refer mostly to foreign currency payments to navy crews hired, as long as they were leased to external.

Auditors' fees: The Company recorded in 2016 obligations to statutory auditors (fees) amounted at 64,028 RON, VAT included (during the year 2015 – 68,130 RON, VAT included), related to statutory audit of annual financial statements and for internal audit services, the amounts paid during 2016 were 38,866 RON, VAT included (for the year 2015 – 39,636 RON, VAT included). In 2016 the company did not benefit from tax advisory services and other non-audit services.

IAS 1.86 **12. Financial Revenue and Expenses**

Recognized in income statement

		2016	2015
		RON	RON
IFRS 7.20 (b)	Interest income related to deposits	15,781	53,713
IAS 21.52 (a)	Income from exchange rate differences	1,124,431	1,161,218
	Other financial revenues	330	-
	Total financial revenue	**1,140,542**	**1,214,931**
IAS 7.20 (b)	Interest expense	36,172	73,250
IAS 21.52 (a)	Exchange rate differences expenses	1,017,368	1,165,731
	Other financial expenses		-
	Total financial expenses	**1,053,540**	**1,238,981**
	Net financial result	**87,002**	**(24,050)**

In connection with the above amounts are the following specifications:

- interest income is related to bank deposits during the year, and the majority was the interest for a deposit in the amount of 400,000 Euro, build up as collateral at BRD to guarantee an overall limit of 2 million Euro;
- The Interest expenses are related to the bank loans contracted in the first part of 2016 (trim I 2016). At 31.12.2016 the company had no bank loans;
- Incomes from exchange rate differences were lower that the exchange rate differences expenses, therefore, overall, in 2016 the Company registered a profit of 107,063 RON.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

13. Income tax expenses

Reference		2016	2015
	Current income tax expenses		
IAS 12.80 (a)	Current period	803,514	180,896
IAS 12.80 (b)	Adjustments of previous periods	-	-
	Deferred income tax expenses		
IAS 12.80 (c)	Initial recognition and reversal of temporary differences	34,790	138,378
IAS 12.80 (g)	Changes in previously unrecognized temporary differences	-	-
IAS 12.80 (f)	Recognition of previously unrecognized tax losses	-	-
	Total income tax expenses	**838,304**	**319,274**
IAS 12.81 (c)	**Reconciliation of effective tax rate**		
	Profit for the period	3,564,654	590,898
	Non-deductible expenses	1,203,017	697,485
	Non-taxable incomes	962,746	792,371
	Elements similar to expenses	-	29,880
	Legal reserve	178,216	29,545
	Revaluation surplus transferred to retained earnings	1,494,003	709,639
	Loss to be recovered from previous exercises	-	-
	Profit for the financial year	5,120,712	1,146,226
	Sponsorships	15,800	2,500
	Total income tax	803,514	180,896
	Profit after tax	2,792,859	396,807
	Loss for the financial year for which no deferred tax asset was recognized	-	-

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

14. Deferred tax assets and liabilities

On May 1, 2009, the stipulations of Emergency Government Ordinance no. 34 were enforced, which have limited the deductibility of certain expenses in calculating the income tax. The greatest influence is due to the non-deductibility of revaluation surpluses transferred to retained earnings since 2004, the impact on income tax expenses of the Company being significantly. On 31 December 2015, the revaluation reserve related to revaluations after 1 January 2004 has increased from the previous year and is amounted to 18,248.979 RON.

Deferred tax liabilities are represented by the amounts of income taxes payable in future periods as a result of existing taxable temporary differences. In the determination of deferred tax, the tax rate used is stipulated in fiscal regulations in force at the date of the financial statements, respectively 16%.

Deferred tax assets and liabilities are attributable to the following items:

	ASSETS		**LIABILITIES**		**NET**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Tangible Non-Current Assets	260,644	252,178	35,575	922,611	225,069	(670,433)
Employee Benefits	58,715	26,851	26,996	32,333	31,719	(5,482)
Tax incentives	-	-	28,515	14,203	(28,515)	(14,203)
Receivables/liabilities	7,793	98,332	7,793	96,569	**-**	**1,763**
Deferred tax assets/liabilities	**327,152**	**377,361**	**98,879**	**1,065,716**	**228,273**	**(688,355)**

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

IAS 16 **15. Tangible Non-Current Assets**

		Land and buildings	Machines and Equipment	Furniture and fixtures	Work in progress	Total
		RON	**RON**	**RON**	**RON**	**RON**
	Cost or assumed cost					
IAS 16.73 (d)	Balance at 1 January 2016	22,204,767	49,879,578	527,253	141,163	72,752,761
IAS 16.73 (e)(i)	Acquisition	99,440	1,531,404	-	2,331,616	3,962,460
IAS 16.73 (e)(ii)	Disposals of tangible non-current assets	-	22,448	1,936	1,781,280	1,805,664
	Net reevaluation	-	(1,107,639)	-	-	(1,107,639)
IAS 16.73 (d)	Balance at 31 December 2016	22,304,207	50,280,895	525,317	691,499	73,801,918
	Depreciation and impairments					
IAS 16.73 (d)	Balance at 1 January 2016	-	32,893,372	442,982	-	33,336,354
IAS 16.73 (d)(vii)	Depreciation for the year	2,023,092	3,235,627	16,103	-	5,274,822
IAS 16.73 (d)(vi)	Reversal of impairment losses	32,476	2,227	-	-	34,703
IAS 16.73 (d)(ii)	Disposal of tangible non-current assets	-	1,193,620	1,936	-	1,195,556
IAS 16.73 (d)	Balance at 31 December 2016	2,055,568	34,937,606	457,149	-	37,450,323
IAS 1.78 (a)	**Net book value**					
	Balance at 1 January 2016	**22,204,767**	**16,986,206**	**84,271**	**141,163**	**39,416,407**
	Balance at 31 December 2016	**20,248,639**	**15,343,289**	**68,168**	**691,499**	**36,351,595**

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

IAS 16 **15. Tangible Non-current Assets (continued)**

On 31 December 2016, land has a book value of 1,220,578 RON and represents an area of 90,925 square meters, of which:
• 90,715 square meters at its headquarters in Orşova and
• 210 square meters at its Branch in Agigea, Constanta County.

The company has completed cadastral situation for the entire area of the premises owned by Orşova headquarters. The company has completed the land register for the whole situation in the area of property at its headquarters in Orşova.

Revaluation of tangible non-current assets

On 31 December 2004, the value of tangible non –current assets is presented at historical cost, indexed in accordance with government decisions ("GD"), which were applied by that date or at historical cost.
At 31 December 2005 the Company proceeded to revise the value of tangible assets by using the opinion of specialists, employed by the Company. At 31 December 2006, the Company proceeded to review the value of buildings and special constructions using the opinion of specialists, employed in the Company. On 31 December 2007, the Company has not proceeded to review the value of assets at the Orşova headquarters, instead, Agigea Branch conducted a revaluation of fixed assets of structures and ships group, before the merger, under the old name: SC Servicii Construcţii Maritime S.A. Agigea.

During 2007, 2008 and 2009 there were entries recorded in the technological equipment category and other intangible category which leads to a presentation in the financial statements, of the assets of these groups, both at historical cost indexed in accordance with government decisions (" GD "), and historical cost.

At 31 December 2009, the Company proceeded to the revaluation of buildings and special constructions, both at the headquarters in the town of Orşova and at Agigea branch, using the opinion of independent external evaluators. The reflection method of the revaluation in the company's bookings was to eliminate the depreciation from the book value of assets. The amount of the revaluation surplus was credited to revaluation reserve balance for those targets whose fair value was higher than the net book value, and for the other purposes for which the fair value has been less than the book value a reduction of the existing revaluation surplus was reflected affecting operating expenses for the purposes for which revaluation reserves were not previously recognized or the recognized revaluation reserve was insufficient to cover the decrease.

At 31 December 2010 and 2011, the company did not revalued non-current assets.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

IAS 16 **15. Tangible Non-current Assets (continued)**

At 31 December 2012, the company revalued buildings and means of naval transport, both at headquarters in the town of Orșova and Agigea branch using the opinion of an independent external value. The Company has used the net value model. The amount of the revaluation surplus was credited to revaluation reserves for those assets which fair value was higher than the net book value, and for the other assets which fair value has been lower than the book value a reduction of the existing revaluation surplus, was reflected affecting operating expenses for the purposes for which revaluation reserves were not previously recognized or the recognized revaluation reserve was insufficient to cover the decrease.
For the fixed assets that are under conservation at Agigea branch, an impairment of 6,739 RON was recognized.

At 31 December 2013, the company proceeded to the revaluation of means of naval transport, both at headquarters in the town of Orșova and Agigea branch using the opinion of some independent external evaluators. The reflection method of the revaluation in the company's bookings was to eliminate the depreciation from the book value of assets. The amount of the revaluation surplus was credited to revaluation reserve balance for those targets whose fair value was higher than the net book value, and for the other purposes for which the fair value has been less than the book value a reduction of the existing revaluation surplus was reflected affecting operating expenses for the purposes for which revaluation reserves were not previously recognized or the recognized revaluation reserve was insufficient to cover the decrease.
For the fixed assets that are under conservation at Agigea branch, an impairment of 155,474 RON was recognized, at the end of 2013; at 31.12.2012 the impairment was 6,739 RON.

