



ECOTEH EXPERT SRL BUCHAREST

Accounting and legal expertise, internal and external audit,
tax consultancy, accounting
CFAR authorization No. 120/2001

Address: Bucharest, 3 sector, Postal Code
030712, 2 Lt. Ganovici Dumitru, 1st floor
ORC No. J40/8893/2000
CUI – RO 13409385
Phone – +4-021-326 81 72
Mobilephone – +4-0724 252 149
E-mail: ecoteh_audit@yahoo.com
Account – RO71BREL010207123RO11001
LIBRA BANK – Bucharest Branch
www.ecoteh-expert.ro

FINANCIAL AUDIT REPORT

Confidential

This report is addressed to the shareholders of
SC UZTEL SA

*In attention to the shareholders of
SC UZTEL SA*

The Report of Independent Auditor

Report on the individual financial statements

The Opinion

1. SC ECOTEH EXPER SRL has audited the annexed financial statements of SC UZTEL SA (hereinafter as «The Company»), which has the registered office in Ploiesti, 243 Mihai Bravu Street, Prahova County, identified by the unique registration code RO1352846. The statements include: Financial position statement at 31. December 2017, Global Result Statements, Equity Changes Statements, Cash Flows Statements and Financial Statements Notes, which include a summary of the significant accounting policies and other explanatory information.
2. The financial statements refer to:

○ The individual equity	96.363.499 RON
○ Net individual result - loss	13.170.728 RON
3. As per our opinion, the annexed financial statements fairly represent the financial position and performance at 31. December 2017, under all significant aspects. The Company's annexed financial statements were prepared according to OMPF No. 2844/2016 on approving the accounting Regulations according to the International Financial Reporting Standards (hereinafter as «IFRS») under all significant aspects, which allowed the auditor to have a clean opinion.

Opinion Grounds

4. The audit was performed in accordance with the International Audit Standards (hereinafter as «IAS»), Regulation (EU) No. 537/2014 of the European Parliament and of the Council (hereinafter as «The Regulation») and Law No. 162/2017 (hereinafter as «The Law»). Based on the mentioned standards and regulations, our responsibilities are detailed in Section *the Auditor's Responsibilities* of our report. We are independent from the Company, according to the Ethics Code of the Accounting Professionals, issued by the International Ethics Standards Board for Accountants (IESBA), according to the relevant Romanian ethics

requirements, including the Regulation and the Law, and we have fulfilled the ethics requirements accordingly. We believe that the audit evidences that we obtained are sufficient and adequate in order to provide the grounds for our opinion.

Significant uncertainty on business activity continuation

5. We draw attention on Note No. 2 – *Basis for preparing the individual financial statements (c)*.

According to Sentence No. 129 from 03.03.2017 given in File no. 4732/105/2010 by Dolj Court, Civil Division 2, the restructuring procedure for SC UZTEL SA was finalized and closed, following the fulfilment of the payment obligations as per the plan confirmed in Sentence No 1282 from 09.10.2012 and also per the inclusion of the Company in the economic circuit for business continuation.

The objective of the Executive Board for this financial reporting is maintaining a justified and adequate financial balance which would justify the business activity continuation principle.

Without any changes of the opinion, the financial auditor noted a impairment loss in the financial indicators.

6. The Company had a loss of 13.170.728 RON at 31.12.2017, which determined 5.365.459 shares, resulting in 2,45 RON per share. We note that the loss is reduced than the one from last year with 5.976.224 RON, thus the loss per share is antidilutive to last year, according to IAS 33.
- The Company's equity recorded a significant loss compared to last financial exercise, of 9.294.579 RON (2017: 96.363.499 RON, compared to 2016: 105.658.078 RON).
 - The Company's debts of the 2017 financial exercise are rising compared to the 2016 financial exercise, with 3.876.149 RON. The supplier debts are significant, of 20.121.729 RON, and the ones to the financial institutions are of 7.498.697 RON. The finalization and closure of the Restructuring Plan and insolvency procedure during 2017 entailed a mortgage on the Company's buildings, of 19.331.105,42 RON and on the equipment, of 8.657.574,69. The debt level at 31. December 2017 increased to 12.23%, compared to the last financial exercise, of 11.48%.
 - The Company is exposed to a credit risk due to its debt (mainly commercial), of 13.693.246 RON. We noted that the commercial debts reduced with 914.637 RON compared to previous year. Nevertheless, the value of 3.516.870 RON is still to be collected from the external clients. Regarding the uncertain clients, the Board has difficulties in collecting 3.881.245 RON, due to financial restructuring or bankruptcy of the clients.

