



FOUNDED IN 1851

SEVERNAV SHIPYARD

*ANCHORED IN TRADITION QUALITY AND PERFORMANCE*

ADMINISTRATORS' REPORT For the financial year 2019

I. SC SEVERNAV SA PROFILE

SC SEVERNAV SA is located in Drobeta Turnu Severin, 204 Timisoarei str., Mehedinti county.

The company is registered at the Registry of Commerce under no. J25/3/1990, having Fiscal Code no. 1606030, fiscal attribute RO.

The activity takes place in Drobeta Turnu Severin.

The company has no registered workstations.

Severnav's has a shareholders' equity of 12.603.865 lei, divided into 5.041.546 shares, each with a face value of 2,5 lei.

The company's shares are traded on the AERO stock exchange, having the symbol SEVE. The face value of each share is 2,50 lei.

Ownership structure on 31.12.2019, according to the consolidated sintetic structure of the owners of financial instruments.

SHAREHOLDER NAME	NO. OF SHARES	PERCENTAGE %	SHAREHOLDERS' EQUITY VALUE (LEI)
TIRLEA VICTOR	1.587.036	31.4792%	3,967,590
CFR MARFA	1,464,388	29.0464%	3,660,970
MEROLA GIANCARLO MICHELE	1,460,000	28.9594%	3,650,000
OTHER SHAREHOLDERS	530,122	10.5151%	1,325,305
TOTAL	5,041,546	100%	12,603,865

Severnav's main activity field is construction of ships and floating structures.
Each activity's share in the total 2019 turnover is as follows:

Indicator	2018	Income share in turnover (%)	2019	Income share in turnover (%)
Total TURNOVER, out of which:	82.588.676	100,00%	84.168.126	100,00%
Income from ship building	79.980.743	96,84%	81.636.368	96,99%
Income from various metal constructions	373.419	0,45%	17.934	0,02%
Income from ship repairs	225.474	0,27%	0.00	0,00%
Income from selling of residual products	1.558.293	1,89%	1.608.721	1,91%
Income from rent	186.590	0,23%	185.353	0,22%
Other income	264.157	0,32%	719.750	0,86%

II. MANAGEMENT OF THE COMPANY

SEVERNAV S.A., 204, Timisoarei street, 220242, Drobeta Turnu Severin - **ROMANIA**
www.severnav.ro ; E-mail: office@severnav.ro; Phone: +(40) 252 308 000; Fax: +(40) 252 314 675
VAT: RO1606030; Social Capital: 12.603.865,00 RON; IBAN RON: RO07CECEMH0101RON0335774

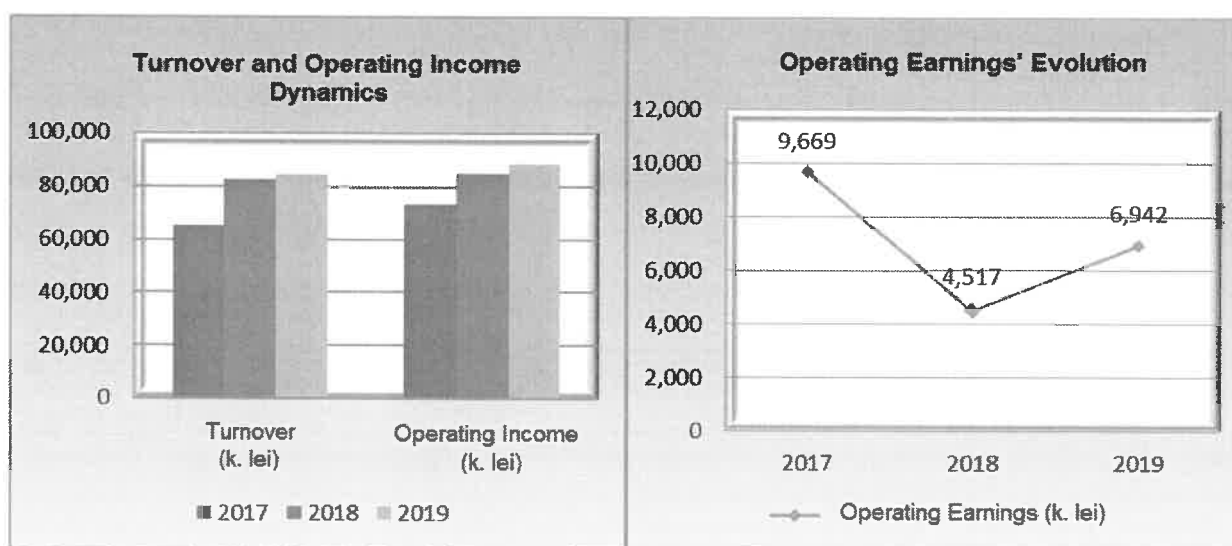
The executive management during 2019 has been performed by a team of directors lead by Mr. Tirlea Victor, as General Director, Mr. Videscu Marilen – Production Director, Mr. Borintis Grigore – Financial Director, Miu Cristian – Development Director.