At 31 December 2014, the company proceeded to the revaluation of means of naval transport using the opinion of some independent external evaluators, applying the same rules and methods regarding the registration of the resulting differences.
For the fixed assets that are under conservation at Agigea branch, an impairment of 195,218 RON was recognized, at the end of 2014; at 31.12.2013 the impairment was 155,474 RON.

At 31 December 2015, the company proceeded to the revaluation of means of naval transport, both at headquarters in the town of Orșova and Agigea branch using the opinion of some independent external evaluators. The reflection method of the revaluation in the company's bookings was to eliminate the depreciation from the book value of assets. The amount of the revaluation surplus was credited to revaluation reserve balance for those targets whose fair value was higher than the net book value, and for the other purposes for which the fair value has been less than the book value a reduction of the existing revaluation surplus was reflected affecting operating expenses for the purposes for which revaluation reserves were not previously recognized or the recognized revaluation reserve was insufficient to cover the decrease.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

IAS 16 **15. Tangible Non-current Assets (continued)**

For constructions and ships, an increase amounted at 2,181,569 RON was recorded. However analyzed individually, there are positions that present decreases, their total value is amounted at 3,591,056 RON, out of which 3,416,821 RON were incurred from revaluation surplus previously recorded for these items and 174,235 RON were supported on costs.
Please note that further information regarding the revaluation can be found in the Administrators' report prepared and presented separately in the general meeting of shareholders.

The company has used the services of a certified evaluator DARIAN DRS SA, headquartered in Timisoara. The evaluator has long experience and our collaboration is for approx. 4 years.
Valuation techniques used by the evaluator for fixed assets under IFRS 13.91, were as follows:
• The cost approach for naval means of transport and for fixed assets in conservation
• The income approach for leased buildings (investment properties).

On December 31, 2016, the company proceeded to the revaluation of fixed assets amounted to the nature of shipping assets, using the same external independent evaluator's opinion and based on the same rules on recording differences in results. In the ordinary general meeting of shareholders, the results of this reassessment will be presented as visually distinct agenda.
For fixed assets placed in conservation at Agigea branch was recognized an impairment at the end of the year 2016 total of 287,458.76 RON (to 31.12.2015 this impairment was of 252,756.17 RON)

According to IFRS 13, valuation at fair value of buildings and means of naval shipping supposed taking into consideration the characteristics of the assets, which users of financial statements would consider in determining the price of the asset at the balance sheet date. Fair value determination was carried out by an independent external evaluator and shall be treated as level 2 under IFRS 13 for the data taken into account in determining the fair values as at 31 December, the date of financial reporting. At the company level, there has not been any change of the level presented by IFRS 13 for the data taken into account in determining the fair values. Also, the maximum amount for assets valued at fair value does not differ from the current amount of use.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

IAS 16 **15. Tangible Non-current Assets (continued)**

Tangible non-current assets presented at fair value, compared with cost model according to IAS 16.77 (e)

- RON-

Name	Land	Plant	Equipment (Means of transport)
Fair value at 31.12.2016	1,220,578	20,984,189	9,082,439
Revaluation surplus	572,314	19,507,322	4,961,242
Net book value according to cost model	648,264	1,200,860	4,121,197

Impairment losses and subsequent reversals

The revaluation and an impairment test for assets under conservation at Agigea branch were made at 31.12.2016. This resulted in an 287,459 RON impairment of which related to the Group of buildings 32,476 RON, and 254,983 RON other related fixed assets, the previous year the value was of 252,756 RON.

Pledged or mortgaged tangible assets

To guarantee the multi-option and multi-currency global limit, in value of 2,000,000 EUR (down with 1.000.000 euro, compared to the previous year), made available by BRD-GSG SA, the Company established the following:

- First rank mortgage on the following properties: Repair hall, New Hall, Thermal power station, Compressors Station and PSI Shed, Operating Group, Cafeteria, Merged building, all together with the related land, buildings assessed in accordance with the Warranty Monitoring Report at 1,512,800 EUR market value, registered in the Land Registry under the following numbers 1133, 1146, 1121, 1145, 1134, 1135 and 1132;
- Security interest with dispossession on a deposit in value of 400,000 EUR.
- Warrant in form of Assignment of receivables in total value of 10,417,685 EUR, resulting from signed contracts, from which 7 (seven) uncollected contracts at 31.12.2016 amounted at 6,459,660 EUR.

Tangible assets in progress:

The company has several investment objectives in progress that could not be completed by 31.12.2016, amounted at 691,499 RON:

- developing investment at its headquarters in Orșova worth 122,026 RON, which relates to a project concerning the upgrading and securing computer network;
- 8 welders imported from the United States of America, in the amount of 185,672 RON, and which were not put into operation on December 31, 2016, not completed customs formalities;

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

IAS 16 **15. Tangible Non-current Assets (continued)**

- A boat with cabin purchased during the year 2016, second hand, whose works of repair and operation were not completed until 31 December 2016; its value at 31 December 2016 was 324,627 RON;
- ongoing investment Agigea Branch, worth 59,173 RON, with reference to a slipway;

Changes in Accounting Estimates

At the revaluation conducted in 31.12.2015, some of the fixed assets that were fully depreciated, have been assigned a new value, which led to a reconsideration of their useful life, term that was used in the depreciation calculation, starting with 2016.

Changes in classification

At December 31, 2012 when the financial statements were restated in accordance with IFRS, the company reconsidered certain assets, according to IAS 40, from the fixed assets category to investment property. The assets are represented by two buildings under the Agigea Branch management (headquarters and merged building), which are given to use, by rental, to third parties. At 31.12.2015 these buildings are no longer in this situation and they were reconsidered in the buildings category where were featured throughout the year 2016.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

IAS 38 **16. Intangible Assets**

IFRS 3.61 *IAS 38.118 (c), (e)*		**Other assets**	**Total**
	Cost	**RON**	**RON**
IFRS 3.B67 (d)(viii),IAS 38.118	Balance at January 1, 2016	1,221,406	1,221,406
IAS 38.118(e)	Acquisitions	650	650
	Disposals of intangible assets	210	210
IAS 38.118	Balance at December 31, 2016	1,221,846	1,221,846
	Amortization and impairment		
IFRS 3.B67 (d)(i),IAS 38.118	Balance at January 1, 2016	1,132,267	1,132,267
IAS 38.118(e)(vi)	Amortization during the year	33,687	33,687
IAS 38.118(e)(iv)	Impairments		
	Disposals of intangible assets	210	210
IFRS 3.B67 (d)(viii),IAS 38.118	Balance at December 31, 2016	1,165,744	1,165,744
	Book values		
IAS 38.118(c)	**Balance at January 1, 2016**	**89,139**	**89,139**
IAS 38.118(c)	**Balance at December 31, 2016**	**56,102**	**56,102**

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

IAS 39 **17. Other investments, including derivatives**

Investment securities are recognized in the financial statements in accordance with IAS 27 (reviewed in 2010), IAS 36 (reviewed in 2009), IAS 39 (reviewed in 2009) and IFRS 7 (issued in 2008). With the stipulation from the 4 standards, the company adopted the following policy for the recognition and valuation of shares and securities:

- investments in subsidiaries, jointly controlled entities and associates are recognized at cost ;
- short-term investments held for sale, unlisted on the stock exchange market, are recorded at cost. For value depreciation, the company makes adjustments (the depreciation treatment for these securities is determined by IAS 39, paragraph 63);
- short-term investments held for sale listed, on the stock exchange market, are recorded at fair value (the value of trading on the last day of the year). In case of winnings or losses, they will be recognized in capital. If there are any objective evidence of impairment (as presented in paragraph 59 of IAS 39), as well as gains and losses from exchange rate differences, the loss of value is recognized in the period result.

	2016			2015		
Other investment	**Book value**	**Allowance for impairment**	**Net worth**	**Book value**	**Impairment adjustments**	**Net worth**
Long-term investment						
Shares held at Kritom	684,495	684,495	0	684,495	684,495	0
Total long-term investment	**684,495**	**684,495**	**0**	**684,495**	**684,495**	**0**

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

IAS 39 **17. Other investments, including derivatives (continued)**

In 1993, S.C. Servicii Construcţii Maritime S.A. ("SCM"), a company acquired by Şantierul Naval Orşova S.A. during the financial year ended 31 December 2008, made with the Anonymous Society "Domik Kritis", based in Crete, a joint venture named "Kritom Shipping Company", based in the city Iraclio, Crete. The share capital owned by SCM at Kritom Shipping Company was 49%. According to existing data in the Company's records, Kritom increased its share capital twice without consulting SCM, so SCM hired a lawyer to check the legality of the capital increase.

Anonymous Society "Domiki Kritis" presents the total amount of share capital of "Kritom Shipping Company" in the amount of 1,923,545 EUR, consisting of 6,565 shares, worth 293 euros each, and two shareholders structure is:

- Anonymous Society "Domik Kritis' 4.505 shares, representing 68,62% of the share capital;
- The Company: 2,060 shares, representing 31,38% of the share capital..

In accordance with IFRS 13, fair value evaluation of short term investments assumes taking into consideration the characteristics that market participants would consider in determining the price of the asset at the measurement date. Fair value determination was made according to the available information on the interbank market and is assimilated to the first level required by IFRS 13 for data taken into account in determining the fair values at December 31, the reporting date. In the Company, changing the level prescribed by IFRS 13 for the data taken into account in determining the fair values relating to bank deposits was not the case. Also, the maximum utilization value of the evaluated assets at fair value does not differ from the current value of use.

