



S.C. CONTED S.A.

Confecții textile

Str. 1 Decembrie 1918 nr. 8, Dorohoi, jud. Botoșani, Cod poștal: 715200, România

C.I.F.: RO 622445, Nr. ORC: J07/107/1991, TEL/FAX: 0231610064/0231610026

www.conted.ro, e-mail: secretariat@conted.ro

THE BOARD OF DIRECTORS' REPORT FOR THE FIRST SEMESTER OF 2018

(drafted in accordance with the provisions of A.S.F. Regulation No. 5 of 10 May 2018, Annex 14)

Report date: 16.08.2018

Name of the company: S.C. CONTED S.A.

Headquarters: locality DOROHOI, Botoșani County

Street: 1 Decembrie nr.8

Post code: 715200

Phone/Fax: 0231/610067 / 0231/610026

Legal form: Joint - stock company

VAT number: RO 622445

Trade registry number: J07/107/1991

NACE code: 1413 - Other garments manufacturing (except underwear)

Subscribed and paid registered capital: 2,284,360.06

The regulated market on which the issued securities are being traded: Bucharest Stock Exchange – Standard Category

The Board of Directors' Report of S.C. CONTED S.A. Dorohoi for the first semester of 2018 presents the main events and trades in order to understand the changes related to the position and performance of the company that took place during January - June 2018.

1. ECONOMIC AND FINANCIAL SITUATION

1.1 Analysis of the current economic and financial situation compared with the same period last year.

a) Financial position items

Lei

	30.06.2018	30.06.2017
Total assets from which:	9,554,061	12,082,707
Fixed assets	5,059,146	5,445,296
- Intangible assets	18,762	31,248
- Tangible assets	5,040,384	5,414,048
Current assets	4,427,057	6,568,208
- Inventories	2,258,795	1,898,598
- Trade receivables and other receivables	1,376,011	2,882,696
- Cash and cash equivalents	792,251	1,786,914
Other assets items (accrued expenses)	67,858	69,203
Total debts and equity, from which:	1,083,506	12,082,707
Current debts	809,951	1,508,619
Long term debts	246,871	271,358
Provisions for employee benefits	26,684	53,624
Equity, from which:	8,470,555	10,249,106
- Registered capital	2,284,360	2,284,360
- Other items of equity	(246,871)	(271,358)
- Revaluation reserve	2,214,371	2,367,418
- Legal reserve	456,661	456,661
- Other reserves	4,080,948	4,080,948
- Reported result	822,162	1,385,598
- The financial year result	(1,141,076)	(54,521)



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Compared to 30.06.2017 the trade receivables to the amount of 1,362,153 lei (2017: 2,793,227 lei have decreased by 51.23%, the current assets to the amount of 4,427,057 lei (2017: 6,568,208) lei have decreased by 32.60% as, and the current debts to the amount of 836,635 lei (2017: 1,562,243) lei have decreased by 46.45%.

The current debts are short term debts and are made of:

	<u>Lei</u>
Trade debts – suppliers	256,208
Staff liabilities and assimilated accounts	319,375
Debts to social security and state budget, other taxes and fees	155,117
Amounts due to shareholders	78,887
Other debts	364
Provisions for employee benefits	26,684

Financial position items: assets representing at least 10% from the total assets: cash and other liquid assets: reinvested profits; total current assets; situation of the company's debts; total current debts;

Assets exceeding 10% from the total assets

- Lei

Current no.	Analytical indicators from the balance sheet, exceeding 10% from the total assets	30.06.2017	30.06.2018	% from the total assets 30.06.2018
	TOTAL ASSETS	12,082,707	9,554,061	100.00
	10% from the total assets	1,208,271	955,406	10.00
1.	Buildings	3,350,188	3,111,660	32.57
2.	Inventories	1,898,598	2,258,795	23.64
3.	Trade liabilities - clients	2,793,227	1,362,153	14.26

Debts exceeding 10% from the total debts

Lei

Current no.	Analytical indicators from the balance sheet, exceeding 10% from the total debts	30.06.2017	30.06.2018	% from the total debts 30.06.2018
	TOTAL DEBTS	12,082,707	9,554,061	100.00
	10% from the total debts	1,208,271	955,406	10.00
1.	Other reserves	4,080,948	4,080,948	42.71
2.	Reevaluation reserve	2,367,418	2,214,371	23.18
3.	Subscribed and paid registered capital	2,284,360	2,284,360	23.91

During the first semester of 2018, the registered capital of the company was not changed in the sense of its increasing or decreasing. The registered capital on June 30th, 2018 is of 2,284,360.06 lei and is held by a number of 642 shareholders.