The company has been administrated during 2019 by a Board of Directors, approved in a General Meeting of Shareholders, with the following members: Tirlea Victor – President, Merola Giancarlo Michele – Member, Negescu Pericle – Member, Fanica Grigorie – Member, Kessler Mihai – Member.

III. MAIN FIGURES 2019

a) Main indicators

	2017	2018	2019
Turnover (k. lei)	65.018	82.589	84.168
Operating income (k. lei)	73.064	84.766	88.372
Operating earnings (k. lei)	9.669	4.517	6.942
Financial earnings (k. lei)	-1.790	-2.036	-2.849
Net earnings (k. lei)	6.761	1.745	3.897
Equity (k. lei)	92.177	93.922	97.795
Average no. of employees	496	523	479



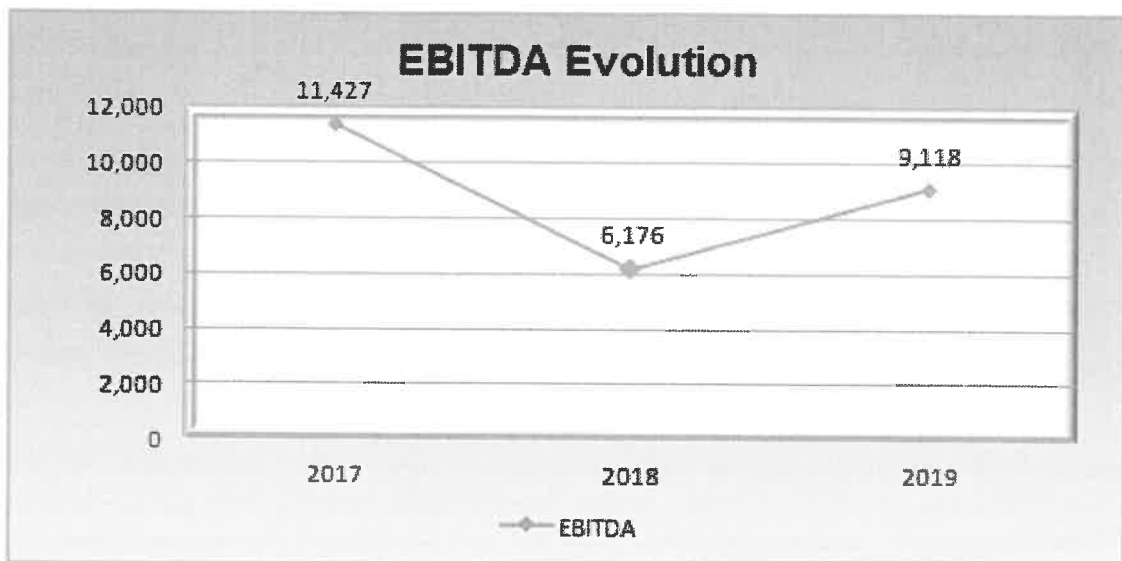
The 2019 **turnover** is 84.168 k. lei, higher by 1.579 k. lei than the 2018 one (82.589 k. lei).

Operating income which include ship building, the production of various metal constructions and the services in ship repairs, have grown over the past 3 years. Therefore, operating income have increased from 84.766 k. lei in 2018 up to 88.372 k. lei in 2019 (4% increase). The 2019 increase compared to the 2017 has been 21%.

