



FOUNDED IN 1851

SEVERNAV SHIPYARD



ANCHORED IN TRADITION QUALITY AND PERFORMANCE

ADMINISTRATORS' REPORT

For the financial year 2020

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 31.12.2020, 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 2020 turnover is as follows:

Indicator	2019	Income share in turnover (%)	2020	Income share in turnover (%)
Total TURNOVER, out of which:	84.168.126	100,00%	82.982.650	100,00%
Income from ship building	81.636.368	96,99%	81.328.605	98,00%
Income from various metal constructions	17.934	0,02%	0.00	0,00%
Income from selling of residual products	1.608.721	1,91%	1.297.135	1,56%
Income from rent	185.353	0,22%	135.101	0,16%
Other income	719.750	0,86%	221.809	0,28%

II. MANAGEMENT OF THE COMPANY

The executive management during 2020 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.

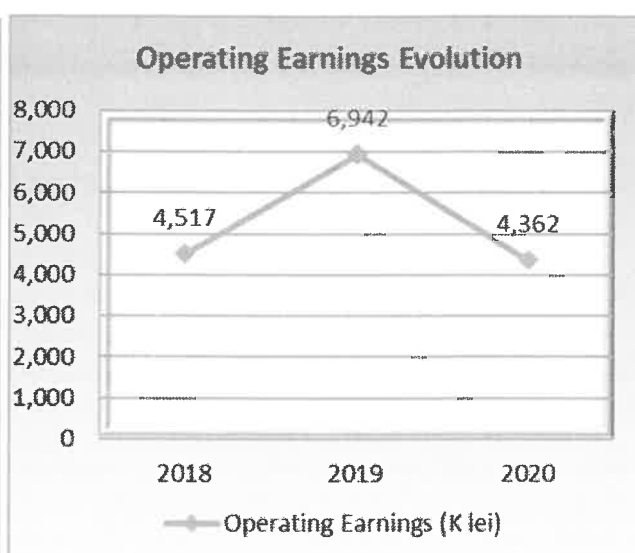
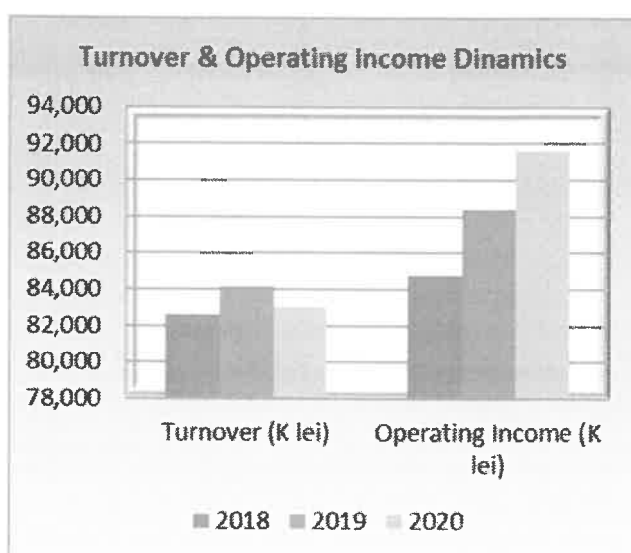
The company has been administrated during 2020 by a Board of Directors, approved in a General Meeting of Shareholders, with the following members: Tirlea Victor – President, Merola Giancarlo Michele – Member, Negescu Pericle – Member, Fanica Grigorie – Member, Kessler Mihai – Member.

During the financial year 2020 there were no changes regarding the composition of the executive and administrative management.

III. MAIN FIGURES 2020

a) Main indicators

	2018	2019	2020
Turnover (k. lei)	82.589	84.168	82.983
Operating income (k. lei)	84.766	88.372	91.631
Operating earnings (k. lei)	4.517	6.942	4.362
Financial earnings (k. lei)	-2.036	-2.849	-3.485
Net earnings (k. lei)	1.745	3.897	553
Equity (k. lei)	93.922	97.795	98.228
Average no. of employees	523	479	437

