

INDEPENDENT AUDITOR'S REPORT

To: the Shareholders,
Electroputere S.A.

Headquarters: Craiova, 80 Bucharest Avenue, Dolj county, fiscal code 6312800

Report on the Audit of Financial Statements

Qualified Opinion

[1] We have audited the accompanying financial statements of **Electroputere S.A.** (hereinafter referred to as "the Company"), which comprise the statement of financial position as at December 31, 2019, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

[2] The aforementioned financial statements refer to:

➤ Net turnover	31,680,061 Lei
➤ Net result of the year	-118,476,029 Lei, loss
➤ Net assets/Total equity	-283,276,363 Lei, negative

[3] In our opinion, except for the possible effects of the matters described in the paragraph 4 from *Basis for Qualified Opinion*, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019, and its financial performance and cash flows for the year then ended, in accordance with the Ministry of Public Finance Order no. 2844/2016 for the approval of the Accounting Regulations in accordance with International Financial Reporting Standards as adopted by European Union, with subsequent changes (MoPF Order no. 2844/2016).

Basis for Qualified Opinion

[4] As at December 31, 2018, we have not been provided with direct confirmations for significant trade receivable balances in amount of 33,741,700 Lei. Also, old and doubtful trade receivables in amount of 2,264,305 Lei as at December 31, 2018, that are not confirmed, were not adjusted considering that these are recoverable. During 2019, the Company recognised additional bad debts allowances in amount of 26,953,615 Lei, by affecting the current year financial performance. Therefore, we were not able to obtain sufficient and appropriate audit evidence regarding the existence and the recoverability of these trade receivables as at December 31, 2018. We were not in position to determine the adjustments, if any, which might be necessary in order to present these receivables at their recoverable value and to estimate the corresponding impact in the current and prior year' statement of comprehensive income. The prior year auditor's report for the financial statements for the year ended December 31, 2018 included a similar qualification.

[5] We conducted our audit in accordance with International Standards on Auditing (ISA), EU Regulation no. 537 of the European Parliament and of the European Council ("the Regulation") and Law no. 162/2017 ("the Law"). Our responsibilities based on these standards are described in detail in the *Auditor's Responsibility in an Audit of the Financial Statements* in 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) together with the ethical requirements that are relevant to our audit of the financial statements in Romania included with the Regulation and the Law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Significant uncertainty related to going concern

[6] As mentioned in Note [3] Basic accounting principles - Going concern - to the accompanying financial statements, the financial position and operating results of the Company depend on the financial and operational support of shareholders and related party companies, not being exclusively under the control of the Company's management.

As at December 31, 2019, the accompanying financial statements present a current loss in amount of 118,476,029 Lei (December 31, 2018: 13,122,450 Lei, loss), negative retained earnings (loss) in amount of 501,842,770 Lei (December 31, 2018: 383,366,741 Lei) and current liabilities exceeding current assets in amount of 509,648,706 Lei (December 31, 2018: 425,109,716 Lei).

During the year ended December 31, 2019, the Company's operations were significantly reduced and these were focused mainly to complete the existing orders, with no new customers agreements being signed. The Company discontinued its operations starting with December 2019 when the employees were dismissed.

These matters indicate that there is a significant uncertainty that could significantly put in doubt the Company's ability to continue as a going concern.

Our opinion is not further modified in respect of this matter.

Emphasis of matters

[7] We draw attention to the Note [13] Financial assets and other assets, which states that the Company was involved in significant litigations with National Authority for Fiscal Administration, related to the fiscal control performed by the tax authority during 2014. The disputes were related to reimbursement of VAT in amount of 8,507,956 Lei, together with accumulated penalties of 3,953,308 Lei and additional VAT of 2,159,176 Lei. These amounts were presented in the statement of financial position as at December 31, 2019 as receivables from tax authorities, the adjustment for their uncertain recoverability being of 1,752,854 Lei. In February 2020, the Supreme Court rejected the appeals filed by the Company and National Authority for Fiscal Administration, and maintained the decision rendered by Craiova Court Appeal, whereby the tax decision and tax audit report issued by fiscal authority were annulled. In March 2020, the Company followed the administrative procedure for reimbursement of VAT in amount of 6,755,102 Lei and submitted this request to fiscal authorities. As at the date of issuing the accompanying financial statements, the amounts in dispute were not yet reimbursed by National Authority for Fiscal Administration. The prior year auditor's opinion for the financial statements for the year ended December 31, 2018 included a qualification due to lack of sufficient and appropriate audit evidence to allow us to identify the possible outcomes on the financial statements in respect of these litigations not yet finalized.

[8] We draw attention to the Note [3] Basic accounting principles - Going concern - to the accompanying financial statements, which states that the Company's operations were significantly reduced, and these were discontinued starting with December 2019 when the employees were dismissed. Therefore, the historical information may not be appropriate for forecast assumptions about future financial results.

[9] As presented in Note [28] Subsequent events - Impact of COVID-19 virus, the pandemic caused by the COVID-19 virus involves additional challenges and risks for the Company's operations. The fear of the virus and the emergency measures taken by the affected states to reduce its spread will put increasing pressure on the economic environment. The Company has already taken specific measures to ensure the health and safety of its employees. In addition to human risk, the pandemic also presents an economic risk for the future operations of the Company.