In 2019, the potential increase of income and turnover was strongly influenced by the labor market limitations, described by: lack of qualified and unskilled personnel, depletion of the recruitment base, high fluctuation.

Operating earnings has registered a profit of 6.942 k. lei in 2019, increasing compared to the previous year 2018 with 2.425 k. lei and on a more favorable evolution of the operating expenses.

Financial earnings has registered loss of 2.849 k. lei in 2019, increasing by 813 k. lei compared to 2018 (2.036 k. lei), mainly due to the expenses incurred by the bank loans committed to finance the production and investments for development.

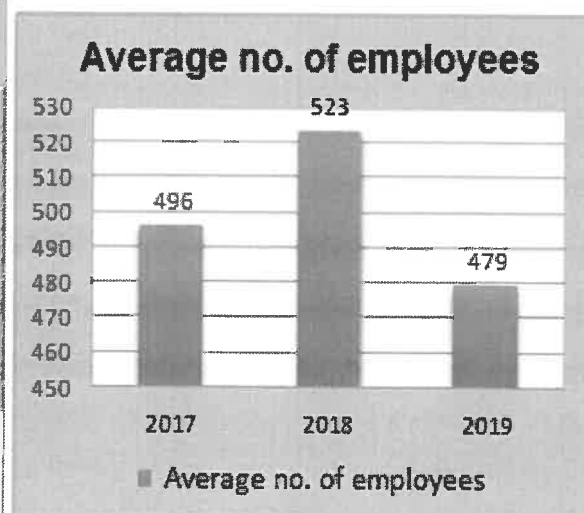
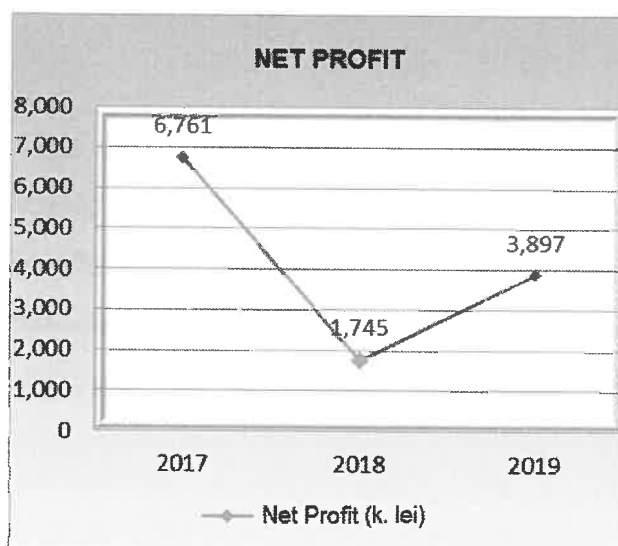


The company's yield, before interest, amortization and depreciation, was 9.118 k. lei (2018: 6.176 k. lei, 2017: 11.427 k. lei) increasing compared to 2018 and decreasing compared to 2017.

The increase in 2019 compared to 2018 in amount of 2.942 k. lei is the result of a more favorable dynamics of the expenses, but below the available potential due to the lack of production personnel.

Main disruptive factors that influenced EBITDA:

- a) Increasing the cost of labour force in the area, which starting with 2019 has been disconnected from productivity, tending to the erosion of competitiveness.
- b) Applying OUG 114/2018 for setting a dissociated minimum wage in the construction area, which lead to the qualified personnel migration to the construction area with a minimum wage granted by the state.
- c) The costs of setting up/hiring/ professional training of apprentices, unskilled and beginner personnel, not covered by labor productivity.
- d) Increasing the purchase price of materials, services and electricity.
- e) The cost of hiring free transportation to/from the work place granted to employees starting with 2018.
- f) The additional cost due to the state budget for the contribution of disabled people based on the new legislation in force from 2018.



The company's **net profit** was 3.897 k. lei and was mostly reserved for heritage consolidation (2018: 1.745 k. lei, 2017: 6.761 k. lei).

The **average number of employees** has decreased by 44 people compared to the previous year, from 523 to 479 employees, caused by the difficulty in recruiting the skilled labor force.

