

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
S.C. Electroputere S.A.  
Craiova Romania

### Qualified Opinion

1. We have audited the financial statements of S.C. Electroputere S.A. (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 and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.
2. In our opinion, except for the possible effects of the matter described in the "*Basis for Qualified Opinion*" paragraphs 3 and 4, section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with Order 2844/2016 with subsequent amendments for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU.

### Basis for Qualified Opinion

3. According to the collective labor agreement, upon meeting the legal conditions for retirement, the Company offers to the employees' post retirement benefits. As at December 31, 2016 management has not estimated the present value of the obligations regarding these compensations and has not recorded a related provision in these financial statements. During our audit, we could not determine the possible adjustments, if any, that might have been necessary on the Provisions, Retained Earnings as at December 31, 2016 and on the Other operating expenses for the year ended as of this date, had such an estimate been made as at December 31, 2016. Our audit report was qualified in this respect in the previous year.
4. As at December 31, 2016 the Entity had property, plant and equipment with a net amount of RON 256,454,493 for which impairment indicators existed. Management has not performed an impairment exercise as at December 31, 2016 and as at December 31, 2015 and has not recognized any impairment losses as of that date. During our audit, we could not determine the possible adjustments, if any, that might have been necessary on the Property, Plant and Equipment, Retained Earnings and Revaluation Reserve as at December 31, 2016 and on the expenses with the impairment of the assets or related gains for the year ended December 31, 2016, had such an impairment exercise been made as at December 31, 2016. Our audit report was qualified in this respect in the previous year.

5. We conducted our audit in accordance with the Auditing Standards adopted by the Chamber of Auditors of Romania, which are International Standards on Auditing (ISAs). Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

## **Material Uncertainty Related to Going Concern**

6. We draw attention to Note 3 in the financial statements, which indicates that the Company incurred a net loss of RON 45,346,757 during the year ended December 31, 2016 and, as of that date, the Company's current liabilities exceeded its total assets by RON 173,196,220. As stated in Note 3, these events or conditions, along with other matters as set forth in Note 3, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. In addition, according to statutory commercial law 31/1990, revised, in the event where the administrators ascertain that, further to incurring losses, the net assets, calculated as the difference between total assets and total liabilities of the Company, are less than half the value of the share capital, the administrators shall convene the general meeting of shareholders to decide whether to increase the share capital or to reduce it to the remaining value or to dissolve the Company. Management believes that it is unlikely that the Company will be subject to dissolution procedures in the foreseeable future. As a result, the Company's capacity to continue as a going concern depends on its ability to generate sufficient future income and on the financial support from its shareholders. Management believes that such a support will be available whenever necessary. These financial statements do not include adjustments that might arise from this uncertainty regarding the ability of the Company to continue as a going concern. Our opinion is not modified in respect of this matter.

## **Key Audit Matters**

7. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section and in addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

KEY AUDIT MATTER	How our audit addressed the key audit matter
<p><b>Revenue recognition for Transformers sales</b></p>	
<p>As disclosed in Note 3 to the financial statements the Company's policy for recognizing revenues from transformers sales is based on the percentage of completion method in accordance with IAS 11 "Construction Contracts". Revenues from such projects is in the amount of RON 75,440,578 and are included in the "Revenue" caption in the statement of profit and loss and other comprehensive income.</p> <p>This method involves significant management judgements in relation to the:</p> <ul style="list-style-type: none"> <li>• Actual stage of completion of the transformers at the financial year end is determined based on comparing the actual costs incurred by the end of the reporting period to the total estimated costs to be incurred for the entire project. This requires significant inputs and judgments in estimating the future costs to complete;</li> <li>• Estimating the remaining costs to complete, including the overheads to be allocated until completion is complex and involves allocation of overheads to the individual projects based on allocation keys and requires management to estimate the level of production that they will have in the future periods;</li> <li>• Estimated profit margin on individual contracts is determined by comparing the total expected costs to be incurred to the contractual revenues and the result of this is used to determine contract losses.</li> </ul> <p>Because of the significance of the aforementioned judgements and the size of the revenues from transformers sales, we consider revenue recognition from power transformers construction contracts to be a key area of focus.</p>	<p>In assessing whether the revenue recognition has been properly recognized, our procedures included the following:</p> <ul style="list-style-type: none"> <li>• Retrospective review of the budgeted versus actual costs pertaining to the orders started in the prior year and finalized in the current year. We assessed whether there have been significant differences between the amounts estimated in the previous year and the actual amounts incurred in the current year.</li> <li>• Testing controls around the revenue recognition cycle for transformers sales.</li> <li>• Testing the open orders as at December 31, 2016 and assessing whether the project stage and estimated costs to complete are accurate and complete;</li> </ul>