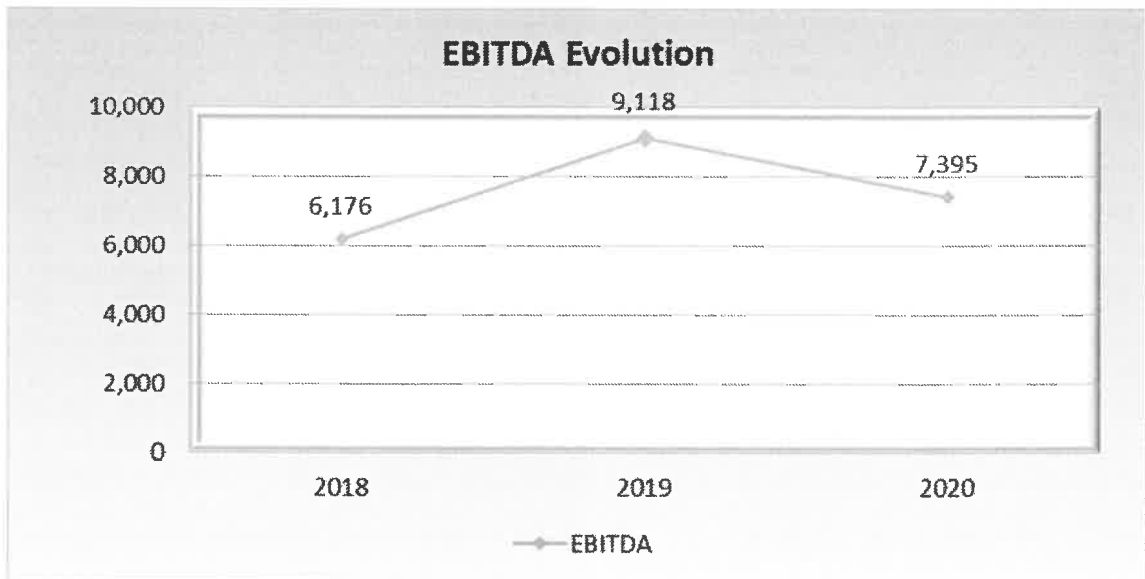


The 2020 **turnover** is 82.983 k. lei, lower by 1.185 k. lei than the 2019 one (84.168 k. lei). This turnover is referring to the completed and sold ships and does not include the production of ships on the manufacturing flow.

Operating income which include the sold ships and the production on manufacturing flow, have grown by 6.865 k. Lei compared to 2018 and by 3.259 k. lei compared to 2019. It's a conjunctural evolution due to a higher production on manufacturing flow, dimensioned according to the terms of the concluded commercial contracts.

Operating earnings a has registered a profit of 4.362 k. lei in 2020, decreasing compared with the previous year 2019 with 2.580 k. lei on an unfavorable evolution of the operating expences

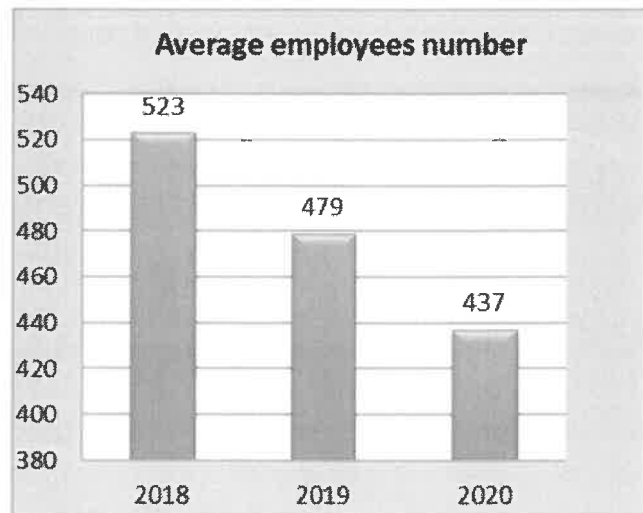
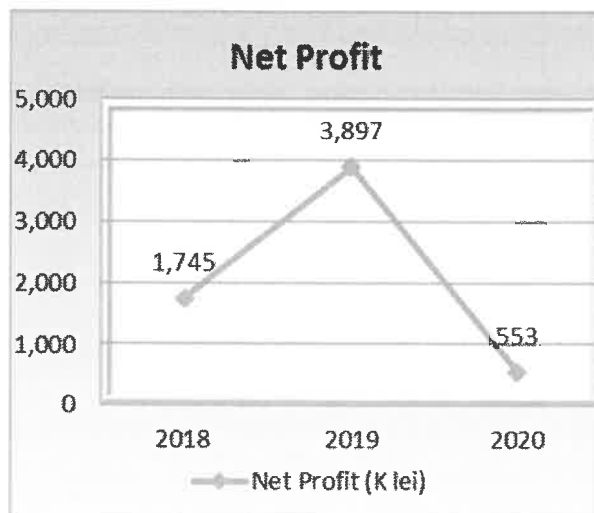
Financial earnings has registered loss of 3.485 k. lei in 2020, increasing by 636 k. lei compared to 2019 (2.849 k. lei), mainly due to the expenses incurred by the bank loans committed to finance the production and investments for development.