IV. COMMERCIAL ACTIVITY

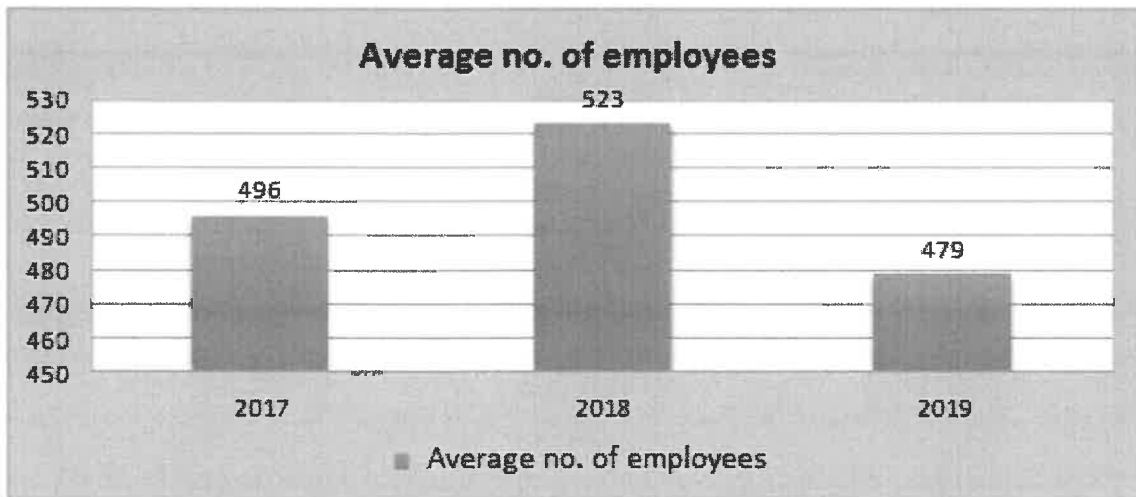
The most important part of the turnover (96,99%) has been achieved from selling of inland vessels, followed by income from selling of residual products (1,91%), income out of various metal constructions (0,02%), income from rent (0,22%), other income (0,86%).

The company's entrances continued to be promoted on the European Shipbuilding Market, either directly to customers, or by participating in specialized fairs organized in the Netherlands and Germany. Adequate budgets have been allocated for this purpose.

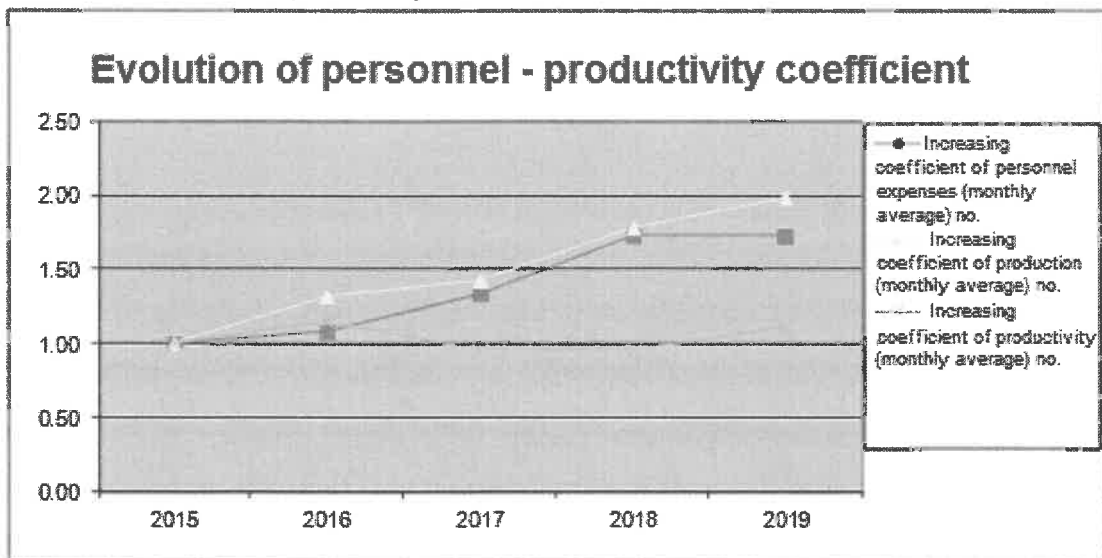
In the portfolio, the company has firmly concluded contracts, with a cumulative value of 23.362.500 EUR, which ensures production capacity scheduled for 2020, some of them expanding in 2021.