KEY AUDIT MATTER	How our audit addressed the key audit matter
<p><b>Allowances for trade receivables</b></p>	
<p>As disclosed in Note 15 to the annual financial statements, the trade receivables of the Company, are carried at the amortized cost less any impairment losses.</p> <p>Due to the specifics of the business sectors in which the Company is operating, it records significant allowances for its trade receivables.</p> <p>There is a risk that the trade receivables are carried at higher values than the recoverable values as the Company's allowance policy may not be properly applied in determining the collective basis allowance. Furthermore there is a risk that the assessment at the individual trade receivables level has not been performed and there might be cases where an additional specific individual allowance might be needed, in addition to the collective allowance discussed above.</p> <p>This is considered to be a key audit matter, due to the significance of the judgements involved in the trade receivables allowance process.</p>	<p>In considering the amounts of the allowances for trade receivables we performed the following procedures:</p> <ul style="list-style-type: none"> <li>• we assessed the Company's allowance policy for reasonability;</li> <li>• we recomputed the aging of the account balance taking into consideration the due dates of the invoices;</li> <li>• we assessed whether the allowances recorded by the Company are in accordance with the allowance policy</li> <li>• we obtained from the internal and external legal counsels legal letters to assess whether any of the Company's customers are either insolvent or bankrupt;</li> <li>• for those customers in litigation, that were insolvent or bankrupt we assessed whether the allowance recorded by the management is sufficient;</li> </ul>
<p><b>Allowances for inventories</b></p>	
<p>As disclosed in Notes 14 to the annual financial statements, the inventories of the Company are carried at lower of cost and net realisable value.</p> <p>There is a risk that the inventories are not carried at the lower of cost and net realisable value due to the inappropriate application of the allowance policy. Furthermore, there is a risk that the judgements used in the determination of any net realisable value adjustments, are not appropriate due to the estimation of future costs to complete of the inventories.</p> <p>This is considered to be a key audit matter, due to the significance of the judgements involved in the inventories allowance process.</p>	<p>In considering the amounts of the allowances for inventories we performed the following procedures:</p> <ul style="list-style-type: none"> <li>• We assessed the Company's inventories allowance policy for reasonability in relation to net realisable value;</li> <li>• We assessed whether the allowance booked by the Company is in accordance with the net realisable value allowance policy;</li> <li>• We looked at the estimated selling prices for a sample of finished goods and tested for these the net realizable value and related future costs to complete;</li> </ul>

## Reporting requirements concerning the administrators' report

8. The administrators are responsible for the preparation and presentation of the standalone administrators' report in accordance with the requirements of the Ministry of Public Finance Order 2844/2016 with subsequent amendments. Accounting regulations regarding annual standalone financial statements article no. 20, which does not contain material misstatements and for such internal control as management determines is necessary to enable the preparation of administrator's report that is free from material misstatement, whether due to fraud or error.

Our opinion on the standalone financial statements does not cover the administrators' report.

As described in the Basis for Qualified Opinion section above, we were unable to obtain sufficient appropriate evidence about the carrying amount of Electroputere's property, plant and equipment balance as at December 31, 2016 and Electroputere's post employment benefits liability as at December 31, 2016. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter

In connection with our audit of the standalone financial statements, we have read the administrators' report accompanying the standalone financial statements and, we report as follows:

- a) in the administrators' report, we have not identified information which is not consistent, in all material respects, with the information presented in the standalone financial statements attached;
- b) the administrators' report identified above contains, in all material respects, the required information according to the provisions of Ministry of Public Finance Order no. 2844/2016, article no. 20 (accounting regulations regarding annual standalone financial statements and);
- c) based on our knowledge and understanding concerning the Company and its environment gained during the audit on the standalone financial statements prepared as at December 31, 2016, and except for the possible effects on the administrator's report of the matter described in the *Basis for "Qualified Opinion"* section of our report, we have not identified information included in the administrators' report that contains a material misstatement of fact.

## Responsibilities of Management and Those Charged with Governance for the Financial Statements

9. Management is responsible for the preparation and fair presentation of the financial statements in accordance with Order 2844/2016 for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
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 and using 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.
11. Those charged with governance are responsible for overseeing the Company's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

12. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
13. 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. 44
  - 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.
14. 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.
15. 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.

16. 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.

The engagement partner on the audit resulting in this independent auditor's report is Ahmed Hassan.

*Ahmed Hassan, Audit Partner*

*For signature, please refer to the original Romanian version.*

*Registered with the Chamber of Financial Auditors of Romania under certificate no. 1529 / 25.11.2003*

On behalf of:

**DELOITTE AUDIT S.R.L.**

*Registered with the Chamber of Financial Auditors of Romania under certificate no. 25/25.06.2001*

Bucharest, Romania  
April 25, 2017