The company's yield, before interest, amortization and depreciation, was 97.395 k. lei (2019: 9.118 k. lei, 2018: 6.176 k. lei) decreasing compared to 2019 with 1.723 k. lei. The decrease in 2020 compared to 2019 is the result of an unfavorable dynamics of the expenses and a decreasing of the internal production potential.

Main disruptive factors that influenced EBITDA:

- Increasing the cost of labour force in the area, which starting with 2019 has been disconnected from productivity, tending to the erosion of commercial competitiveness.
- There was a need to introduce free transport to / from the workplace within a radius of about 50 km from the company's headquarters, and to assume costs for the training of newly qualified unskilled personnel.
- The implementation of the investment program that required on certain time period the slowing down of the production flow, as well as the direct costs for commissioning.
- High oscillation of the staff: 30% in 2018, 34% in 2019 and 28% in 2020. Lack of qualified human resources.
- 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.
- Increase in the purchase prices of materials, services and electricity.



The company's net profit was 553 k. lei, decreasing compared to previous year due to the increase of expenses and income limitation (2019: 3.897 k. lei, 2018: 1.745 k. lei).

The average number of employees has decreased by 42 people compared to the previous year, from 479 to 437 employees, caused by the difficulty in recruiting the skilled labor force.

IV. COMMERCIAL ACTIVITY

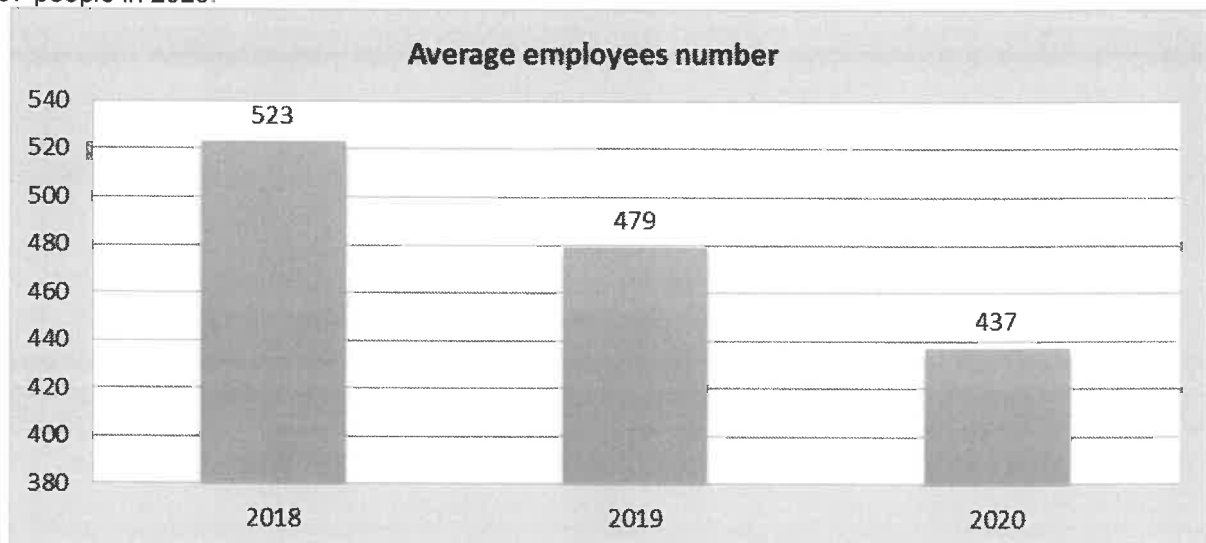
The most important part of the turnover (98,00%) has been achieved from selling of inland vessels, followed by income from selling of residual products (1,56%), income from rent (0,16%), other income (0,28%).

The company's interest 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.