V. HUMAN RESOURCES

The average no. of employees has decreased from 523 people in 2018, to 479 people in 2019 and 496 people in 2017.



The evolution of labor productivity indicators for 2015 -2019 is:



Starting in 2018, the human resources market available for shipbuilding has become very limited in volume and quality. As a result of the disappearance of vocational schools, there are no longer available qualified persons to be recruited. The first option is to recruit and prepare unskilled personnel on the company's costs, assuming in the same time the decreasing of the labor productivity and the overall performance of the company.

Therefore, starting with 2018, our own school of welders and locksmiths apprentices was set up, and in partnership with a local high school, we developed technical vocational education.

The biggest challenge facing society in the financial year 2019 was the recruitment of the labor force needed to sustain the increase of turnover. In order to meet the production needs, non-qualified

personnel was hired for qualification at the workplace, but this led to a very large fluctuation with corresponding costs and without covering the potential demands for shipbuilding.

The dynamic of personnel fluctuation during 2016-2019 was:

Period	In	Out	No. at the end of the period	Fluctuation %
Year 2016	160	89	493	18%
Year 2017	170	207	456	45%
Year 2018	248	162	542	30%
Year 2019	117	168	491	34%
TOTAL 2016-2019	695	626	495	127%

Between 2016 and 2019, the number of departed people (fluctuation) reported to average number of personnel for this period was 127%. There were hired 695 people, 626 people left, corresponding to an average annual number of 495 people.

VI. FINANCIAL REPORTS ANALYSIS

1. FIX ASSETS REPORT

SC Severnav SA disposes of (lei)

Non-current asset name	Gross Value		Valoare contabila neta	
	Balance on 01.01.2019	Balance on 31.12.2019	Balance on 01.01.2019	Balance on 31.12.2019
0	1	2	3	4
a) Intangible assets				
Setting-up and development expences, patents, concessions, commercial resources	152.295	108.039	145.950	92.733
Other intangible asset	467.680	2.356.428	-	1.856.060
Advances and intangible assets in progress	-	163.487	-	163.488
Total intangible assets	619.975	2.627.954	145.950	2.112.281
b) Tangible assets				
Land and land development	60.269.701	60.269.701	60.269.701	60.269.701
Buildings	30.399.591	32.463.038	25.459.253	26.420.190
Technological equipment and machinery	23.588.413	30.426.944	4.532.339	11.498.412
Other tangible assets	234.396	708.672	95.104	481.285
Assets in progress	602.898	10.086.776	602.898	10.086.776
Advances for tangible assets	224.465	6.627.587	224.465	6.627.587
Total tangible assets	115.319.464	140.582.718	91.183.760	115.383.951
c) Financial assets	9.153	8.000	9.153	8.000
Total	115.948.592	143.218.672	91.338.863	117.504.232

According to the above stated information, the company's heritage has the following structure:

- Land area of 315.091,94 sqm, having an actual market value of 60.270 mii.lei, representing 51% of the total net non-current assets;
- Buildings having an actual market value of 26.420 k. lei, representing 22% of the total net non-current assets;
- Technological equipment and machinery having a net value of 11.498 k. lei, representing 10% of the total net non-current assets;

During 2019, Severnav SA used for investments 12.455.819 lei, out of which: new investments cumulate 11.340.675 lei and modernizing 1.115.144 lei. There are still being implemented (with performance term in 2020) investments value of 16.877.851 lei.

2. CURRENT ASSETS REPORT

a) On 31.12.2019 the Stock's situation was as follows (lei)

Name	2018	2019
Raw materials and consumables	17.965.467	19.316.022
Production in progress	18.060.998	19.598.973
Finished goods and merchandise	0	0
Advances	959.289	899.164
TOTAL	36.985.754	39.814.159

The stocks of raw materials and consumables represented 49% of the total current assets registered on 31.12.2019.