Our opinion is not further modified in respect of these matters.

Other matters

[10] This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinion we have formed.

Key audit matters

[11] Key audit matters are those matters that, in our professional judgement, 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 financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters

Revenue recognition for sales of electric power transformers

As stated in the Note [3] to the accompanying financial statements, the Company's revenue recognition policy for the sales of electric power transformers is based on percentage completion method, according to the provisions of IFRS 15 Revenue from contracts with customers. The revenue related to these projects is in amount of 21,523,355 Lei and these are presented under the Revenue line in the statement of comprehensive income.

This method involves significant management estimations related to:

- actual stage of completion for electric power transformers as at the end of the period is determined based on the actual costs incurred by the Company until end of the period and total estimated costs for the entire project. This analysis involves significant estimations for the estimated future costs necessary for projects finalization;
- estimation of necessary costs for projects finalization, including the assessment of overheads to be allocated until their finalization, is a complex process and this involves the allocation of overheads to projects based on allocation criteria; this process involves management estimations related to the future production level;
- estimation of profit margin for each project is determined based on comparison of the estimated total costs with the revenue from agreements, and the results are used for the determination of losses;

Due to the significance of the above mentioned estimations and considering the importance of revenue from sales of electric power transformers, we have considered that the revenue recognition is a key audit matter.

How our audit addressed the key audit matters

Our audit procedures included:

- retrospective review of budgeted costs against the actual costs incurred related to orders in progress in the prior period that were finalized in the current period; we analysed whether there are significant differences between the prior year estimated values and the actual values as recognized in the current period;
- audit testing of the order in progress at the end of the current period and the assessment of the completeness and accuracy for the stage of completion and the estimated costs for projects finalization;

Key audit matters

Fair value valuation of land and buildings

As stated in the Note [11] Property, plant and equipment to the accompanying financial statements, the land and buildings are presented at their fair value as determined by an independent appraisal expert.

There is a risk that these non-current assets be overstated, being presented at a higher value than their fair value, due to the inappropriate use of underlying valuation assumptions. Moreover, there is a risk that the accounting policies used for the recognition of valuation reserves and impairment losses to not be properly recorded in the financial statements.

This matter is considered a key audit matter due to the significance of the expert estimations for the fair value of land and buildings.

How our audit addressed the key audit matters

In order to assess the valuation of land and buildings, we have performed the following audit procedures:

- we analysed the valuation methodology used by the appraisal expert for determination of fair values;
- we corroborated the conclusions stated by the appraisal expert with the underlying fair value computations;
- we assessed whether the impairments as recognised by the Company are according to the accounting policy and fair value valuation;
- we analysed the reasonability of the accounting policy used for recognition of valuation reserves and impairment losses;

Other Information - Administrator's Report

[12] The administrators are responsible for preparation and presentation of other information. The other information comprises the Administrator's Report but does not include the financial statements and our auditor's report thereon, neither the non-financial statement, which is presented in a separate report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

[13] In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

With regards to the Administrator's Report, we have read and report whether it was prepared, in all material respects, in accordance with the MoPF Order no. 2844/2016, articles 15-19 of the Accounting Regulations in line with International Financial Reporting Standards.

[14] Based exclusively on the activities that should be done during the audit of the financial statements, in our opinion:

- [a] Information presented in the Administrators' Report for the financial period for which the financial statements have been prepared, is in accordance, in all material respects, with financial statements;
- [b] The Administrators' Report has been prepared, in all material respects, in accordance with MoPF Order no. 2844/2016, articles 15-19 of the Accounting Regulations in line with International Financial Reporting Standards.

[15] Besides this, based on our knowledge and understanding of the Company and its environment gained during the audit of financial statements for the year ended at December 31, 2019, we shall report whether we identified any information included into Administrators' Report that is material misstated. We have nothing to report in this regard.

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

[16] Management is responsible for the preparation and fair presentation of the financial statements in accordance with MoPF Order no. 2844/2016, 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.

[17] 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.

[18] Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

[19] 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.

[20] As part of an audit in accordance with the auditing standards as adopted by Chamber of Financial Auditor's from Romania, which are based on International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- [a] 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;
- [b] 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;
- [c] Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- [d] 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.
- [e] Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying deficiencies in internal control that we identify during our audit.

[21] 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.

[22] Also, we 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.

[23] From the matters communicated with those charged with governance, we determine those matters that were of more significance in the audit of the financial statements of the current period and 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 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 the other legal and regulatory provisions

[24] We were appointed by the Ordinary General Meeting of Shareholders by Decision no. 74 of April 26, 2018 to audit the financial statements of **Electroputere S.A.** for the financial years ended December 31, 2018 and December 31, 2019. The uninterrupted total period of our commitment is two year2, covering the financial years ended December 31, 2018 and December 31, 2019.

We confirm that:

- Our audit opinion is in line with the additional report submitted to the Audit Committee of the Company that we issued at the same time as this report. Also, in conducting our audit, we have retained our independence from the audited entity;
- The prohibited non-audit services referred to in Article 5(1) of EU Regulation no. 537/2014 were not provided.

Referred to original signed version in Romanian language
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On behalf of BDO AUDIT SRL

Registered to Electronic Pubic Register of Financial Auditors and Audit Firms
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Bucharest, Romania
April 24, 2020