On 31 December, 2016, the Company had fully set up impairments for these securities, amounted to 684,495 RON, so the net value on 31 December 2016 was 0 RON (the same situation was registered at 31 December, 2015).

As specified above, the impairment indicators have litigious nature. The Convention establishing Kritom shipping company states that the company period is during 1992-2012. From the steps taken, the data and information that we have, it is not certain whether the company is operating or not.

This financial asset is part of the investments held until their due date category, in accordance with IFRS 7.8.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

IAS 39 **17. Other investments, including derivatives (continued)**

Trade receivables and other receivables

On 31 December 2016, the company had outstanding receivables amounted to 70,550 RON as follows:

- Warranty for fuel acquisition from Rompetrol	6,000 RON
- Escrow (Holland)	20,222 RON
- Warranty Orşova Customs	44,328 RON

IAS 40 **18. Investment properties**

		2016	2015
		RON	**RON**
IAS 40.76(a)	Balance at January 1	0	852,504
IAS 40.76(f)	Purchases	-	-
IAS 40.76(d)	Transfer of property, plant and equipment	-	-
IAS 40.76(d)	Disposals / impairment	0	852,504
	Balance at 31 December	**0**	**0**

In June 2009, the Agigea branch proceeded under contract nr.1683 to lease a building located in Constanța and which is called "Headquarters" by SC City Protect. The lease contract in question was extended until 31.12.2013, and later until 31.12.2014.

In 2015, SC City Protect canceled the lease contract and the building in currently free. The same situation is with another building called "Merged Building" which was leased by branch Agigea to Nedis-Sed SRL Constanţa, but in 2015 the lease contract was canceled.
At 31.12.2016, these two buildings are in the buildings category (account 212).

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

19. Inventories

		2016	2015
		RON	**RON**
IAS 1.78 (c),2.36(b)	Raw materials and consumables	7,971,275	10,637,389
IAS 1.78(c), 2.36(b)	Work in progress	38,158,625	53,859,593
IAS 1.78(c), 2.36(b)	Finished goods	-	-
	Write-downs	(7,176,048)	(7,119,505)
	Inventories at net value	**38,953,852**	**57,377,477**

IAS 1.104,2.36(e)(f) For inventories made out of metal, older than 3 years, and for other inventories older than 2 years, without movement, the company adjusted the book value, making a total write-down of 7,176,048.41 RON. Of this total value, 6,734,626.10 RON, represents the write-down of production in progress related to two external orders, and was calculated as the difference between the estimated costs for these orders and contract price, as presented in the administrators report, Chapter 4.2.1.

Evolution of inventory write-downs

		2016	2015
		RON	**RON**
IAS 1.104,2.36(e,g)	Opening balance	(7,119,505)	(7,449,998)
IAS 1.104, 2.36(e,g)	Write-downs reversal	49,392	396,146
IAS 1.104, 2.36(e,g)	Write-downs	(105,935)	(65,653)
	Closing balance	**(7,176,048)**	**(7,119,505)**

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

20. Trade receivables and related, other receivables and accrued expenses

		2016	2015
		RON	**RON**
IAS 1.78 (b)	Trade receivables	6,367,059	4,566,386
	Receivables allowances	(3,254,685)	(3,294,833)
IFRS 7.8(c)	**Loans and net receivables**	**3,112,374**	**1,271,553**
	Receivables – total	**832,029**	**1,704,596**
	Sundry debtors	364,897	309,163
	Suppliers – debtors	33,603	18,709
	VAT receivable and under settlement	415,101	1,269,231
	Allowances for other receivables	(302,249)	(290,992)
	Other expenses	320,677	398,485
	Total trade receivables and other receivables	**3,944,403**	**2.976.149**
	Accrued expenses	**42,990**	**59.669**
	Total	**3,987,393**	**3,035,818**

Trade receivables showed an increase unlike the same period of the previous year especially from uncollected trade receivables. The balance of uncollected trade receivables refers to current invoices. There is no doubt regarding their collection. However, at 31.12.2016 there were, in Agigea branch's records, uncollected trade receivables older than 1 year for which there were recognized receivables allowances amounted to 3,254,685 RON.

Company's trade receivables are denominated in the following currencies:

Currency	**2016**	**2015**
USD	19,359	19,359
EUR	1,187,348	787,883
RON	891,883	940,026

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

20. Trade receivables and related, other receivables and Accrued expenses (continued)

Movements of the Company's receivables allowances are as follows:

	2016	2015
	RON	RON
On 1 January	3,294,833	3,307,742
Allowances reversed	52,575	51,903
Recognized allowances	12,427	38,994
Balance at end of period	**3,254,685**	**3,294,833**

21a. Short term investments

Deposits in banks in RON	4,300,000	-
Deposits in banks in foreign currency	1,816,440	-
Total	**6,116,440**	-

Deposits at banks in RON and foreign currency deposits in banks, presented by the company as other short term investments as at 31 December 2016 relates to deposits with a maturity of between three months and one year.

21b. Cash and cash equivalents

	2016	2015
	RON	RON
Bank accounts in RON	1,866,492	2,081,112
Bank account in foreign currencies	13,465,716	6,298,412
Petty cash in RON	14,505	10,111
Petty cash in foreign currencies	-	-
Other values	14,214	9,487
Total	**15,360,927**	**8,399,122**

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

22. Capital and reserves

Share capital

IFRS 7.7
IAS 1.79(a)(i),(iii)

The share capital structure on December 31, 2016 is as follows:

	Number of shares	Amount (RON)
SIF 3 Transilvania	5,711,432	14,278,580
SIF 5 Oltenia	2,421,858	6,054,645
SIF 4 Muntenia	1,504,600	3,761,500
Other corporate shareholders	895,739	2,239,348
Other individual shareholders	889,290	2,223,225
	11,422,919	**28,557,298**

The subscribed and paid up share capital is amounted to 28,557,298 RON, divided into a number of 11,422,919 nominal and dematerialized shares, each worth 2.50 RON.

Compared with the existing ownership structure at 31 December 2015, there are no significant changes. There is, however, a slight decrease of individuals holdings by increasing the SIF5 holdings.

Shareholders name	**Percentage of ownership (%)**	
	2016	**2015**
SIF 3 Transilvania	49.9998	49.9998
SIF 5 Oltenia	21.2017	21.0433
SIF 4 Muntenia	13.1717	13.1717
Other corporate shareholders	7.8416	7.8422
Other individual shareholders	7.7852	7.9430
Total	**100.00**	**100.00**

The company's shares are dematerialized, ordinary and indivisible.

The identification data for each shareholder, the contribution to the share capital, number of shares owned and the participation of the shareholder in share capital are presented in the shareholder register kept by the company registry (Central Depository) contractually designated for this purpose.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

22. Capital and reserves (continued)

Each subscribed and paid share, grants the shareholders, under the law, the right to vote in the General Meeting of Shareholders, to vote or to be elected to the governing bodies, the right to participate in the distribution of profit or any rights derived from the shareholder quality.

Owning shares involves adherence to the status and subsequent amendments.
During 2016 there were no changes in share capital.

Reserves

The Company distributes to the legal reserve 5% of profit before tax, to the limit of 20% of the capital. These amounts are deducted from the basis of income tax calculation. Legal reserves cannot be distributed to shareholders.

The company has not yet reached the maximum level of legal reserves.

Revaluation reserve	Total reserve	Reserves taxed	Untaxed reserves
Recorded before 2004	6,791,899	-	6,791,899
Recorded at 31.12.2006	1,599,654	730,952	868,702
Recorded at 31.12.2007	4,752,716	1,251,161	3,501,555
Recorded at 31.12.2009	1,055,709	288,119	767,589
Recorded at 31.12.2012	3,667,913	1,163,289	2,504,624
Recorded at 31.12.2013	1,085,685	222,320	863,365
Recorded at 31.12.2014	158,397	39,163	119,234
Recorded at 31.12.2015	5,701,414	714,953	4,986,461
Recorded at 31.12.2016	227,491	-	227,491
	25,040,878	4,590,725	20,450,153

Revaluation reserves related to revaluations made after 1 January 2004 will be taxed in the same time with the deduction of fiscal depreciation at taxable profit calculation, or at the disposal of fixed assets which refer to these reserves, according to tax regulations.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

22. Capital and reserves (continued)

IAS 1.107 **Profit appropriation / Cover for previous loss**

In 2012 and 2013, due to losses, the company does not distribute dividends to shareholders. The profit for the financial year 2014 and 2015 was used to cover part of the losses from previous years, remaining at 31 December 2016 uncovered loss worth 5,907,571.68 RON, plus a loss carried forward from the accounting correction amounting of 11,339 resulting a total loss carried forward of 5,918,910.68 RON.

In relation to loss carried forward of 5,918,910.68 RON, the company's Board of Directors proposes to the general meeting of the ordinary shareholders ' meeting (AGOA), approving the financial statements for 2016, covering it from other reserves (1068 account representing the net profit in the previous financial years as a source of financing).