Production in progress, in value of 19.599 k. lei, refers to vessels launched in production with delivery term in 2020.

The advance of inventories of 899 k. lei refers to advances paid for the acquisition of raw material and materials for shipbuilding.

b) Inventory Report

The planning and development of the inventory process has been carried out according to the Accounting Law no. 82/1991, to OMFP no. 2861/2009 regarding inventory and on the basis of decisions no. 314/06.11.2019, 311/06.11.2019, 312/06.11.2019 si 313/06.11.2019 issued by the general director of the company.

According to these decisions, all assets, liabilities and shareholders' equity have been inventoried. The inventory results have been registered in the annual financial reports.

c) Receivables Report

The value of the company's net receivables on 31.12.2019 was of 10.768 k. lei, out of which:

	Receivables	Balance on 31.12.2018	Balance on 31.12.2019
1	Commercial receivables – including affiliated entities / other involved parties	0	0
2	Commercial receivables – third parties	13.791.820	8.940.619
	Total commercial receivables	13.791.820	8.940.619
3	Commercial receivables provisions	(1.138)	(704)
4	Net commercial receivables	13.790.682	8.939.915
5	Other receivables	1.021.621	1.829.377
6	Other receivables provisions	(1.222)	(1.222)
7	Net other receivables	1.020.399	1.828.155
8	Total commercial receivables and other receivables	14.811.081	10.768.070

The balance of third parties receivables at December 2019 includes amounts for the construction of the vessels to be delivered in 2020.

Other receivables includes mainly: VAT to be recovered from the state budget 1.004.326 lei (asked and agreed to be compensated with state payables), VAT under settlement 26.518 lei, sundry debtors, etc. For the debtors with a questionable collection, provisions of 1.222 lei have been registered.

3. COMPANY'S DEBT REPORTS

On 31.12.2019 the company has registered the following debts (lei)

	Debts	Balance on 31.12.2018	Balance on 31.12.2019	Maturity of the balance on 31.12.2019	
				Less than 1 year	Over 1 year
1	Debenture loans	0	0	0	0
2	Amounts owed to credit institutions	40.254.776	54.726.466	37.612.669	17.113.797
3	Advances cashed for orders	9.548.364	16.026.367	16.026.367	0
4	Commercial debts – suppliers, affiliated entities and other involved parties	0	0	0	0
5	Commercial debts – third parties suppliers	1.695.877	3.728.182	3.728.182	0
6	Commercial effects to be paid	0	0	0	0
7	Amounts owed to affiliated entities	0	0	0	0
8	Debts to the state budget	1.114.450	1.015.111	1.015.111	0
9	Other debts	1.802.449	1.620.937	1.175.465	445.472
11	Total	54.415.916	77.117.063	59.557.794	17.559.269

- a) 71% are current banks loans. Out of these, 1.426 k. lei are current activity credit line and 36.187 k. lei are production loans, contracted for the signed commercial contracts and 17.114 k. lei represents a long term credit used to upgrade and modernize the company's production capacity; 21% are current receivables cashed as advances from clients (crediting clients), temporary registered in debts until the delivery of the ships;
- b) 5% are debts to suppliers;
- c) 1% are current debts towards the state budget;
- d) 2% are current debts (salaries, wage withholdings, etc).

According to their maturity, the debts are 77% – less than 1 year and 23% – over 1 year.

During this whole period of time the debt evolution has been determined by the need to support the production and assignation of resources for equipment investments.

All the company's debts are strictly correlated with its production and sale, each debt and maturity having identified the source of payment.