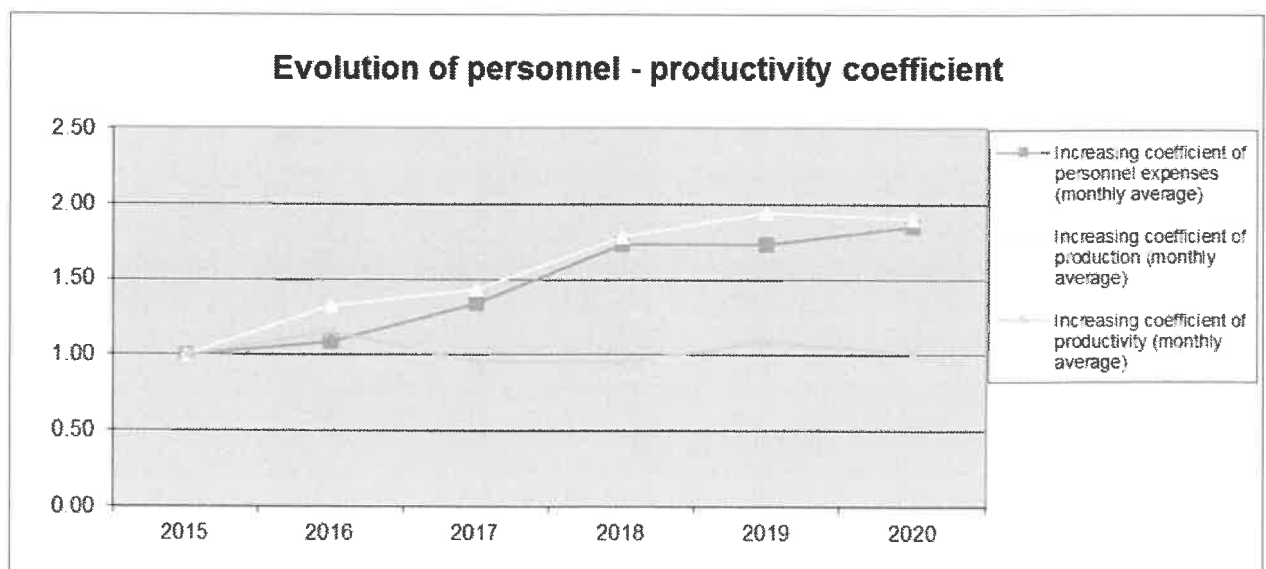
In the portfolio, the company has firmly concluded contracts, with a cumulative value of 24.075 k. EUR, out of which: 11.955 k. EUR with the completion date up to 30.04.2021, 4.545 k. EUR with the completion date up to 31.12.2021, 7.575 k. EUR with the completion date in 2022. Contracts are being in negotiation status in order to complete the entire capacity of 2021.

V. HUMAN RESOURCES

The average no. of employees has decreased from 523 people in 2018, to 479 people in 2019, to 437 people in 2020.



The evolution of labor productivity indicators for 2015 – 2020 is:



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.

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 – 2020 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%
Year 2020	104	123	442	28%
TOTAL 2016-2020	799	749	485	155%

Between 2016 and 2020, the number of departed people (fluctuation) reported to average number of personnel for this period was 155%. There were hired 799 people, 749 people left, corresponding to an average annual number of 485 people.

VI. FINANCIAL REPORTS ANALYSIS

1. FIX ASSETS REPORT

SC Severnav SA disposes of (lei)

Non-current asset name	Gross Value		Net accounting value	
	Balance on 01.01.2020	Balance on 31.12.2020	Balance on 01.01.2020	Balance on 31.12.2020
0	1	2	3	4
a) Intangible assets				
Setting-up and development expenses, patents, concessions, commercial resources	108.039	108.039	92.734	81.930
Other intangible asset	2.356.428	2.615.516	1.856.060	1.978.765
Advances and intangible assets in progress	163.487	79.340	163.487	79.340
Total intangible assets	2.627.954	2.802.895	2.112.281	2.140.035
b) Tangible assets				
Land and land development	60.269.701	60.228.731	60.269.701	60.228.731
Buildings	32.463.039	43.990.750	26.420.190	36.888.553
Technological equipment and machinery	30.426.945	52.175.784	11.498.412	31.666.364
Other tangible assets	708.672	672.310	481.285	364.934
Assets in progress	10.086.776	1.688.929	10.086.776	1.688.929
Advances for tangible assets	6.627.587		6.627.587	
Total tangible assets	140.582.720	158.756.504	115.383.951	130.837.511
c) Financial assets	8.000		8.000	
Total	143.218.674	161.559.399	117.504.232	132.977.546

On 31.12.2020, the company's heritage has the following structure:

- Land area of 314.129,94 sqm, having an actual market value of 60.229 k. lei, representing 45% of the total net non-current assets;

- Buildings having an actual market value of 36.889 k. lei, representing 28% of the total net non-current assets;
 - Technological equipment and machinery having a net value of 31.666 k. lei, representing 24% of the total net non-current assets;
- Severnav SA has completed and implemented in 2020 investments value of 33.694.500 lei, mostly in production equipment and IT solutions.