It is also subject of approval by the AGOA, by the Board of Directors following:

- Approval to cover losses recorded due to influences arising from the adoption of IAS 29, respectively, of the amount of 40,458,523.95 RON, in 118 account flow "The result carried forward from the first-time adoption of IAS 29" by using the following elements of equity:
    - Account 1028 "Adjustments to the capital" for the amount of 23,496,413.77 RON;
    - Account 1061.02 "Legal reserve account from the application of IAS 29" for the amount of 6,618,312.95 RON;
    - Account 1068.02 “other Reserve Account from the application of IAS 29 "for the amount of 10,343,797.23 RON.
- Approval of the apportionment of the amount of 33,995.30 RON profit reported resulting from the transition to the application of the IFRS, as its own source of funding.
- Approval of distributions of net profit of the year 2016 worth 2,614,643 RON (after the formation of the legal reserve 5% = 178,216 RON) on the following destinations:
    - 2,284,583.80 RON in the form of dividends, representing 0.2 euro/share;
    - 330,059.20 RON as its own source of funding (available to society)

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

23. Earnings per share

Earnings per share are calculated by dividing the net result for the financial year with the weighted average number of ordinary shares outstanding at the end of year. Diluted earnings per share is determined by adjusting the net attributable profit of ordinary shareholders and the weighted average number of shares outstanding, adjusted by the number of own shares held, with dilution effects of all potential ordinary shares.

IAS 33.70(a) **Profit attributable to ordinary shares**

	2016	2015
Profit (loss) for the period	2,792,859	396,807
Dividends for unredeemed preference shares		
Profit (loss) attributable to ordinary shares	**2,792,859**	**396,807**

IAS 33.70(b) **Weighted average number of ordinary shares**

	2016	2015
Ordinary shares issued on 1 January	11,422,919	11,422,919
Effect of own shares held	-	-
Effect of share options exercised	-	-
Weighted average number of ordinary shares at 31 December	11,422,919	11,422,919

IAS 33.70(a) **Profit attributable to ordinary shareholders (diluted)**

	2016	2015
Profit attributable to ordinary shareholders (basic)	2,792,859	-
Interest expense related to convertible bonds after tax	-	-
Profit attributable to ordinary shareholders (diluted)	**2,792,859**	**-**

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

23. Earnings per share (continued)

IAS 33.70(b) **Weighted average number of ordinary shares (diluted)**

	2016	2015
Weighted average number of ordinary shares (basic)	11,422,919	11,422,919
Effect of conversion of convertible bonds	-	-
Effect of share options issued	-	-
Weighted average number of the ordinary shares (diluted) at 31 December	11,422,919	11,422,919
Earnings per share	**0.24**	**0.03**

24. Loans

IFRS 7.7,8 This note provides information about the contractual terms of the Company's interest-bearing loans, measured at depreciation cost. For more information on the Company's exposure to interest rate risk, currency risk and liquidity risk, it can be seen in Note 5 of this package of notes to the financial statements according with IFRS.

Current liabilities

	2016	2015
Current portion of secured bank loans	-	10,449,333

At the end of 2016 the company had no loans contracted. At the end of 2015 the company had loans contracted from BRD amounted at 2,309,500 EUR, respectively 10,449,333 RON.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

24. Loans (continued)

Values of guarantees provided by the Company for short-term loans are presented below:

Explanations guarantees	**2016 RON**	**2015 RON**	
Land	559,009	607,640	BRD
Buildings	6.310,767	6,700,784	BRD
Receivables	40.595,890	36,123,735	BRD
Pledge (collateral deposit)	1.816,440	2,907,962	BRD

Note:

1. On 31st of December 2016 society have approved a single overall limit to BRD guaranteed as stated below.

2. Buildings have been evaluated and taken as warranty at the following market value:

- 2013 - 1,733,000 EUR (* 4.4847 RON/EUR= 7,771,985 RON)
- 2014 - 1,733,000 EUR (* 4.4351 RON/EUR= 7,686,000 RON)
- 2014 - 640,204.14 EUR (* 4.4821 RON/EUR= 2,869,459 RON)
- 2015 - 1,615,300 EUR (* 4.5245 RON/EUR=7,308,424 RON)
- 2016 – 1,512,800 EUR (* 4.5411 RON/EUR=6,869,776 RON)

3. Receivables -value of letters of credit that will be charged by the concerned bank (BRD):

- 2013 - 3,566,760 EUR (* 4.4847 RON/EUR= 15,995,848 RON)
- 2014 - 2,213,440 EUR (* 4.4821 RON/EUR= 9,920,859 RON)
- 2015 - 4,472,000 EUR (* 4.5245 RON/EUR= 20,233,564 RON)
- 2016 - 2,480,000 EUR (* 4.5411 RON/EUR=11,261,928 RON)

4, Pledge on a deposit in the amount of 589,000 EUR BRD, plus accrued interest of:

- 2013 - 589,000 EUR (* 4.4847 RON/EUR= 2,641,488 RON)
- 2014 - 589,000 EUR (* 4.4821 RON/EUR= 2,639,957 RON)
- 2015 - 642,714.64 EUR (* 4.5245 RON/EUR=2,907,962 RON)
- 2016 – 400,000 EUR (* 4.5411 RON/EUR=1,816,440 RON)

The company does not have lease contracts.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

24. Loans (continued)

Through the ***credit agreement No. 70/31.07.2013 and the addendum no. 3 from 30.06.2016*** with BRD-GSG Orsova, the Company contracted an uncommitted credit facility as an overall limit, multi-currency and multi-options in the amount of 2,000,000 (two million) EUR, valid until 30.06.2017, and a limit to hedge foreign exchange amounting to USD 906,000.
The overall unconfirmed limit has several sub-limits, as mentioned below, provided that the maximum value of sub-limits does not exceed in any moment the total amount of 2,000,000 EUR limit:

- Unconfirmed and bi-currency credit line facility in value of maximum 2,000,000 EUR, usable in the following currencies: RON and EUR;
- Facility for issuing letters of guarantee ("SGB facilities") - a maximum of 2,000,000 EUR, usable in the following currencies: RON and EUR, with an issuing date valid until 30.06.2017. Validity of guarantee letters issued shall not exceed 24 months from the issue date;
- Letter of credit facility (L/C revolving and uncommitted facility) - sub-limit to open letters of credit for import, at the request of the borrower under commercial contracts concluded with third parties in a maximum amount of 2,000,000 EUR, usable in the following currencies: RON and EUR, valid until 30.06.2017.
  The validity of opened letters of credit is maximum 24 months from the date of issue.

The credit facility is destinated to finance current activities of the borrower and/or garantee his obligations, as well as to perform transactions with derivatives.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

25. Employee benefits

a) The remuneration of directors and administrators

The Company did not grant advances or loans to directors or administrators in the financial year ended 31 December 2016.

Wage expenses

	Financial year ended at 31 December 2016 (RON)	**Financial year ended at 31 December 2015 (RON)**
Administrators	408,418	322,908
Directors	690,814	768,739
	1,092,232	**1,091,647**

The composition of the Board of Directors, as resulting from the vote at a general meeting of shareholders in April 2015, when the new Board of Directors was elected, shall be as follows:

The Board of Directors is as follows:

Mr. Mihai Fercală – President

Mr. Firu Floriean – Member

Mr. Lucian Ionescu – Member

Mr. Dan Voiculescu – Member

In 2016 the structure of the Board of Directors will be clarified so that it will respect the legal stipulations of the Articles of Incorporation regarding the number of administrators, which has to be odd. Subsequently, in the year 2016, the general meeting of shareholders on April 2016, the Board was filled with the fifth administrator, being chosen in that position Mr Pantea Marius Ion -member.

Allowances and other rights granted to directors are set out in art. 35 of the Articles of Incorporation and management contracts that were approved by the General Meeting of Shareholders, on 17 April 2015, and wages and other executive rights were determined by the Board of Directors, complying with the limits laid down in art. 35 of the Articles of Incorporation and in the Mandate Contract between the Board of Directors and the General Director. The mandate of the current Board of Directors ends on April 17, 2019.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

25. Employee benefits (continued)

Salaries payable at period end:

	31 December 2016 (RON)	31 December 2015 (RON)
Administrators	26,826	13,971
Directors	16,573	17,691
	43,399	**31,590**

b) Employees

The average number of employees during the year was as follows:

	Financial year ended at 31 December 2016	Financial year ended at 31 December 2015
Administrative staff	44	45
Direct productive staff	238	239
Indirect productive staff	48	49
	330	**333**

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

26. Provisions

		Warranty	Litigations	Other Provisions	Total
		RON	RON	RON	RON
IAS 37.84(a)	**Balance at January 1, 2016**	**-**	**232,919**	**215,764**	**448,683**
IAS 37.84(b)	Provisions recognized during the current period	-	332	986,125	986,457
IAS 37.84(c)	Reversal of provisions during the current period				
IAS 37.84(d)	Complete reversal of provisions during the current period		52,880	787,886	840,766
IAS 37.84(a)	**Balance at December 31, 2016**		**180,371**	**414,003**	**594,374**

IAS 37.85(a),(b) **Warranty:** It refers to the guarantees granted to customers for 6-12 months after delivery as stipulated in commercial contracts. The amount of the provision was calculated based on the paid compensation in total deliveries from the previous year. At 31.12.2016, the company had cancelled the previously established provisions, because damages or compensation under warranty did not exist and were not paid.

IAS 1.125 **Litigation:** It refers to additional amounts calculated in 2015 by AJFP Mehedinţi as payments from legal entities to people with disabilities and related accessories in value of 58,128 RON, disputed by the entity, accessories coming from previous years for which a final decision has not yet been given (31,421 RON); referees' fees for external litigations from past year (90,822 RON).