4. PROFIT AND LOSS ACCOUNT REPORT

	Indicators name	Financial year		
		2018	2019	2019/2018(%)
1	OPERATING INCOME	84.766.003	88.372.348	104%
2	OPERATING EXPENSES, out of which:	80.249.493	81.430.557	101%
	a) Raw materials, consumables and other materials expenses	39.812.201	38.894.775	98%
	b) External expenses (with electricity and water)	1.468.732	1.764.132	120%
	c) Merchandise expenses	143.212	550.896	385%
	d) Personnel expenses	27.215.362	26.690.527	98%
	e) Adjusted value regarding tangible and intangible assets	1.659.941	2.175.847	131%
	f) Adjusted value regarding current assets	(13.541)	723	
	g) External services expenses	7.621.497	9.862.387	129%
	h) Expenses regarding other income taxes, taxes and related payments	932.660	837.598	90%

	i) Other expenses	1.544.590	655.055	42%
	j) Adjusted value regarding provisions	(133.370)		
3	OPERATING PROFIT	4.516.510	6.941.791	154%
4	FINANCIAL INCOME	1.124.722	1.210.888	108%
5	FINANCIAL EXPENSES	3.160.800	4.059.985	128%
6	LOSS	2.036.078	2.849.097	140%
7	Income tax	735.423	195.926	27%
8	NET PROFIT	1.745.009	3.896.768	223%

Total operating income in 2019 amounting to 88.372 k. lei have increased by 4% compared to the ones realized in 2018. During the same period, the operating expenses were in amount of 81.431 k. lei, increasing by 1% compared to 2018.

Financial income, mostly due to positive foreign exchange rate differences, have increased to 86 k. lei 2019 compared to 2018, from 1.125 k. lei to 1.211 k. lei, caused, on one hand, by the eur/ron exchange rate evolution and on the other hand, by the specificity of long term production, partially financed by advances from clients.

Financial expenses, in the amount of 4.060 k. lei have increased by 899 mii.lei compared to 2018. In 2019 they included exchange rate expences in value of 2.338 k. lei and 1.721 k. lei expenses with banking interests.

The Board of Directors submits to the approval of the General Shareholders' Meeting the following distribution of net profit:

- 194.838 lei for legal reserve;
- 3.701.929 lei reserves from reinvested profit in 2019;

5. CAPITAL REPORT

	INDICATORS	31.12.2018	31.12.2019
1	TOTAL CAPITALS, out of which	93.921.928	97.794.895
2	Subscribed and paid share capital	12.603.865	12.603.865
3	Reevaluation reserves	76.321.563	75.415.923
4	Legal reserves	1.689.510	1.884.349
5	Other reserves	12.281.705	12.505.993
6	Retained earnings – loss from previous years	(23.921.855)	(23.921.855)
7	Retained earning – accounting errors correction	1.808.961	1.785.160
8	Retained earnings – reevaluation reserves	11.095.333	12.000.973
9	Current profit	1.745.009	3.896.768

Shareholders' equity have increased by 3.873 k. lei compared to the previus period, from 93.922 k. lei to 97.795 k. lei.

Retained earnings mostly includes the losses registered during 2007-2008 and unrecovered until 31.12.2019:

- Loss generated during 2007 financial year: 5.972.707 lei.
- Loss generated during 2008 financial year: 17.949.148 lei.

6. MAIN ECONOMIC-FINANCIAL INDICATORS

	Year 2018	Year 2019
1. Liquidity indicators		
Quick ratio indicator	1.06	0.98
Immediately liquidity indicator	0.49	0.40
2. Risc indicators		
Indebtedness ratio	42%	45%
3. Activity indicators		
Clients turnover ratio	40	47
Suppliers turnover ratio	11	12

Non current assets turnover ratio	0.91	0.75
Assets turnover ratio	0.52	0.48

Quick ratio has declined, registering an 8% decrease from 1,06 to 0,98, current assets evolving below debts, influenced by the allocated resources to the development production capacity investments.

Immediately liquidity has registered a decrease from 0.49 to 0.40 determined by the work in progress stock to be delivered in 2020.

Indebtedness ratio has increased from 42% in 2018 to 45% in 2019, as an effect of the bank loans commitment used for investments in the increase and efficiency of the production capacity.

VII. THE CORPORATE MANAGEMENT

VII.1. General provisions

(1) The corporate governance system of SEVERNAV SA includes the set of rules set out in the Articles of Incorporation and other internal regulations, by which the management and control of SEVERNAV SA activity is regulated.