2. CURRENT ASSETS REPORT

a) On 31.12.2020 the Stock's situation was as follows (lei)

Name	2019	2020
Raw materials and consumables	19.316.022	11.742.246
Production in progress	19.598.973	22.694.438
Finished goods and merchandise	0	0
Advances	899.164	431.054
TOTAL	39.814.159	34.867.738

The stocks of raw materials and consumables represented 34% of the total current assets registered on 31.12.2020.

Production in progress, in value of 22.694 k. lei refers to vessels launched in production with delivery term in 2021.

The advance of inventories of 431 k. lei refers to advances paid for the acquisition of raw material and materials for shipbuilding.

The stocks are current and intended to support the production in progress.

a) 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. 315/07.10.2020, 317/07.10.2020, 318/07.10.2020 and 316/07.10.2020 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.

b) Receivables Report

The value of the company's net receivables on 31.12.2020 was of de 2.126 k. lei, out of which:

	Receivables	Balance on 31.12.2019	Balance on 31.12.2020
1	Commercial receivables – including affiliated entities / other involved parties	0	0
2	Commercial receivables – third parties	8.940.619	1.109.344
	Total commercial receivables	8.940.619	1.109.344
3	Commercial receivables provisions	(704)	
4	Net commercial receivables	8.939.915	1.109.344
5	Other receivables	1.829.377	1.017.461
6	Other receivables provisions	(1.222)	(1.222)
7	Net other receivables	1.828.155	1.016.239
8	Total commercial receivables and other receivables	10.768.070	2.125.583

Other receivables includes mainly: VAT to be recovered from the state budget 725.983 lei (asked and agreed to be compensated with state payables), VAT under settlement 31.450 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 31.12.2020 the company has registered the following debts (lei)

	Debts	Balance on 31.12.2019	Balance on 31.12.2020	Maturity of the balance on 31.12.2020	
				Sub 1 an	Peste 1 an
1	Debenture loans	0	0	0	0
2	Amounts owed to credit institutions	54.726.466	61.432.446	33.138.385	28.294.061
3	Advances cashed for orders	16.026.367	6.986.029	6.986.029	0
4	Commercial debts – suppliers, affiliated entities and other involved parties	0	0	0	0
5	Commercial debts – third parties suppliers	3.728.182	4.254.603	4.254.603	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	1.015.111	1.117.123	1.117.123	0
9	Other debts	1.620.937	1.057.860	892.359	165.501
10	Total	77.117.063	74.848.061	46.388.499	28.459.562

- 82% sunt are current banks loans. Out of these 1.547 k. lei are current activity credit line and 29.303 k. lei are production loans contracted for the signed commercial contracts; 30.558 k. lei represents a long term credit used to upgrade and modernize the company's production capacity;
- 9% are current receivables cashed as advances from clients (crediting clients), temporary registered in debts until the delivery of the ships;
- 6% are debts to suppliers;
- 2% are current debts towards the state budget;
- 1% are current debts (salaries, wage withholdings, etc).

According to their maturity, the debts are 62% – less than 1 year and 38% – over 1 year.

Short-term debts have as a source of repayment the proceeds from the sale of delivered ships, and long-term loans have as source the payment of future estimated profits based on portfolios of contracts appropriate to cost dynamics.

