

*Translation from Romanian*

## INDEPENDENT AUDITOR'S REPORT

To the shareholders,  
Electroarges S.A.

### Report on the audit of the financial statements

#### ***Reserved opinion***

1. We audited the individual financial statements of **Electroarges S.A. ("The Company")** - with its registered office in Curtea de Arges, str. Albesti nr. 12, Arges County, identified by the tax registration code RO156027, which includes the individual statement of the financial on December 31<sup>st</sup>, 2019, and the individual statement of the comprehensive income, the individual statement of the changes in equity and the individual cash flow statement for the financial year ended at this date, as well as a summary of the significant accounting policies and other explanatory notes.

2. The financial statements on December 31<sup>st</sup>, 2019 are identified as follows:

➤ Net assets/Total equity:	74,196,486 Lei
➤ Net profit of the financial year:	2,036,989 Lei

3. In our opinion, except for the possible actual aspects presented in the section *Basis for the reserved opinion* of our report, the attached individual financial statements accurately present, under all significant aspects, the Company's financial position on December 31<sup>st</sup>, 2019, and its financial performance and cash flows related to the financial year ended on this date, according to the Order no. 2844/2016 of the Minister of Public Finance for the approval of the accounting regulations in accordance with the International Financial Reporting Standards ("OMFP 2844/2016").

#### ***Basis for the reserved opinion***

4. On December 31<sup>st</sup>, 2019, the Company revalued the buildings in its patrimony based on an evaluation report prepared by an independent expert, the results of this revaluation being fully reflected in the financial year ended on December 31<sup>st</sup>, 2019. The previous revaluation of these fixed assets was carried out on December 31<sup>st</sup>, 2012. The Company's accounting policy is to recognize buildings at revalued values. In accordance with the provisions of OMFP 2844/2016, the revaluations must be made with sufficient regularity so that the book value does not differ significantly from the one that would be determined using the fair value at the date of the balance. We were not able to determine the effect on the comparative individual financial statements of the full recognition of the impact of the evaluation report on December 31<sup>st</sup>, 2019.

5. On December 31<sup>st</sup>, 2018, the Company reports, in the Statement of the financial position attached, shares valued at the fair value through other items of the comprehensive income in the amount of 24.7 million Lei and shares valued the fair value through the profit and loss account in the amount of 20.8 million Lei . We have not been able to obtain sufficient and adequate audit evidence to be able to verify the fair values determined by the Company on December 31<sup>st</sup>, 2018. Therefore, we are not in a position to express an opinion regarding compliance with the provisions of OMFP 2844/2016 on the evaluation of the shares held by the Company and reported at fair value on December 31<sup>st</sup>, 2018. On December 31<sup>st</sup>, 2019, except for the holding in Mobila Rădăuți SA, the Company reported the shares held at fair value using stock quotes or the companies' evaluation reports. The results of this evaluation were recorded in full in the current financial year. We were not able to determine the effect on the comparative individual financial statements of the full recognition of the evaluation of the shares on December 31<sup>st</sup>, 2019. For the holding in Mobila Rădăuți SA in the amount of 19.7 million Lei, taking into account the company's insolvency procedure, the information available was insufficient to determine the fair value of the shares on December 31<sup>st</sup>, 2019.

6. The Company reports, in the Statement of Individual Financial Position, trade and similar receivables in the amount of 7.4 mil Lei on December 31<sup>st</sup>, 2019, as well as on December 31<sup>st</sup>, 2018, for which there are indications regarding the uncertainty of recovery. The company has estimated that no impairment adjustments are necessary. The information available did not allow us to estimate any corrections that would have been necessary to report these assets to the net recoverable amount in the attached financial statements as well as the impact on the balance position of "Trade and similar receivables" and the performance of the current and previous financial year.

7. In the financial statements prepared on December 31<sup>st</sup>, 2017, the Company did not report deferred tax related to the temporary differences between the tax base and the reporting accounting base. The Company recognized the effect of the deferred tax by affecting the financial statements ended on December 31<sup>st</sup>, 2018. We were not able to obtain sufficient and adequate audit evidence to determine the effect on the comparability of the information presented in the statement of comprehensive income for the current period and for the previous period.