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b) Items of the global result

	Lei	
	30.06.2018	30.06.2017
• Total income	4,943,368	7,366,989
• Exploitation expenses, from which:	4,930,890	7,350,181
- Turnover from which:	4,505,220	7,039,962
<i>Sold output</i>	4,426,262	6,942,028
<i>Sales income</i>	78,958	97,934
- Income related to the products inventories costs	410,016	229,131
- Other income	15,654	81,088
• Financial income	12,478	16,808
• Total expenses	6,084,444	7,446,789
• Exploitation expenses, from which:	6,065,375	7,417,463
- Expenses related to raw materials and merchandise	222,820	478,755
- Expenses for the goods	78,134	95,950
- Expenses for energy and water	397,336	493,045
- Expenses related to salaries, social contributions and other benefits	5,282,325	6,076,718
- Expenses for the amortization	179,342	242,394
- Other exploitation expenses, from which:	256,539	234,062
<i>Expenses related to the external services</i>	143,740	160,227
<i>Expense for other interests, fees and assimilated payments</i>	105,889	72,276
<i>Expense for the environment protection</i>	413	1,424
<i>Other expenses</i>	6,497	135
- Adjustments for provisions	(351,121)	(203,461)
Expenses	-	-
Incomes	351,121	203,461
• Financial expenses	19,069	29,326
• Exploitation result - loss	(1,134,485)	(67,282)
• Financial result - loss	(6,591)	(12,518)
• Result before taxation - loss	(1,141,076)	(79,800)
Current profit tax	-	(41,841)
Deferred profit tax	-	16,562
• Continuous activities result - loss	(1,141,076)	(54,521)

Compared to the same period of the previous year, the following can be noticed:

The volume of the total income was to the amount of 4,943,368 lei, meaning a decrease by 32.90% compared to the total income gained during the same period of 2017, the amount of 7,366,989 lei.

The volume of total expenses is of 6,084,444 lei, and that they have decreased by 18.29% compared to the first semester of 2017, when I registered the amount of 7,446,789 lei.

Within the volume of **total expenses**, the most important part is the one of the expenses related to staff (salaries, social contributions and other benefits) the amount of 5,282,325 lei, meaning percentage of 86.82%.

Exploitation income to the amount of 4,930,890 lei have decreased during the first semester of 2018 by 32.91% compare to the same period of the previous year, when the amount of 7,350,181 lei, and **the exploitation expenses** to the amount of 6,065,375 lei have decreased by 18.23% compared to 30.06.2017, when I registered the amount of 7,417,463 lei.



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The exploitation activity ended with a loss to the amount of (1,134,485) lei, compared to the first semester of 2017, ended with a loss to the amount of (67,282) lei. From the total of the exploitation income, the most important part is the sold output in the amount of 4.426.262, and in the exploitation expenses the most important part is one of the staff expenses (salaries, social contributions and other benefits) that is to the amount of 5,282,325 lei, meaning 87.09% from the total exploitation expenses the amount of 6,065,375 lei.

Financial income to the amount of 12,478 lei is coming from interests and foreign exchange differences.

Financial expenses to the amount of 19,069 lei are coming from other financial expenses (unfavourable foreign exchange differences). Therefore, the financial result is a loss to the amount of (6,591) lei as compared to the same period of 2017, when we recorded loss to the amount of (12,518) lei.

According to the analysis of the income and expenditure groups, it can be noticed that the company is recording a loss from the exploitation and loss of financial activity.

During the first semester of 2018, the company has recorded a loss to the amount of (1,141,076) lei, as compared to the same period of the previous year when we recorded a loss to the amount of (79,800) lei.

Situation of profit or loss: net sales; gross income; costs and expenditure items with a share of at least 20% in net sales or gross income; risk provisions and for different expenses; reference to any sale or closure of a segment of activity performed in the last 6 months or to be performed in the next 6 months; declared and paid dividends;

Lei

Current no.	Analytical indicators from the profit or loss situation, exceeding 20% from the turnover	30.06.2017	30.06.2018	% of the total turnover 30.06.2018
	Turnover	7,039,962	4,505,220	100.00
	20% from the turnover	1,407,992	901,044	20.00
1.	Sold output	6,942,028	4,426,262	98.25
2.	Expenses with salaries, social contributions and other benefits	6,076,718	5,282,325	117.25

The company's turnover related to the first semester of 2018 is of 4,505,220 lei from which 2,694,992 lei achieved exportation and 1,810,228 lei achieved internal, as compared to the first semester of 2017 when we recorded 7,039,962 lei, from which exportation 1,887,176 lei and internal 5,152,786 lei.