These provisions are decreasing from the previous year, as a result of the fact that the company has been admitted by the opposition concerning the fine of 37,500 RON applied to Administratia Nationala "Apele Romane" - Administratia Bazinala de Apa Jiu Craiova for infringement of the provisions of Art. 87 para. 18 of the law on water nr 107/1996, with subsequent additions and modifications. The fine was applied on the grounds that the company had deposited materials on Danube, the respective institution inspectors realised it after a person has posted in a daily electronic deposit with the picture, although Society went out and took all the measures that have been imposed by agents to remedy this situation. At the same time, the company has recovered a part (15,380 RON) of accessories for payments from legal entities for the disabled.

Other provisions: At 31.12.2016, the Company had established provisions for untaken vacation days worth 392,811 RON (in 2015: 200,508 RON) and employee retirement benefits amounted at 21,192 RON (in 2015: 15,508 RON)

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

27. Trade payables and other liabilities

	2016	2015
	RON	RON
Trade payables - short term	6,759,838	6,963,893
Social security and other taxes	894,218	761,410
Suppliers - invoices to be received	32,784	8,930
Other creditors	480,758	409,172
Total	**8,167,598**	**8,143,405**

28. Financial instruments

General presentation

The Company is exposed to the following risks from financial instruments usage:

- Credit risk
- Currency exchange risk
- Liquidity risk
- Market risk

These notes to the financial statements disclose information about the Company's exposure to each of the above risks, objectives, policies and processes for assessing and managing risk and procedures for capital management. These disclosures are made by the Company in accordance with IFRS 8. Also, these financial statements include other quantitative information.

The general risk management

The Board of Directors has overall responsibility for the establishment and oversight of the overall risk management in the Company.

Company's risk management policies are defined to ensure the identification and analysis of risks faced by the Company, setting appropriate limits and controls, monitoring risks and compliance with the established limits.

Policies and risk management systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training standards and management procedures, aims to develop an orderly and constructive control environment in which all employees understand their roles and obligations.

The internal auditor of the Company performs standard and ad hoc missions to revise the controls and risk management procedures, the results being presented to the Board of Directors.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

28. Financial instruments (continued)

Credit risk

Credit risk is the risk that the Company could incur a financial loss as a result of failure to fulfill contractual obligations by a customer or counterparty for a financial instrument, and this risk results primarily from trade receivables and financial investments of the Company.

Credit risk arises when a customer fails to fulfill its contractual obligations and reduces cash inflows arising from trade receivables. The Company has a significant concentration of credit risk. The Company applies specific procedures to ensure the credit control and receivables aging.

Credit risk exposure

IFRS. 7.36(a) The book value of financial assets represents the maximum exposure to credit risk.
The maximum exposure to credit risk at the reporting date was as follows:

	Note	2016	2015
		RON	RON
Trade receivables	20	6,367,059	4,566,386
Cash and cash equivalents	21	15,360,927	8,399,122

IFRS. 7.34(a) The maximum exposure to credit risk on loans and receivables at the reporting date by geographic region was as follows:

	2016	2015
	RON	RON
Internal market	891,883	940,026
USD area	83,307	80,295
EUR area	5,391,869	3,564,775
	6,367,059	**4,585,096**

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

28. Financial instruments (continued)

IFRS. 7.34(a) The maximum exposure to credit risk on loans and receivables at the reporting date based on the type of counterparty was as follows:

	2016	2015
	lei	**RON**
Wholesalers	-	-
Retailers	-	-
Final consumers	-	-
Others	6,367,059	4,585,096
TOTAL	**6,367,059**	**4,585,096**

The Company, according to the nature of its activity, commercializes products and services on the foreign markets, especially in the European Community. The manufactured products are of high value (naval and sea ships) with a long manufacturing cycle and are addressed to a relatively narrow market segment. Therefore, when negotiating contracts, the company wishes, as far as possible, to cash an advance payment and to collect the rest of the payment, through an irrevocable letter of credit. The number of customers and percentages owned in total deliveries in recent years are as follows:

CLIENT / BENEFICIARY	YEAR 2016	YEAR 2015
Rensen Driessen Shipbuilding B.V. (NL)	47,2%	60%
Damen Group (NL).	25,2%	22%
Gefo Gesellshaft Fuer Oeltransporte MBH	-	18%
Vos Kaiser	7,0%	
WPI Ship Bulding BV (NL)	6,3%	
W.A.T.Driessen Holding B.V. (NL)	5,4%	-
Consiliul Județean Caraș Severin	5,2%	
BF Don Quichot B.V. (NL)	3,7%	-
TOTAL	**100%**	**100%**

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

28. Financial instruments (continued)

Receivables Allowances

IFRS 7.37(a) Aging of loans and trade receivables at the reporting date was as follows:

	Depreciation 2016	Gross Value 2016	Depreciation 2015	Gross Value 2015
	lei	**lei**	**lei**	**lei**
Before due	-	3,112,374	-	616,277
Overdue from 30 days -1 year	-	-	-	654,462
Overdue from more than one year or litigious	(3,254,685)	3,254,685	(3,294,833)	3,295,647
Total	**(3,254,685)**	**6,367,059**	**(3,294,833)**	**4,566,386**

IFRS 7.16 Trade receivables allowances evolution during the reporting year is disclosed in Note 10.

In the first 6-9 months after the delivery of ships, the Company, provides a performance warranty according to the contract clauses and also estimates a provision for warranties.

Liquidity risk

Liquidity risk is the risk that the Company may encounter difficulties in fulfilling its contractual obligations associated with financial liabilities that are settled in cash.

The Company's approach regarding liquidity risk is to ensure, as far as possible, that it has at any moment sufficient liquidity to settle its liabilities when they fall due, both under normal conditions and under difficult conditions, without incurring material losses or jeopardizing the reputation of the Company.

To prevent certain situations that could put the company unable to meet its payment obligations on time, as noted, the company has contracted one global limit of 2,000,000 where they can engage needed credits.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

28. Financial instruments (continued)

Regarding contracted loans, the Company has a certain exposure to changes in interest rates, particularly in rates due in less than 6 months, or exposure due to the devaluation of the national currency against loan currency. At 31.12.2016 the company did not have contracted any loans. However, if the contracted loans are denominated in EUR, they are exposed to the devaluation risk and have a variable interest rate, as stated below:

Variable rate loans	**2016**	**2015**
	euro	**euro**
	-	2,309,500
Up to 1 year	-	-
Between 1 and 5 years	-	-
Exceeding 5 years		

The Company is exposed to foreign currency risk through sales, purchases and loans that are denominated in their currencies other than the functional currency of the Company, however the currency in which the most transactions are settled, is RON.

IFRS 7.34 *Exposure to currency risk*

Company exposure to currency risk is presented below, based on national values:

	2016		**2015**	
	EUR	**USD**	**EUR**	**USD**
	lei	**lei**	**lei**	**lei**
Trade receivables	5,391,869	83,307	3,564,775	80,295
Guaranteed bank loans	-	-	-	-
Trade payables	1,354,108	-	63,542	-

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

28. Financial instruments (continued)

Currency exchange rates, calculated as the average rate recorded during the reporting year and the previous year and exchange rates communicated by the National Bank of Romania on the last day of the year, were:

Currency	**Average rate**		**Spot rate at the reporting date**	
RON	**2016**	**2015**	**2016**	**2015**
EUR	4.4908	4.4450	4.5411	4.5245
USD	4.0592	4.0057	4.3033	4.1477

a. Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Income and cash flows of the Company may be affected by fluctuations in market interest rates, since the Company has contracts for short and long term loans, bearing interest and with a variable component.

Further, the financial instruments that the Company uses to protect itself from significant variation of the variable components of interest will be described.
It will be mentioned whether the Company quantifies and analyses the impact of possible changes in interest rates on profit or loss.

Exposure to interest rate risk

At the reporting date, the interest rate risk exposure of interest-bearing financial instruments held by the Company was:

Variable rate instruments	**Book value (RON)**	
	2016	**2015**
	lei	**lei**
Financial assets	-	-
Financial liabilities	-	-

Fixed rate instruments	**Book value (RON)**	
	2016	**2015**
	lei	**lei**
Financial assets		
Financial liabilities	-	10,449,333

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

28. Financial instruments (continued)

b. Capital management

The Company's capital management objectives are to ensure the protection and the ability to reward shareholders, to maintain an optimal capital structure to reduce capital costs.

In order to maintain or change the capital structure, the Company may change the number of dividends paid to shareholders, shareholders capital yield, issue new shares or sell assets to reduce debt.

The Company monitors the amount of capital raised on indebtedness. This rate is the ratio of net debt and total equity. Net debts are calculated as total net cash debts. Total equity is calculated as equity plus net debt.

