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CFAR authorization No. 120/2001

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FINANCIAL AUDIT REPORT

Confidential

This report is addressed to the shareholders of
SC UZTEL SA



*In attention to the shareholders of
SC UZTEL SA*

Independent Audit Report

Report on the individual financial statements

The Opinion

1. SC ECOTEH EXPERT 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 2018, 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 at 31. December 2019 refer to:
 - The individual equity 63.321.457 RON
 - Profit for the year 584.808 RON
3. As per our opinion, the annexed financial statements fairly represent the financial position and performance of the financial year and cash flows at 31. December 2019, 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 Code of Ethics 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 these 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.

Uncertainty on business 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.

In this respect, the Controlling Function should be established, in order to assess and manage the risks to which the Company is exposed.

Key auditing aspects

6. 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 audit aspects

Audit approach

Risk management and internal controls system

The internal controls system was not organized during 2019. The Company's Board of Directors did not conduct any controls on the Company's business activity. During the 2019 financial exercise, the internal audit did not audit the Controlling function. The Controlling and Risk Management Functions are key elements for the Company's business activity.

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.
- Collaborating with the Audit Committee.

Given the findings, our opinion remained the same.

Income recognition

Accounting treatment, identification, assessment, recognition, according to IAS 18. In Note No. 3 (a) 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. The 2019 operating income of 74.882.706 RON, are lower than the previous exercise (2018: 77.683.418 RON). The 2019 recorded income for products in stock are lower than the previous year (2019: 9.291.097 RON, 2018:16.936.267 RON) Note 3(7). The 2019 total stock of de 40.547.659 RON are higher than the previous year (2018: 36.281.530 RON)

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;
- Assessing the income recognition principles and testing the income recognition controls based on provided services (sample testing);
- Inspecting the customer contracts for obtaining an understanding on the conducted transactions;
- Inspecting the relevant documentation in order to assess whether the revenues were booked in the appropriate financial period.

Given the findings, our opinion remained the same.



Evaluation of the work-in-progress production

The stock increase is reflected in the work-in-progress production (2019: 14.466.493 RON, 2018: 12.163.257 RON). The evaluation refers to that work-in-progress production during a normal business activity, as per IAS 2. The work-in-progress production is a key aspect in the audit due to unpredictability, which accumulates direct and indirect costs, balancing the impact when delivering within the contractual deadlines.

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.

Given the findings, our opinion remained the same.

Depreciation of fixed assets

The Company's net fixed assets of 40.959.949 RON are presented in Note No. 10 RON and represent a key auditing aspect – IAS 16. The main features in recognizing these assets relate the determination of their carrying amounts, the depreciation charges and impairment losses to be recognised in relation to them. This is valuable information for the users of the financial statements for the Company's investment in tangible fixed assets.

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.

Given the findings, our opinion remained the same.

Evaluation of the business continuity principle



This principle is a key aspect in the audit engagement. The Company, which just finalized insolvency procedures, brings a strategic value to this aspect. In Note No. 2 (a) to the IFRS Conformity Declaration, the Company takes responsibility for confirming undertaking continuous business activities. The business activity trend of the Company was increasing in 2019 and both the net assets and own 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.

Coronavirus pandemic situation – COVID 19

The pandemic occurred after closing the 2019 financial exercise, which may or may not cause adjustments on the annual financial statements, as they could be estimated in a credible manner.

The Company's management recorded the event in the Notes to the statements (page 45), later events with an impact which is unable to avoid, related to the drastic reduction of contracts and orders in 2020.

Our procedures considered the following:

- 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.
- Our procedures considered the market share of UZT. Although the UZT share value has considerably increased as per the economic recovery after the insolvency period, the UZT transactions were insignificant.

Given the findings, our opinion remained the same, based on ISA 560.

Later events

The Company has recorded the impact of this situation in the detailed informative notes – *Later Events*, so that the users could assess the implications and to acknowledge the effects on the Company and generally, on the economy.

Additional information – Report of the Administrators

7. The Administrators are responsible for preparing and presenting additional information. This additional information relates 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 2019, 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 2019, 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.

Additionally, based on our understanding on the Company's activities and environment, which was obtained during the audit engagement of the financial statements at 31. December 2018, we are required to report whether we identified significant changes in the Report of the Administrators. There is nothing to report in this respect.

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

8. The Management is responsible for the preparation and fair presentation of the financial statements, in accordance with IFRS and 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.
9. 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.
10. 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

11. 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.

12. 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.

13. 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.

14. 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.



15. 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 or for the 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

16. We were nominated by the General Assembly of the Shareholders to perform the audit the financial statements of SC UZTEL SA, for the financial exercise ended on 31. December 2019. The full duration of our audit engagement is 3 years, covering the financial exercises from 31.12.2018 to 31.12.2020.

We confirm the following:

- We are independent from the Company, according to the Ethical Code of the Accounting Professionals, issued by IESBA, and to relevant Romanian and international laws and regulations, including Reg. UE No. 537/2014.
- Our audit opinion is in line with the Report which was sent to the Company's Audit Committee, which we issued at the same date with the present Report. Additionally, during the audit engagement, we kept our independence toward the audited entity.
- We confirm that we have not provided any non-audit services which are forbidden as per Art. 5 para (1) of the EU Regulation No. 537/2014.

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

Olguța CODESCU

Financial Auditor, CFAR licence No. 947/2001

Chartered Accountant

Fiscal Consultant

Bucharest, Romania, 20.03.2020