8. We conducted our audit in accordance with International Auditing Standards ("ISA"), EU Regulation no. 537 of the Parliament and of the European Council (hereinafter the "Regulation") and Law no. 162/2017 ("Law"). Our responsibilities based on these standards are described in detail in the section "Auditor's responsibilities in an audit of financial statements" in our report. We are independent of the Company, according to the Code of Ethics of the Accounting Professionals issued by the Council for International Standards of Ethics for Accountants (IESBA Code), according to the ethical requirements that are relevant for the audit of the financial statements in Romania, including the Regulation and the Law, and we have fulfilled our ethical responsibilities according to these requirements and according to the IESBA Code. We believe that the audit evidence we have obtained is sufficient and adequate to provide a basis for our reserved opinion.



### ***Highlighting some aspects***

We want to draw attention to the following aspects:

9. Note 15 "Trade receivables and of another nature" to the individual financial statements attached presents the situation of the dispute in which the Company is involved, having procedural quality as claimant with the Environment Fund Administration, for recovering the amount of 1.3 million lei enforced environmental taxes. As the trial is in an early stage, possible effects can be determined as the court proceeds;

10. As shown in Note 29 Further Events, the pandemic caused by the COVID-19 virus involves additional challenges and risks for the Company's operations. Electroargeş SA 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 Company's future operations.

Our opinion is not reserved on the issues presented above.

### ***Key audit issues***

11. The key audit issues are those issues that, based on our professional judgment, were of the utmost importance for the audit of the financial statements for the current period. These issues have been addressed in the context of the audit of the financial statements as a whole and in forming our opinion on them and we do not provide a separate opinion on these key issues.

#### ***Key audit issue***

##### ***a) Income recognition***

See **Note 2.12.1 "Accounting Policies - Income Recognition"** and **Note 4 "Income from client contracts"**

The income recognition policy is presented in Note 2.12.1. The turnover consists of income from the sale of finished products to external and internal clients.

According to the ISA, there is an implicit risk in income recognition, due to the pressure that management may feel in relation to obtaining the planned results.

The Company's income is recognized at the time of product delivery to the clients.

#### ***Approach within the audit:***

Our audit procedures included, among others:

- evaluation of the principles of income recognition in accordance with the provisions of IFRS;
- testing the control and the processes implemented regarding the reflection in accounting of the sales of finished products, in order to obtain the necessary assurance regarding the existence, completeness and accuracy of the income reported in the financial statements;
- testing the balance of trade receivables on December 31st, 2019, by sending direct confirmation letters;

### ***Other issues***

12. The Company's financial statements for the previous financial year were audited by another auditor, who, on March 23<sup>rd</sup>, 2019, expressed an unreserved opinion, with a paragraph for highlighting some issues.

13. The attached financial statements are prepared based on the Accounting Regulations according to the International Financial Reporting Standards, approved by the MFP Order no. 2844/2016. The reporting framework provided in these regulations refers to the application of IFRS. According to these standards, a parent company prepares consolidated annual financial statements. At the reference date of the attached financial statements, the Company has control in 3 (three) companies. The attached financial statements are individual and do not present any adjustments that may be necessary to consolidate them.

14. This the independent auditor's report is addressed exclusively to the Company's shareholders as a whole. Our audit was conducted in order to be able to report to the company's shareholders those aspects that we must report in a financial audit report, and not for other purposes. To the extent permitted by law, we accept and assume no responsibility except to the Company and its shareholders, as a whole, for our audit, for this report or for the opinion formed.

### ***Other information - Administrators' Report***

15. The administrators are responsible for the preparation and presentation of other information. That other information includes the Administrators' Report, but do not include the financial statements and the auditor's report thereon.

Our opinion regarding the financial statements does not cover that other information and, unless explicitly mentioned in our report, we do not express any assurance regarding it.

In connection with the audit of the financial statements for the financial year ended on December 31<sup>st</sup>, 2019, it is our responsibility to read that other information and, in this matter, to assess whether that other information is significantly inconsistent with the financial statements or the knowledge we have acquired during the audit, or if it appears to be significantly distorted.

Regarding the Administrators' Report, we have read and report whether it has been prepared, in all material respects, in accordance with the information provided in paragraphs 15-19 of OMFP 2844/2016.

Based exclusively on the activities to be performed during the audit of the financial statements, in our opinion:

a) The information presented in the Administrators' Report for the financial year for which the financial statements have been prepared is in accordance, in all material respects, with the financial statements;

b) The Administrators' Report was prepared, in all significant aspects, in accordance with the information required by points 15-19 of OMFP 2844/2016.