Our opinion has no reservations in this respect.

Key auditing aspects

7. The key auditing aspects are those which, based on our professional judgement and rationale, were the most important in performing the current auditing exercise. These aspects were approached in the audit of the individual financial statements as a whole and we do not provide a separate opinion in this respect.

Key auditing aspects

Audit approach

Risk management and internal controls system

The Management Board of the Company must establish an Audit Committee, in which at least one member must be an independent non-executive administrator. The majority of the members, including the president, must have proven relevant and adequate qualification for the functions and the responsibilities of the Committee. At least one member must have audit experience or proven and adequate accounting experience.

Income recognition

Accounting treatment, identification, assessment, recognition, according to IAS 18. In Note No. 3 (o) on the accounting policies – the income is a key performance indicator for the Company, have a direct influence on the majority of the specific objectives and expectations.

Our procedures included:

- Assessment of the control and internal audit function;
- Testing the control and internal audit plan, considering the control reports for the management, also verifying the implementation of the given recommendations;
- Reporting to the Audit Committee, in case it was established.

Our procedures included:

- Verification of the income accounting policies against the accounting standards and applicable legislation;
- Verification whether the income was correctly classified and processed in the appropriate period.

Evaluation of the stocks under production

In Note No. 11, the stocks under production at 31. December 2017 were evaluated for 6.944.754 RON. The evaluation refers to those stocks under production for sale during carrying out a normal business activity, as per IAS 2. The stocks under production are a key aspect in the audit due to unpredictability, which accumulates direct and indirect costs, balancing the impact when delivering within the contractual deadlines.

Depreciation of fixed assets

The Company's net fixed assets of 46.995.454 RON are presented in Note No. 10 and represent a key auditing aspect – IAS 16. The main features in recognizing these assets relate to calculation of the accounting value and depreciation expenses. These are valuable information for the users of the financial statements for the Company's investment in tangible fixed assets.

Deferred tax

It is a key auditing aspect as per the current Report issued by the Company in this respect. In Note No. 3 Accounting policies (r), the Company recognizes the deferred tax asset, according to IAS 12. The deferred tax is not distinguished in the global result, as it will be claimed while becoming eligible, in order for the net profit to include this asset. The deferred tax asset is not significant, but it was the subject of a Company's report.

Our procedures included:

- Evaluation tests using samples of the costs of the stocks under production, so that the costs accounting value would be analysed on cost elements and existent production. IAS 2.36;
- Tests on the production timespan, until reaching the finished product stage;
- Tests on reconciliation of contracts, orders and stocks under production.

Our procedures included:

- Tests to evaluate depreciation of fixed assets;
- Tests on performing the inventory of tangible fixed assets, correctness of accounting the decommissioning of fixed assets proposed by the inventory commissions;
- Tests on the accounting policies for evaluation applied on cost model or reevaluation model, and tracking the chosen model for an entire fixed assets category, according to IAS 16.29.

Our procedures included:

- Evaluation of the clarification criteria of the deferred tax asset;
- Tests for the recognition of debt and tax deferred asset (IAS 12.15) – the deferred tax asset was recognized by the Company according to IAS 12.39b, as there would be the possibility that the temporary difference would not be accounted in the predictable future.

Evaluation of the business continuity

The Company, which just finalized insolvency procedures, brings a strategic value of this aspect in Note No. 2 (a) to the IFRS Conformity Declaration, as it takes responsibility for confirming undertaking continuous business activities. The business activity trend of the Company was increasing in 2017, compared to 2016, the net assets and the equity are positive, thus the Management considers that there are no uncertainties that may put into question the Company's capacity to continue its activity, being able to manage the assets and fulfil its obligations while undertaking future activities.

Our procedures included:

- The auditor must test the Management's points of view regarding the continuity and solvency. The Management's responsibility is continuous, while the auditor's opinion is based on a situation at a specific moment.
- The acceptance of continuity basis for leverage involves solvency, meaning whether the Company would be able to fulfil the provided responsibilities at the moment of issuing the balance sheet.

Additional information – Report of the Administrators

8. The Administrators are responsible for preparing and presenting additional information. This additional information relate to the Report of the Administrators, but not to the financial statements or the Audit report regarding them.

Our opinion regarding the financial statements does not cover this additional information, thus we do not provide any ensuring conclusion regarding it, except for the case when the report explicitly mentions the additional information.

With respect to the audit performed on the financial statements at 31. December 2017, our responsibility relates to reading the additional information and while reading it, to determine whether the additional information is significantly inconsistent with the financial statements, or with the understanding we obtained during the audit, also whether the additional information can be significantly distorted.