In its structure, the turnover was achieved mainly by the sale of own production in a proportion of 98%. The value of the exportation sales in the first semester of 2018 represents 59.82%, and the internal sales represent 40.18% from the turnover. **The turnover** registered in the first semester of 2018 to the amount of 4,505,220 lei has decreased by 36% compared to the same period of the previous year, when the amount of 7,039,962 lei was registered.

The expenses related to staff to the amount of 5,282,325 lei, have decreased by 13.07%, compared to the same period of the previous year, representing 117.25% from the turnover and include:

	<u>30.06.2017</u>	<u>30.06.2017</u>
Expenses related to salaries	5,029,924	4,699,027
Expenses related to the contributions at the obligatory social insurances	252,201	1,296,853
Expenses with table and gift vouchers	200	80,838
Total	5,282,325	6,076,718

Average number of employees	345	406
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At the end of the first semester of 2018, it was a recorded a decrease in the average number of employees compared to the same period of 2017, from 406 employees to 345 employees. The company's employees are not grouped in a trade union.

In the first 6 months, no segment of activity was sold or closed.

In the next 6 months it is not **foreseen the sale or closure of any segment of activity**.



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In the first half of 2018, the company distributed dividends in the amount of 1,388 lei, representing dividends for the years 2013 - 2016. For the year 2017, the company did not distribute dividends, because in 2017 it recorded a loss.

c) Cash – flow items

Items (lei)	30.06.2018	30.06.2017
A. The exploitation activity		
• Receipts, from which:	5,925,484	7,278,627
- Cashed interests	3,535	3,358
• Payments from which:	(6,874,794)	(8,093,030)
- payments for suppliers and employees	(4,024,178)	(4,571,272)
- payments for taxes and fees to the state budget and social insurances budget	(2,850,616)	(3,521,758)
• Other exploitation operations:	126,531	9,470
receipts	270,736	421,034
payments	(144,205)	(411,564)
Net cash related to the exploitation activity	(822,779)	(804,933)
B. Investment activity		
• Payments for fixed assets acquisition	(6,121)	(3,749)
Net cash form the investment activities	(6,121)	(3,749)
C. Financing activity		
• Payments for dividends	(1,388)	(194,956)
Net cash from financing activities	(1,388)	(194,956)
Net cash Increase/decrease (A+B+C)	(830,288)	(1,003,638)
Cash at the beginning of the period January 1st	1,622,539	2,790,552
Cash at the end of the period June 30th	792,251	1,786,914

The net cash on June 30th, 2018 is recording an decrease to the amount of 994,663 lei compared to the same period of the previous year.

2. ANALYSIS OF THE COMPANY'S ACTIVITY

2.1. Presentation and analysis of the trends, items, events or uncertainty factors affecting or possibly affecting the trading company liquidity, as compared to the previous year.

S.C. CONTED S.A. is a high quality garments producer, with an experience of over 50 years in the field of textiles as well as the export production. The company had an upward trend, by expanding its selling market, by contracts with foreign companies. The company is mainly operating through the lohn system.

The main clients for which the company worked during the first semester of 2018 were: HMD S.A.R.L. France, S.C. Formen's S.R.L Botoșani, S.C. Incom Vranco Focșani, S.C. Confex S.R.L Botoșani, S.C. Fashion Industries S.R.L. Bihor, S.C. Olimpias S.R.L. Iași, S.C. Cristian ABC S.R.L. Iași and S.C. Tanex S.R.L: București. The manufactured products had as destination, clients like: Sandro, Charles le Golf, Ba&sh, Lacoste, Gresley, Boggi, Benetton, Vicomte and Hermes.

The company does not neglect proposals for new collaborations, for which samples or prototypes are being made, accepting orders of smaller quantities for prospecting the market.



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The trading company liquidity:

INDICATOR	Calculation method	January – June 2018	Amount
Current liquidity indicator	$\frac{\text{Current assets}}{\text{Current debts}}$	$\frac{4,427,057}{836,635}$	5.29
Indicator of the indebtness degree (%)	$\frac{\text{Borrowed capital}}{\text{Equity}}$	$\frac{0}{8,470,555}$	0%
Debts turnover - clients	$\frac{\text{Clients average balance}}{\text{Turnover}} \times 180$	$\frac{1,492,262}{4,505,220} \times 180$	60
Fixed assets turnover	$\frac{\text{Turnover}}{\text{Fixed assets}}$	$\frac{4,505,220}{5,059,146}$	0.89

During the period January – June 2018, the current liquidity ratio was 5.29. The indicator's level shows the payment capacity, so a very low risk and certifies the fact that the company is able to cover the short term debts on the account of receivables and available funds.