4. PROFIT AND LOSS ACCOUNT REPORT

	Indicators name	Financial year		
		2019	2020	2020/2019(%)
1	OPERATING INCOME	88.372.348	91.631.089	104%
2	OPERATING EXPENSES, out of which:	81.430.557	87.269.371	107%
	a) Raw materials, consumables and other materials expenses	38.894.775	37.339.902	96%
	b) External expenses (with electricity and water)	1.764.132	1.924.876	109%
	c) Merchandise expenses	550.896	89.960	16%
	d) Personnel expenses	26.690.527	27.376.008	103%
	e) Adjusted value regarding tangible and intangible assets	2.175.847	3.033.355	139%
	f) Adjusted value regarding current assets	723	427	
	g) External services expenses	9.862.387	16.048.580	163%
	h) Expenses regarding other income taxes, taxes and related payments	837.598	1.076.503	129%
	i) Other expenses	655.055	381.242	58%
	j) Adjusted value regarding provisions			

3	OPERATING PROFIT	6.941.791	4.361.718	63%
4	FINANCIAL INCOME	1.210.888	571.088	47%
5	FINANCIAL EXPENSES	4.059.985	4.055.851	100%
6	LOSS	(2.849.097)	(3.484.763)	122%
7	Income tax	195.926	323.475	165%
8	NET PROFIT	3.896.768	553.480	14%

Total operating income in 2019 amounting to 91.631 k. lei lei have increased by 4% compared to the ones realized in 2019. During the same period, the operating expenses were in amount of 87.269 k. lei, increasing by 7% compared to 2019. Among the operating expenses are:

- a) The increase by 39% (2020: 3.033 k .lei, 2019: 2.176 k. lei) of the depreciation of fixed assets determined by the investments put into operation;
- b) The increase by 63% (2020: 16.048 k. lei, 2019: 9.862 k. lei) of external services, mainly caused by the need to outsource due to the lack of qualified human resources of current production, CTC, and engineering activities;
- c) The increase by 29% of local and environmental taxes and duties.

Financial income, mostly due to positive foreign exchange rate differences, have decreased by 640 k. lei in 2020 compared to 2019, from 1.211 k. lei up to 571 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 4.056 k. lei au remained relatively constant compared to 2019, the evolution being dependent on the bank debt balance. In 2019 they included exchange rate expences in value of 2.000 k. lei and 2.056 mii.lei expenses with banking interests.

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

- 43.848 lei for legal reserve;
- 509.632 lei reserves from reinvested profit in 2020, in accordance with Law 227/2015, art.22 (Fiscal Code);

5. CAPITAL REPORT

	INDICATORS	31.12.2019	31.12.2020
1	TOTAL CAPITALS, out of which	97.794.895	98.228.375
2	Subscribed and paid share capital	12.603.865	12.603.865
3	Reevaluation reserves	75.415.923	74.545.034
4	Legal reserves	1.884.349	1.928.197
5	Other reserves	12.505.993	12.505.993
6	Retained earnings – loss from previous years	(23.921.855)	(24.041.855)
7	Retained earning – accounting errors correction	1.785.160	1.785.160
8	Retained earnings – reevaluation reserves	12.000.973	12.871.862
9	Current profit	3.896.768	553.480

Shareholders' equity have increased by 433 k. lei compared to the previous period, from 97.795 k. lei to 98.228 k. lei.

Retained earnings mostly includes the losses registered during 2007-2008 and unrecovered until 31.12.2020:

- 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 2019	Year 2020
1. Liquidity indicators		
Quick ratio indicator	0.98	0.93
Immediately liquidity indicator	0.40	0.14
2. Risc indicators		
Indebtedness ratio	45%	43%
3. Activity indicators		
Clients turnover ratio	47	18
Suppliers turnover ratio	12	16
Non current assets turnover ratio	0.75	0.69
Assets turnover ratio	0.48	0.52

Quick ratio has declined, registering an 5% decrease from 0,98 to 0,93, current assets evolving below debts, influenced by the allocated resources to the development production capacity investments.

Immediately liquidity has registered a decrease from 0.40 to 0.14 determined by the work in progress stock to be delivered in 2021.

Indebtedness ratio has decreased from 45% in 2019 to 43% in 2020, effect of the increase of the company's patrimony as a result of the investments put into operation. The surplus of patrimony created by investment is estimated to be used in the future in increasing revenues and maintaining an efficiency ratio compared to expenses.

VII. THE CORPORATE MANAGEMENT

VII.1. Prevederi generale

(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:

- Respecting the rights and legitimate interests of shareholders;
- Fair, equal and just treatment of shareholders;
- Respecting the rights and legitimate interests of interest holders;
- Defining clear rolls, skills and responsibilities for the Board of Directors and executive management;
- Integrity, ethical behaviour and professional competence of the management team and employees of SEVERNAV SA;
- Activity transparency and correct presentation of future results and prospects of SEVERNAV SA;
- Sustainable development of SEVERNAV SA.
- 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 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 2020, 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 AGOA, 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 2020 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