With respect to the Report of the Administrators, we read it and we note that it was issued, in all significant aspects, according to the requirements mentioned in Chapter 3 of the OMPF No. 2844/2016 on approving the accounting Regulations according to the International Financial Reporting Standards.

Based on the undertaken activities during the financial statements audit exclusively, our opinion concludes as follows:

- a. The information presented in the Report of the Administrators is in line with the financial statements of 31. December 2017, in all significant aspects;
- b. The Report of the Administrators has been issued, in all its significant aspects, in accordance with OMPF No. 2844/2016, Chapter 3, points 15-19.

The Responsibilities of the Management and of the persons managing the governance of the financial statements

9. The Management is responsible for the preparation and fair presentation of the financial statements, in accordance with OMPF No. 2844/2016. In addition, the Company's management is responsible for designing, implementing and maintaining a relevant internal control, considered necessary for ensuring that the preparation of the financial statements is free of material misstatements due to fraud or error.
10. While preparing the individual financial statements, the Company's Management is responsible for evaluating whether the Company is capable of business continuation. If the case, the Management will present aspects regarding the business activity continuation, except for the case when the Management either intends to liquidate the Company or to terminate operations, or has no other realistic solution.
11. The responsible persons on governance are responsible for monitoring the Company's financial reporting process.

The Auditor's responsibilities in auditing the individual financial statements

12. Our objectives relate to obtaining a reasonable insurance that the individual financial statements, as whole, are lacking significant distortions, caused either by fraud or error, also to issue the Auditor's report which includes our opinion. A reasonable insurance represents a high level of insurance, but does not guarantee that the audit, undertaken according to ISA, will always detect a significant distortion, if it exists.
13. As part of an audit undertaken according to ISA, we use professional judgement and we maintain a professional scepticism.

In addition:

- We identify and assess signification distortion risks on the individual financial statements, caused either by fraud or error, we plan and we perform audit procedures as risk responses and we obtain sufficient and adequate audit evidences as to provide a basis for our opinion. The risk of not detecting a significant distortion caused by fraud is higher than the one for a significant distortion caused by error, due to the fact that fraud may relate to misleading, secrets, forgery, false statements and overriding internal control.
- We understand the relevant internal control for the audit, in order to plan auditing procedures in line with the circumstances, without the purpose of providing an opinion on the efficiency if the Company's internal control.

- We assess the appropriateness of the used accounting policies and the reasonability of the accounting estimates and of the Management information reporting.
 - We conclude on the business continuity accounting appropriateness used by the Management and we determine, based on the obtained audit evidence, whether there is a significant uncertainty regarding the events or conditions which could raise questions on the Company's capacity to continue its business activity. In case we conclude that there is a significant uncertainty, we will draw attention on the related presentations for the financial statements within the auditor's report or, in case the presentations are inconsistent, we will change our opinion. Our conclusions are based on audit evidences which were obtained until the auditor's report date. Nevertheless, the Company may not undertake its business based on activity continuation principle due to future events or conditions.
 - We assess the presentation, the structure and the content of the individual financial statements, including the presentation of financial information, and also the fairness of how the financial statements reflect transactions and key events.
14. We inform the persons who are responsible with the governance on the scope and duration of the audit, also on the main findings, including any significant deficiencies of the internal control.
15. Additionally, we provide the persons who are responsible with the governance our statement that we met the ethical requirements on independence and we communicated all relationships or other aspects that could have affected our independence, and, if the case, related measures taken.
16. We prioritise all communicated aspects in order to determine the most important ones from auditing the individual financial statements, which become the key auditing aspects. We describe these aspects within the audit report, except for the case when the laws or regulations forbid making them public (extremely rare circumstances, when the public interest benefits may be overcome by the negative impact of the public communication).

Report on other legal and regulatory provisions

17. We were nominated by the General Assembly of the Shareholders on 15. December 2016 to audit the financial statements of SC UZTEL SA, for the financial exercise ended on 31. December 2017. The full duration of our audit engagement is 2 years, covering the financial exercises from 31.12.2016 to 31.12.2017.

We confirm that we have not provided any non-audit services which are forbidden as per Art. 5 para (1) of the Regulation.

For and on behalf of S.C. ECOTEH EXPERT S.R.L. – CFAR licence No. 120/2001

Olguta CODESCU

Financial Auditor, CFAR licence No. 947/2001

Chartered Accountant

Fiscal Consultant

23.03.2018

Bucharest, Romania