	2016	**2015**
	lei	**lei**
Total liabilities	8,167,598	8,143,405
Cash and cash equivalents	15,360,927	8,399,122
Total shareholders' equity	**100,964,863**	**108,381,469**

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

29. Contingent assets and contingent liabilities

a. Litigation and disputes

The Company is involved in several legal actions that have risen in the normal course of business. The management of the Company considers that they will have no adverse effect on the financial performance and on the financial position of the Company. At 31.12.2016, the balance of contingent assets consisting of court actions in which the Company has the position of the accuser for damages made by former employees is amounted at 11,576 RON.

b. Taxation

The Romanian taxation system is undergoing a process of consolidation and harmonization with the European Union legislation. However, there are still different interpretations of the fiscal legislation. In various circumstances, the tax authorities may have different approaches to certain issues, and assess additional tax liabilities, together with late payment interest and penalties (0.1% per day delay until 30 June 2010). Starting at 1 July 2010, the interest is 0.04% and penalties are 5% for a total delay between 30 and 60 days and 15% for a delay over 60 days. Starting with July 1, 2013 interest charged for each day of delay were set at 0.04% and the applicable penalty rates for each day of delay changed to 0,02%. For the period, subsequent to the date of 1 January 2016, the interest charged for each day of delay were set at 0.02 %, and the odds of the applicable penalties for each day of delay changed to 0.01%. In Romania, the fiscal year remains open to checking tax for five years. The Company's management believes that tax included included in these financial statements are appropriate.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

29. Contingent assets and contingent liabilities (continued)

c. Administrators' remuneration

For the administration activity of the Company, on a management agreement basis, it was agreed to pay a fixed remuneration, issued in the memorandum or the decision of the General Meeting of Shareholders, and a variable remuneration in relation to the achievement of the indicators presented in the revenues and expenditures budget. In accordance with the Decision of The General Meeting of Shareholders, the Company sets the gross profit that will be the base for calculating the annual variable remuneration of administrators. Only after determining the profit level, the variable remuneration is quantified, remuneration which is approved at the General Meeting of The Shareholders which also approves the annual financial statements. The amount of the variable remuneration is based on profit before tax calculation and expense / payment involved by this operation is recognized in the year, when it is approved by The General Meeting of Shareholders.

d. Onerous contracts

An onerous contract is a contract entered with another party under which the unavoidable costs of fulfilling the terms of the contract exceed any revenues expected to be received from the goods or services supplied or purchased directly or indirectly under the contract and where the entity would have to compensate the other party if it did not fulfill the terms of the contract. These unavoidable costs reflect the least net cost of exiting the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it. As at 31 December 2016, the Company had no onerous contracts.

e. The contingent liabilities related to the environment

Environmental regulations are developing in Romania and the Company has not recorded any liability at 31 December 2016 and 31 December 2015 for any anticipated costs, including legal and consulting fees, site studies, the design and implementation of remediation plans, related to environmental matters. Management does not consider the costs associated with environmental issues to be significant.

f. Insurances taken out

At the end of 2016, the Company has concluded insurance policies for owned vehicles and tangible assets pledged and mortgaged.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

29. Contingent assets and contingent liabilities (continued)

g. Transfer price

Romania's tax legislation has stipulated rules regarding transfer pricing between related parties since 2000. The current legislative framework defines the "market value" principle for transactions between related parties, and the transfer pricing methods. As a result, it is expected that the tax authorities to initiate thorough checks of transfer pricing, to ensure that fiscal result and/or the customs of imported goods are not distorted by the effect of prices in relationships with affiliates. The Company cannot assess the outcome of such verification.

h. Warranty letters

On 31.12.2016, BRD-GSG SA have issued to our company a total of three (5) letters of guarantee in total of 280,700 EUR and 231,024.66 RON, of which:
- 1 letter of guarantee to ensure the advance in value of 190.500 EUR issued for Rensen Driessen Shipbuilding BV, available until 30th of July 2017;
- 1 letter of guarantee to ensure good execution, in value of 90,200 EUR, available until 20th of July 2017, issued in favor of Consiliului Judetean Caras Severin;
- 1 letter of guarantee of good payment in the amount of 231,024.66 RON available until 31st of January 2018 issued in favor of Compania Naționale Administrația Porturilor Maritime Constanța;.

30. Related parties

SIF Transilvania SA that owns 49.9998% of the share capital of SC Șantierul Naval Orsova SA is a self-managed, closed financial investment company, classified as "other collective investment undertakings with a diversified investment policy".
SIF Transilvania SA has its administrative headquarters in Brasov, Nicolae Iorga Street, No.2, Braşov, is registered at ORC under no. J 08/3306/1992 and is identified by its unique registration code (CUI) no. 3047687.
The share capital of SIF Transilvania, worth 218.428.666.40 RON, consists of 2.184.286.664 common, nominative shares, issued at a nominal value of 0.1 RON/ share and is traded on Bucharest Stoke Exchange from 1 November 1999.
SIF Transilvania's investment portfolio consists of shares in listed companies and unlisted various industries: tourism, finance, engineering industry, group which includes Şantierul Naval Orşova SA., other branches of the national economy, banks, insurance.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

30. Related parties (continued)

SIF Transilvania SA is administered by a two tier Executive Board structure under the control of a Supervisory Board.

S.I.F. Transylvania aims to administrate investment portfolios and permanently identify investment opportunities in terms of ensuring a reasonable level of investment risk dispersion, in order to give shareholders the opportunity to achieve attractive performance, while increasing capital. Investment portfolios consists of stocks, bonds and other financial instruments, the main sectors in which the company holds interests are tourism, financial sector (banking and non-banking), real estate and energy.

Depository services for financial instruments held in the portfolio are provided by BRD-Groupe Societe Generale, and the Company's financial statements are audited by Deloitte Audit S.R.L. Bucuresti.

S.I.F. Transylvania is a member of the European Private Equity & Venture Capital Association (EVCA) based in Brussels, Asset Managers Association of Romania (AAF) and the Chamber of Commerce and Industry Brasov.

During the period ended at 31 December 2016, the Company conducted transactions with affiliated entities (entities controlled by SIF Transilvania SA) as follows:

Acquisitions of goods and services

	2016	**2015**
	RON	**RON**
ARO Palace Braşov	1,202	1,346
Independenţa Sibiu	187,609	118,375
TOTAL	**188,811**	**119,721**

According to IAS 24 "Related Party Disclosures" section.17-18:

- outstanding balances of receivables and liabilities between related parties are related to commercial transactions and are conducted under terms and conditions similar to terms and conditions which were accepted by third parties and are not guaranteed;
- we cannot provide additional information regarding the given or received guarantees as it was not appropriate to represent;
- We did not establish impairment adjustments on doubtful debts related to outstanding balances and we did not register expenses regarding bad or doubtful debts regarding related parties for which was not the case.

Reference NOTES TO SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY EU

31. Events after the Reporting Period

(i) Exchange rate movements

On 24 February 2017, the RON/USD exchange rate was 4.2669 (this represents an appreciation of RON against USD by 0,85% compared to December 31, 2016), and the RON/EUR exchange rate was 4.5169 (this is an appreciation of RON against the EUR by 0,53% compared to December 31, 2016).

(ii) Inflation

The official inflation rate communicated by the National Statistics in 1998 was 40.6%, in 1999 it was 54.8%, in 2000 it was 40.7%, in 2001 it was 30.3%, in the year 2002 the inflation was 17.8%, in 2003 it was 14.1% , in 2004 was 9.3 %, in 2005 it was 8.6 %, in 2006 it was 4.87%, in 2007 it was 6.57%, in 2008 was 6.3%, in 2009 it was 4.74 % , in 2010 it was 7.96%, in the year 2011 it was 3.14%, in 2012 it was 4.95%, in 2013 it was 1.55%, in 2014 it was 1,07%, in 2015 it was -0,59%. And in 2016 it was -1,55%.

The separate financial statements were approved by the Board of Directors on 24 February 2017 and were signed by:

Administrator,	Prepared by,
Dr. Ec. Mihai Fercală	Ec. Gheorghe Caraiman

A.B.A. AUDIT S.R.L.

S.C. A.B.A. Audit S.R.L.

ADRESA: Timisoara, Str. Moise Nicoară , Nr. 11B
CUI: RO 14907434 • Nr. Inreg. ORC: J35/1537/2002
IBAN: RO43PIRB3701720663001000 • BANCA: Piraeus Bank
TEL: 0256.216.100;• FAX: 0256.205.039
E-MAIL: office.audit@abaconsulting.ro • WEB: www.abaconsulting.ro

INDEPENDENT AUDITORS' REPORT
(Free translation)

To the Shareholders of
ŞANTIERUL NAVAL ORŞOVA S.A

Unmodified auditor's opinion

1. We have audited the accompanying separate financial statements of Şantierul Naval Orşova SA („the Company"), which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and notes to separate financial statements for the year then ended, represented by:

- Net profit:	2,792,859 lei
- Incomes:	77,048,497 lei
- Total assets:	100,964,863 lei

2. In our opinion, the separate financial statements present fairly, in all material respects the financial position of Şantierul Naval Orşova S.A. as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with Accounting Law no. 82/1991, republished, including subsequent amendments and additions, Order of the Minister of Public Finance of Romania no. 881/2012 on application by companies whose securities are admitted to trading on a regulated market of International Financial Reporting Standards and the Order of the Minister of Public Finance no. 2844/2016 for approval of the Accounting Regulations in accordance with International Financial Reporting Standards, including subsequent amendments and additions.

Basis for unmodified auditor's opinion

3. We conducted our audit in accordance with International Standards on Auditing (ISA) elaborated by International Federation of Accountants (IFAC) and adopted by Financial Auditors' Chamber of Romania (CAFR). Those Standards require that, we must agree with ethical requirements and planning and performing the audit in order to obtain reasonable assurance about whether the financial statements are free from material misstatement.

We consider that the audit evidences we have obtained are sufficient and appropriate in order to form a basis for our audit opinion.

Key audit matters

4. The key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters.

i) Revenue recognition

At the level of revenue recognition there are risks of material misstatements like the situations where these may not be recognized by the company's management in accordance with applicable accounting regulations. There may be risks both in terms of the amount of revenue recognized as well as the time of their recognition of possible material misstatements regarding the application of the principle of accrual-based accounting.