The indebtness degree shows the efficiency of the credit risk management.

The 0% indicator value shows the fact that the company is not facing any potential financing, liquidity issues, affecting the undertaken commitments.

The clients' rotation speed expresses the efficiency of the company concerning the collection of its receivables. For the first semester of 2018, the number of days until the date to which the clients have paid their debts was of 60 days and shows the efficiency of the company in collecting the receivables, the average term for the collection of receivables under the market economy being of 30 - 45 days.

The rotation speed of fixed assets expresses the efficacy of the fixed assets activity by examining the turnover amount generated by a quantity of fixed assets. The amount obtained is of 0.89 – indicating the efficacy of the fixed assets management by obtaining a turnover of 4,505,220 lei generated by a quantity of fixed assets of 5,059,146 lei.

The main factors that could affect the company liquidity are:

- The lack of contracts;
- Generalized financial blockage;
- Competition in the field;
- The labor shortages and qualified staff.

2.2. Presentation and analysis of the current or accrued capital expenses effects on the financial situation of the trading company as compared to the previous year.

The company did not have capital expenses and such expenses are not foreseen in the future.

The company did not intend to make investments, except for the essential required by the development of the production activity in good terms.

2.3. Presentation and analysis of the events, trades, economic changes significantly affecting the income form the basic activity.

The main activity of the company is the manufacturing of other type of garments excepting the underwear. The income from the main activity at the end of the first semester of 2018 are of 4,415,284 lei, decreasing by 36.19% as compared to the same period of the previous year when we recorded the amount of 6,919,513 lei.

The turnover achieved in the first semester of 2018 is to amount of 4,505,220 lei and decreased by the amount of 2,534,742 lei as compared to the first semester of 2017, when we recorded the amount of 7,039,962 lei. This level of the turnover was obtained by the sale of own production manufactured in the first semester of 2018 and by the sale from the finished products and merchandise stocks.



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Thus, the own products and to amount of 4,415,284 lei merchandise have contributed by 98% to the achievement of the turnover, and the supplied services and other sales to amount of 89,936 lei represented 2% from the turnover.

The internal market sales of the first semester of 2018 were of 1,810,228 lei, in the European community were of 2,618,089 lei, and outside the European Union they were of 76,903 lei.

On a medium and long term, we believe it is mandatory for us to focus on the following issues:

- Analysis of the international fashion trends;
- Diversification of models according to age groups: children, adolescents, adults;
- Analysis of the fabrics and combinations of fabrics, matching;
- Analysis of internal and international market for fabrics and trims providers;
- Identifying the market niches;
- Promoting the products through advertising methods (leaflets, catalogues, internet);
- Distribution of products through our own shop and collaborators.

The company, no matter the circumstances, does not collaborate with only one customer, but with several customers, in order to avoid stagnation due to unfavourable conditions. However, we recognize that we depend on each customer, because they can always turn to geographic areas where the workforce is cheaper.

3. CHANGES AFFECTING THE COMPANY'S CAPITAL AND ADMINISTRATION

3.1. There were not cases in which the company find itself in the impossibility to pay its debts towards the state budget, the suppliers or the staff.

3.2. During the first semester of 2018, there were not changes regarding the rights of the securities owners issued by the trading company. All the securities holders had equal rights.

There were not changes related to the company's capital and administration.

4. SIGNIFICANT TRANSACTIONS

There were not major transactions concluded by the issuer with persons with which they act in a concerted manner or in which these persons had been involved.

The financial statements on 30.06.2018 have been prepared in accordance with:

- Order 881 of June 25, 2012 on the application by the companies whose securities are admitted for trading on a regulated market, of International Financial Reporting Standards
- International Financial Reporting Standards (IFRS) as adopted by the European Union
- Accounting Law 82 of December 24, 1991;
- Order 2844 of December 12, 2016 for the approval of Accounting Regulations complying with International Financial Reporting Standards;
- Order of the Public Finance Ministry no. 2531 of July 11, 2018 approving the accounting reporting system of the economic operators on June 30th 2018.

The financial statements were approved by the Board of Directors in its meeting dated on July 24th, 2018.

The reporting currency of the financial statements is leu.

The financial statements drawn-up on June 30th, 2018 were not audited.

Chairman of the Board of Directors,
Eng. MANOLE POPA