(2) The corporate governance system of SEVERNAV SA aims at achieving the following general objectives:

- a) Respecting the rights and legitimate interests of shareholders;
- b) Fair, equal and just treatment of shareholders;
- c) Respecting the rights and legitimate interests of interest holders;
- d) Defining clear rolls, skills and responsibilities for the Board of Directors and executive management;
- e) Integrity, ethical behaviour and professional competence of the management team and employees of SEVERNAV SA;
- f) Activity transparency and correct presentation of future results and prospects of SEVERNAV SA;
- g) Sustainable development of SEVERNAV SA.
- h) Implementation and application of the Corporate Governance Code of the Bucharest Stock Exchange

VII.2. Company leadership

1. The General Meeting of Shareholders may be Ordinary or Extraordinary. The powers and conditions of the meeting of general meetings are presented in the Articles of Incorporation of Severnav SA, in the contents of Chapter V, Articles 12 – 22.

The last update of the Articles of Incorporation was made in 2018 and entered in force on 18.10.2018. The Articles of Incorporation of Severnav SA can be publicly consulted on the company's website (www.severnav.ro)

The general powers of the general meetings are those stipulated by the Law no. 31/1990 of the Commercial Companies. The specific competences and limits agreed by the shareholders of Severnav SA are represented by the AGEA Agreement for the approval of credit ceilings exceeding EUR 10 million ad by a 2/3 of the voting rights presented and represented at AGEA for the change of the main object of activity, changing the value of the share capital, changing the legal form, merging, dividing or voluntary liquidation of the company.

2. The Board of Directors of Severnav SA consists of 5 members, 4 non-executive members and the President of the Board of Directors holds also the General Director position. Members of the Board of Directors are elected for a term of office of 4 years.

The powers of the Board of Directors are contained in the Articles of Incorporation at Chapter VI, Articles 24-28.

During financial year 2019, the Board of Directors of Severnav SA met in a number of 7 sessions.

VII.3. Corporate Governance Code of Bucharest Stock Exchange

Severnav SA adhered to the Corporate Governance Code of Bucharest Stock Exchange in 2016. The code represents a set of rules recommended to issuers whose shares are traded on the AeRO Market of Bucharest Stock Exchange, governed by the „Apply or Explain” principle, which obliges the company to give explanations when it is considered that a rule is not appropriate or necessary.

From the provisions of Section A – Board of Directors' Responsibilities and B – Internal Control System, Severnav SA fulfills all the requirements of the Code.

Related to Section C, Severnav SA did not publish the remuneration of the Board of Directors' Members and General Director, given that they are established by the Ordinary General Meeting of Shareholders and any financial bonuses are approved in the same forum.

Related to Section D of the Corporate Governance Code of Bucharest Stock Exchange, the company did not publish materials of continuous information in English language, as no interest of foreign investors in the company's share was determined. The company owns an English website. The company website contains the provisions of paragraphs D.1.1. - D.1.7 of the code.

The General Meeting did not implement a dividends policy, because the company did not complete the process of building and renewing its production capacities. The eventual allocation of dividends will be proposed by the Board of Directors and approved by the OGAS, but, at this moment, it is not intended to develop a specific policy.

Related to the forecasting policy specified in paragraph D.3 of the Code, Severnav SA did not elaborate such a policy, which is difficult to achieve in the context of the specific activity of building medium-sized ships, where the construction of one landmark takes a long period – several months or years.

Severnav SA meets the provisions of paragraph D.4 of the Code and strives to attract as many shareholders as possible to the General Meetings.

The company is not currently targeting the publication of materials in English language and meetings with the financial analysts, as no significant interest of foreign or institutional investors in the acquisition of financial instruments has been identified so far.

VIII. COMPANY MODIFICATIONS

The balance sheet and the profit and loss account have been completed on the basis of the 31 December 2019 trial balance, and the compulsorily registers and journals are operated to the current day.

The Company's accounting evidence is kept according to:

- Accounting Law 82/1991 (republished)
- Accounting regulations complying with the 4th Directive of the Economic European Community and International Accounting Standards
- The Finance Ministry Order 1802/2014 concerning the approval of accounting regulations complying with the European directives.

President of the Board of Directors

Tirlea Victor