Our response to these risks of material misstatements have resulted in performing audit procedures with the purpose of: analysis of contracts, testing the revenue recognition method in accordance with the contract clause. With respect to the likelihood of material misstatements connected with the application of the principle of accrual-based accounting, we realized procedures whereby we correlated the revenue recognition moment with the signing of protocols of reception of ships.

ii) Valuation of receivables

According to the applicable accounting regulations, the management achieves assertions concerning the assessment of receivables at the reporting date, presenting them at the value at which they are expected to be completed.

Our response concerning the risks of material misstatement relating to the management assertions related to the valuation of such receivables at the reporting date, resulted in audit procedures whereby we tested the recognition of doubtful receivables as well as tests for the recalculation of the provisions for doubtful receivables, for those receivables whose due date had been exceeded by more than a year, i.e. claims in involved in litigation.

iii) Inventories evaluation

The management's assertions regarding to valuation can raise risks of material misstatements that would manifest in the sense of failure to apply of accounting regulation regarding valuation of stocks at the reporting date, which state the stocks are valuated at the minimum of cost and net realizable value.

Our response to these risks of material misstatements with regard to valuation assumed tests by which we observed the nature of expenditure capitalized in cost of production. We tested the depreciation of stocks estimated by management of the company by taking as a basis the net realisable value of the reference, and we performed procedures whereby we obtained reasonable assurance that there are no material misstatements with respect to these assertions.

iv) Materiality threshold

Materiality threshold is determined by the auditor as a result of the application of professional judgement as it is prescribed in the International Standards on Auditing.

The benchmark used as a basis in determining materiality was represented by operational revenue taking into account the specifics of the industry in which the company operates. Materiality threshold calculated for the audit mission was 758,000 RON, and the reasons for choosing this threshold were based on the fact that the audit mission was recurring, the previous audit opinions are unmodified, and the risk valuation led us to an appreciation that they are set at a low level.

v) Continuity of activity

The management of the entity is responsible for the evaluation and assessment of preconditions for continuity in the establishment of the financial statements.

Our response was the understanding of the existing risks in connection with the management's assertions regarding on-going concern and we analyzed aspects of developments, the budget of income and expenditure approved for 2017, we have examined the records and the minutes of the Management Board and the General meetings of shareholders and financial contracts for 2017.

All of this led us to the assessment that:

- presumption of going concern in the preparation of the annual financial statements, assumed by the company's management, is adequate; and
- we have not identified any significant uncertainty that could question the company's ability to continue working, in the foreseeable future.

Other matters

5. We mention that our duty was limited strictly to the realisation of the statutory audit regarding the individual financial situations of the Society at December 31st, 2016, us not being assigned to perform the audit of the consolidated financial situations if it was the case.

6. This independent auditor's report is addressed exclusively to the shareholders of the Company. Our audit was conducted in order to be able to report to the shareholders in accordance with the reporting requirements of a financial audit, and not for other purposes. To the extent to which the law allows it, we do not accept and assume any responsibility except for the Company and its Shareholders in respect to our audit, to the report on the separate financial statements and the report on conformity or the opinion.

7. The annexed separate financial statements are not meant to show the financial position, the financial performance and a complete set of notes to the separate financial statements in accordance to accounting regulations and principles in other countries and jurisdictions than Romania. Therefore, the annexed separate financial statements are not for the use of persons who are not familiar with International Financial Reporting Standards and legal regulations in Romania.

Management's Responsibility for the Separate Financial Statements

8. Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with the Accounting Law no. 82/1991, republished, including subsequent amendments and additions, Order of the Minister of Public Finance of Romania no. 881/2012 on application by companies whose securities are admitted to trading on a regulated market of International Financial Reporting Standards and the Order of the Minister of Public Finance no. 2844/2016 for approval of the Accounting Regulations in accordance with International Financial Reporting Standards, including subsequent amendments and additions.

9. This responsibility includes:

i) implementing and maintaining internal control relevant in order to prepare and fair presentation of these separate financial statements that are free from material misstatement, whether due to fraud or error;

ii) selecting and applying appropriate accounting policies;

iii) achieving reasonable accounting estimates for the circumstances.

10. In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern andusing the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibility

11. Our responsibility is to express an opinion on these separate financial statements based on our audit.

12. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

13. The management is responsible for preparing and presenting the management report in accordance with Order of the Minister of Public Finance no. 2844/2016 for approval of the Accounting Regulations in accordance with International Financial Reporting Standards, chapter III, points 15 – 20, that is free from material misstatements and is also responsible for the internal control considered necessary for the preparation of the management report that is free from material misstatement due to fraud or error.

The Management Report presented at page 1 to page 24 and is not part of the separate financial statements.
Our opinion on the separate financial statements does not cover the management report.

Regarding our audit on the separate financial statements, we read the management report annexed to the separate financial statements and presented at page 1 to page 24 and we conclude that:

a) In the management report, we did not find information that is not consistent, in all material aspects, with the information presented in the annexed separate financial statements;
b) The management report identified above includes, in all material aspects, the information requested by Order of the Minister of Public Finance no. 2844/2016 for approval of the Accounting Regulations in accordance with International Financial Reporting Standards, chapter III, points 15-20;
c) Based on our knowledge and understanding acquired during the audit of the separate financial statements for the financial year ended at 31 December 2016, regarding the Company and its environment, we did not identify any information contained in the management report that are significantly misstated.

Timişoara, 1 March 2017

On behalf of A.B.A. AUDIT SRL

Registered with the Chamber of Financial Auditors from Romania
No. 305/23 December 2002

Dr. Dumitrescu Alin Constantin

Registered with the Chamber of Financial Auditors from Romania
No. 4227/29 February 2012.

S.C. "ŞANTIERUL NAVAL ORŞOVA" S.A.
No. RC J25/150/1991 CIF: RO 1614734
Share capital: - issued 28.557.297,5 lei
- paid up 28.557.297,5 lei
No. 4. Tufări Street, Orşova, 225200, Mehedinţi
Tel.: 0252/362.399; 0252/361.885; Fax: 0252/360.648
E-mail:mircea.sperdea@snorsova.ro
marketing@snorsova.ro
IBAN code: RO96RNCB0181022634120001- B.C.R. Orşova
IBAN code: RO59BRDE260SV03176142600- B.R.D. Orşova

STATEMENT

The undersigned Eng. Mircea Sperdea – general manager and Ec. Gheorghe Caraiman – economic manager of S.C. Şantierul Naval Orşova SA with head-office in the town of Orşova, no. 4 Tufări Street, Mehedinţi County, we state that according to our knowledge, the annual financial-accounting situation, corresponding to the year 2016 which was drawn up in compliance with the accounting standards applicable, offer an accurate and corresponding image of the real status of the assets, obligations, financial position, profit and loss management of the above mentioned company.

We stipulate that the company has no branch offices.

We set forth, as well, that the Annual Report of the Management Board of S.C. Şantierul Naval Orşova S.A. drawn up for the year 2016, comprises an accurate analysis of the progress and performances of the company together with the main risks and uncertainties specific to the activity carried out.

General Manager,	Economic Manager,
Eng. Mircea Sperdea	Ec. Gheorghe Caraiman

………

The undersigned Fonea Cristina, certified translator and interpreter for English and French languages, based on the Certification no. 24740, from 31.03.2009, issued by the Ministry of Justice from Romania, I certify the conformity of the translation realized from Romanian into English Language, that the text submitted for translation was translated completely, without any omissions and that, the document didn't change its meaning or sense through the translation made…………………………………..

The document whose translation was requested has 1 page totally, is described as a **Declaraţie** and was submitted to me for translation as a complete document

CERTIFIED TRANSLATOR AND INTERPRETER,

FONEA CRISTINA

STATEMENT OF COMPLIANCE WITH THE BUCHAREST STOCK EXCHANGE CORPORATE GOVERNANCE CODE as of 31.12.2016

Code provision		Compliance Yes/No/Partially	Explanations
SECTION A – RESPONSABILITIES			
A.1	All companies should have internal regulation of the Board which includes terms of reference/responsibilities for Board and key management functions of the company, applying, among others, the General Principles of Section A.	NO	IN PROGRESS
A.2	Provisions for the management of conflict of interest should be included in Board regulation. In any event, members of the Board should notify the Board of any conflicts of interest which have arisen or may arise, and should refrain from taking part in the discussion (including by not being present where this does not render the meeting non-quorate) and from voting on the adoption of a resolution on the issue which gives rise to such conflict of interest.	NO	IN PROGRESS, IN ACCORDING WITH A1
A.3	The Board of Directors or the Supervisory Board should have at least five members.	YES	
A.4	The majority of the members of the Board of Directors should be non-executive. At least one member of the Board of Directors or Supervisory Board should be independent, in the case of Standard Tier companies. Not less than two non-executive members of the Board of Directors or Supervisory Board should be independent, in the case of Premium Tier Companies. Each member of the Board of Directors or Supervisory Board, as the case may be, should submit a declaration that he/she is independent at the moment of his/her nomination for election or re-election as well as when any change in his/her status arises, by demonstrating the ground on which he/she is considered independent in xcharacter and judgement in practice [1].	PARTIALLY	All members of Board of Directors are non executives. In present Board of Directors has not independent members, having in mind that three of main shareholders own 88.5% from total shares number.
A.5	A Board member's other relatively permanent professional commitments and engagements, including executive and non-executive Board positions in companies and not-for-profit institutions, should be disclosed to shareholders and to potential investors before appointment and during his/her mandate.	YES	
A.6	Any member of the Board should submit to the Board, information on any relationship with a shareholder who holds directly or indirectly, shares representing more than 5% of all voting rights. This obligation concerns any kind of relationship which may affect the position of the member on issues decided by the Board.	YES	
A.7	The company should appoint a Board secretary responsible for supporting the work of the Board.	YES	
A.8	The corporate governance statement should inform on whether an evaluation of the Board has taken place under the leadership of the chairman or the nomination committee and, if it has, summarize key action points and changes resulting from it. The company should have a	NO	Development in progress policies for guide of Board evaluation including goal, criterias and frequency of the evaluation process.