In addition, based on our knowledge and understanding of the Company and its environment, acquired during the audit of the financial statements for the financial year ended on December 31<sup>st</sup>, 2019, we are required to report whether we have identified material misstatement in the Administrators' Report. We have nothing to report on this.

### ***Management's responsibilities and the persons responsible with the governance for the financial statements***

16. The management is responsible for the accurate preparation and presentation of the financial statements in accordance with OMFP 2844/2016 and for that internal control that the management considers necessary to allow the preparation of financial statements without significant misstatements, caused either by fraud or error.

17. In the preparation of the financial statements, the management is responsible for assessing the Company's ability to continue its activity, presenting, as the case may be, the issues regarding the continuity of the activity and using the principle of continuity of the activity as an accounting basis, except when the management intends to liquidate the Company or to stop operations, or has no other realistic alternative than these.

18. The people responsible for governance are responsible for overseeing the Company's financial reporting process.

### ***Responsabilitatea auditorului într-un audit al situațiilor financiare***

19. Our objectives are to obtain reasonable assurance as to the extent to which the financial statements as a whole are free from significant misstatements, caused either by fraud or error, as well as by issuing an auditor's report that includes our opinion. Reasonable assurance represents a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs will always detect a significant misstatement, if any. Misstatements can be caused either by fraud or error and are considered significant if it can be reasonably expected that they, individually or cumulatively, will influence the economic decisions of the users, based on these financial statements.

20. As part of an audit in accordance with the audit standards adopted by the Romanian Chamber of Financial Auditors, which are based on International Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. Also:

- a) We identify and evaluate the risks of significant misstatement of the financial statements, caused either by fraud or error, we design and execute audit procedures in response to those risks and obtain sufficient and adequate audit evidence to provide a basis for our opinion. The risk of not detecting a significant misstatement caused by fraud is higher than that of not detecting a significant misstatement caused by error, because fraud can involve secret agreements, false, intentional omissions, false statements and avoidance of internal control;
- b) We understand the internal control relevant to the audit, in order to design audit procedures appropriate to the circumstances, but without having the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- c) We assess the adequacy of the accounting policies used and the reasonableness of the accounting estimates and related presentations made by management;
- d) We draw a conclusion on the adequacy of the management's use of accounting on the basis of business continuity and determine, based on the audit evidence obtained, whether there is significant uncertainty about events or conditions that could raise significant doubts about the Company's capacity to continue its activity. If we conclude that there is significant uncertainty, we must draw attention in the auditor's report to the related presentations in the financial statements or, if these presentations are inadequate, change our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Company to cease to operate on the basis of the principle of business continuity;

e) We evaluate the presentation, structure and general content of financial statements, including disclosures, and the extent to which financial statements reflect underlying transactions and events in a manner that delivers fair presentation.

21. We communicate to the persons responsible for governance, among other things, the planned area and the timely scheduling of the audit, as well as the main findings of the audit, including any deficiencies of the internal control that we identify during the audit.

22. We also provide a statement to those responsible for governance that we have met the relevant ethical requirements regarding independence and that we have communicated to them all relationships and other issues that could reasonably be expected to affect our independence and, where appropriate, the related protection measures.

23. From the issues that we have communicated to those in charge of governance, we establish those issues that were most important in the audit of the financial statements of the current period and, therefore, are key audit issues. We describe these issues in our audit report, unless the law or regulation prevents the public presentation of the issue or, in extremely rare circumstances, we consider that an issue should not be disclosed in our report because it is reasonably expected that the benefits of the public interest to be outweighed by the negative consequences of this communication.

#### **Report on other legal and regulatory provisions**

We were appointed by the General Meeting of Shareholders with decision no. 106 of 25.04.2019 to audit the financial statements of **Electroarges S.A.** for the financial years 2019 - 2021. The total uninterrupted duration of our commitment is 1 year, covering the financial year ended on 31.12.2019.

We confirm that:

- Our audit opinion is consistent with the additional report submitted to the Company's Audit Committee, which we issued on the same date as this report. Also, in conducting our audit, we maintained our independence from the audited entity;
- We did not provide for the Company the non-audit services prohibited, mentioned in Article 5 (1) of the EU Regulation no. 537/2014.

On behalf of **BDO Audit S.R.L.**

Registered in the Public Electronic Register with no. FA18

Partner full-name: Razvan Cocei

Registered in the Public Electronic Register with no. AF2568

Bucharest, Romania

March 28th, 2020