[1] A se vedea Codul, prevederile A.4.1. - A.4.9. pentru o enumerare a criteriilor de independenţă. Compendiul bunelor practici de guvernanţă corporativă include o explicaţie cuprinzătoare a conceptului de administrator independent.

	policy/guidance regarding the evaluation of the Board containing the purpose, criteria and frequency of the evaluation process.		
A.9	The corporate governance statement should contain information on the number of meetings of the Board and the committees during the past year, attendance by directors (in person and in absentia) and a report of the Board and committees on their activities.	PARTIALLY	Presently these requests can be found in Management Report of administrators. Follows to be included in yearly declaration.
A.10	The corporate governance statement should contain information on the precise number of the independent members of the Board of Directors or of the Supervisory Board.	YES	
A.11	The Board of Premium Tier companies should set up a nomination committee formed of non-executives, which will lead the process for Board appointments and make recommendations to the Board. The majority of the members of the Nomination Committee should be independent.	NOT IN CASE	Company is included in the standard category
SECTION B -System of risk management and internal control			
B.1	The Board should set up an audit committee, and at least one member should be an independent non-executive. The majority of members, including the chairman, should have proven an adequate qualification relevant to the functions and responsibilities of the committee. At least one member of the audit committee should have proven and adequate auditing or accounting experience. In the case of Premium Tier companies, the audit committee should be composed of at least three members and most the audit committee should be independent.	NO	Board of Directors has not in present independent members, so was not constituted audit comitee
B.2	The Audit Committee should be chaired by an independent non-executive member.	NO	IDEM
B.3	Among its responsibilities, the Audit Committee should undertake an annual assessment of the system of internal control.	PARTIALLY	This activity it is done at the Board of Directors level.
B.4	The assessment should consider the effectiveness and scope of the internal audit function, the adequacy of risk management and internal control reports to the audit committee of the Board, management’s responsiveness and effectiveness in dealing with identified internal control failings or weaknesses and their submission of relevant reports to the Board.	PARTIALLY	This activity it is done at the Board of Directors level.
B.5	The Audit Committee should review conflicts of interests in transactions of the company and its subsidiaries with related parties.	PARTIALLY	This activity it is done at the Board of Directors level.
B.6	The Audit Committee should evaluate the efficiency of the internal control system and risk management system.	PARTIALLY	This activity it is done at the Board of Directors level.
B.7	The Audit Committee should monitor the application of statutory and generally accepted standards of internal auditing. The Audit Committee should receive and evaluate the reports of the internal audit team.	PARTIALLY	This activity it is done at the Board of Directors level.
B.8	Whenever the Code mentions reviews or analysis to be exercised by the Audit Committee, these should be followed by cyclical (at least annual), or ad-hoc reports to be submitted to the Board afterwards.	PARTIALLY	This activity it is done at the Board of Directors level.
B.9	No shareholder may be given undue preference over other shareholders with regard to	YES	

	transactions and agreements made by the company with shareholders and their related parties.		
B.10	The Board should adopt a policy ensuring that any transaction of the company with any of the companies with which it has close relations, that is equal to or more than 5% of the net assets of the company (as stated in the latest financial report), should be approved by the Board following an obligatory opinion of the Board's audit committee, and fairly disclosed to the shareholders and potential investors, to the extent that such transactions fall under the category of events subject to disclosure requirements.	NO	In according with B1
B.11	The internal audits should be carried out by a separate structural division (internal audit department) within the company or by retaining an independent third-party entity.	YES	
B.12	To ensure the fulfilment of the core functions of the internal audit department, it should report functionally to the Board via the audit committee. For administrative purposes and in the scope related to the obligations of the management to monitor and mitigate risks, it should report directly to the chief executive officer.	PARTIALLY	Reporting done directly by Board of Directors
SECTION C -Fair reward and motivation			
C.1	***a. Remuneration policy*** The company should publish a remuneration policy on its website and include in its annual report a remuneration statement on the implementation of this policy during the annual period under review. The remuneration policy should be formulated in such a way that allows stakeholders to understand the principles and rationale behind the remuneration of the members of the Board and the CEO, as well as of the members of the Management Board in two-tier board systems. It should describe the remuneration governance and decision-making process, detail the components of executive remuneration (i.e. salaries, annual bonus, long term stock-linked incentives, benefits in kind, pensions, and others) and describe each component's purpose, principles and assumptions (including the general performance criteria related to any form of variable remuneration). In addition, the remuneration policy should disclose the duration of the executive's contract and their notice period and eventual compensation for revocation without cause. […] Any essential change of the remuneration policy should be published on the corporate website in a timely fashion. ***b. Remuneration report*** The company should publish a remuneration policy on its website and include in its annual report a remuneration statement on the implementation of this policy during the annual period under review. […] The remuneration report should present the implementation of the remuneration policy vis-à-vis the persons identified in the remuneration policy during the annual period under review.	YES	

SECTION D -adding value to the investor relations			
D.1 [2]	The company should have an Investor Relations function - indicated, by person (s) responsible or an organizational unit, to the general public. In addition to information required by legal provisions, the company should include on its corporate website a dedicated Investor Relations section, both in Romanian and English, with all relevant information of interest for investors, including:	YES	
D.1.1	Principal corporate regulations: the articles of association, general shareholders' meeting procedures.	YES	
D.1.2	Professional CVs of the members of its governing bodies, a Board member's other professional commitments, including executive and non-executive Board positions in companies and not-for-profit institutions;	YES	
D.1.3	Current reports and periodic reports (quarterly, semi-annual and annual reports) – at least as provided at item D.8 – including current reports with detailed information related to non-compliance with the present Code;	YES	
D.1.4	Information related to general meetings of shareholders: the agenda and supporting materials; the procedure approved for the election of Board members; the rationale for the proposal of candidates for the election to the Board, together with their professional CVs; shareholders' questions related to the agenda and the company's answers, including the decisions taken;	YES	
D.1.5	Information on corporate events, such as payment of dividends and other distributions to shareholders, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles applied to such operations. Such information should be published within a timeframe that enables investors to make investment decisions;	YES	
D.1.6	The name and contact data of a person who should be able to provide knowledgeable information on request;	YES	
D.1.7	Corporate presentations (e.g. IR presentations, quarterly results presentations, etc.), financial statements (quarterly, semi-annual, annual), auditor reports and annual reports.	YES	
D.2	A company should have an annual cash distribution or dividend policy, proposed by the CEO or the Management Board and adopted by the Board, as a set of directions the company intends to follow regarding the distribution of net profit. The annual cash distribution or dividend policy principles should be published on the corporate website.	YES	
D.3	A company should have adopted a policy with respect to forecasts, whether they are distributed or not. Forecasts means the quantified conclusions of studies aimed at determining the total impact of a list of factors related to a future period (so called assumptions): by nature such a task is based	NO	IN PROGRESS

[2] Conformitatea cu prevederea D.1. înseamnă că societatea este conformă cu toate subpunctele acesteia (D.1.1, D.1.2, etc.).

	upon a high level of uncertainty, with results sometimes significantly differing from forecasts initially presented. The policy should provide for the frequency, period envisaged, and content of forecasts. Forecasts, if published, may only be part of annual, semi-annual or quarterly reports. The forecast policy should be published on the corporate website.		
D.4	The rules of general meetings of shareholders should not restrict the participation of shareholders in general meetings and the exercising of their rights. Amendments of the rules should take effect at the earliest as of the next general meeting of shareholders.	YES	
D.5	The external auditors should attend the shareholders' meetings when their reports are presented there.	YES	
D.6	The Board should present to the annual general meeting of shareholders a brief assessment of the internal controls and significant risk management system, as well as opinions on issues subject to resolution at the general meeting.	YES	
D.7	Any professional, consultant, expert or financial analyst may participate in the shareholders' meeting upon prior invitation from the Chairman of the Board. Accredited journalists may also participate in the general meeting of shareholders, unless the Chairman of the Board decides otherwise.	YES	
D.8	The quarterly and semi-annual financial reports should include information in both Romanian and English regarding the key drivers influencing the change in sales, operating profit, net profit and other relevant financial indicators, both on quarter-on-quarter and year-on-year terms.	YES	
D.9	A company should organize at least two meetings/conference calls with analysts and investors each year. The information presented on these occasions should be published in the IR section of the company website at the time of the meetings/conference calls.	NO	Organization of such events will be analyzed by the Board of Directors and executive management, if it will such requests from investors. In this moment, we appreciate that the information offered by yearly reports, current reports and periodic reports are complete and offers a high degree of transparencies, as so can take decision aware of the cause
D.10	If a company supports various forms of artistic and cultural expression, sport activities, educational or scientific activities, and considers the resulting impact on the innovativeness and competitiveness of the company part of its business mission and development strategy, it should publish the policy guiding its activity in this area.	YES	Company has not such a policy. This request is in Board of Directors attention.

Chairman of the Board of Directors

DR. Ec. Mihai Fercala