No. 2.18.2 / 27.03.2017

REPORT OF THE INDEPENDENT FINANCIAL AUDITOR

about the separate financial statements prepared as at 31.12.2016
by UCM Resita S.A. (company in insolvency)

To,

The shareholders, creditors and management of UCM Resita S.A. (company in insolveci)

and

The other legal users of the information included in the separate financial statements and this *Report*

Report on the separate financial statements

I OPPOSITE VIEW

(1.1) We have audited *the Separate Financial Statements* for the acounting year ended on 31.12.2016 and attached to this, prepared by the management of UCM Resita S.A. (company in insolvency), hereinafter referred to as *the Company*, consisting of:

- statement of financial position
- statement of comprehensive result
- statement of changes in equity
- statement of cash flow
- (explanatory) notes and accounting policies

(1.2) The *Separate Financial Statements* audited have been prepared by the management of *the Company* (*the Special Trustees*), but have not yet been submitted and approved by the General Meeting of Shareholders (AGA).

(1.3) The reference values on 31.12.2016 on the aforementioned *Separate Financial Statements*, are:

- total assets 252,136,839 lei
- total liabilities, provisions and income collected in advance 936,031,873 lei
- total equity (net asset) - 683,895,034 lei
- turnover 55,694,260 lei
- result of the accounting year (loss) - 24,870,550 lei

(1.4) **In our view, according to paragraphs (3.1) - (3.14) below, *the Separate Financial Statements* of UCM Resita S.A. for the accounting year ended on 31.12.2016,**

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attached to this, do not make a right presentation (true), in all material respects, of the financial position and changes in its, the overall outcome (performance), cash flows and other information in the explanatory notes (accounting policies) in accordance with the requirements of *the general framework for accounting and financial reporting* (IFRS/IAS) as defined in paragraph 2.8 below.

II REFERENCES ON THE AUDIT MISSION AND LEGAL NORMS (STANDARDS) APPLICABLE

(2.1) A financial audit consists in:

- performing procedures and tests in order to obtain audit evidences to support the amounts and disclosures contained in the financial statements and to allow the *auditor* to base his opinion;
- assessing the risks of material misstatement of the financial statements due to fraud or error on both their preparation and fair presentation (true) of the operations and transactions performed by analyzing (testing) the relevance of the internal control system in this regard, but without having the purpose of expressing an opinion on its effectiveness;
- assessing the appropriateness of the accounting policies adopted and the reasonableness of the accounting estimates made by the management of the audited entity for the financial statements prepared;
- assessing the overal l presentation of the financial statements

(2.2) The objective of a financial audit mission is to provide reasonable assurance by reducing the risks undertaken in conductig it to an acceptably low level, so that the evidences collected can form the basis of the conclusions (opinion) made by the auditor and, thus reinforcing the confidence of the users of the audit report and of the financial statements audited in their quality and content.

(2.3) The reasonable assurance represents a high level of assurance, but there is no guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement, if any.

(2.4) The misstatements can be caused either by fraud or by error and are considered significant if it can be expected, reasonably, that they, individually or in aggregate, will influence the economic decisions of users taken based on the information given in the financial statements and/or in the report of the independent financial auditor.

(2.5) The risk of not detecting a material misstatement due to fraud is higher than that of not detecting a material misstatement due to error, because fraud may involve collusion, willful omission, documents and false declarations, avoidance of internal control systems, and so on.

(2.6) The mission of ECULDA s.r.l. (*the Auditor*) for conducting the audit on the financial statements were was based on the Addendum no. 2.79.2/03.10.2016 to the Service Rendering Contract no. 2.155.2/17.03.2011, by which we have been appointed by the management of *the Company* (Special Trustees) as an independent financial auditor.

(2.7) Our audit was planned and conducted in accordance with the International Standards on Auditing (ISAs) developed by the International Federation of Accountants (IFAC) and adopted by the Chamber of the Financial Auditors of Romania (CAFR).

(2.8) According to these standards, our responsibility is further described in the "Section VII - Auditor's Responsibilities" of this *Report*.

(2.9) ISA standarts and other legal regulations require that the auditor must comply with the IFAC Code of Ethics and that the audit mission must be so planned and conducted as to allow him to obtain reasonable assurance whether the financial statements are free of material misstatement or, if appropriate, that they are altered by such a misstatement (error) following that his report to be drawn, respectively his opinion to be formulated, accordingly.

(2.10) We are independent given *the Company*, in accordance with the relevant requirements of professional ethics, to audit the financial statements of an entity from Romania, fulfilling also the other requirements/responsibilities regarding ethical conduct, including non-provision of professional services other than auditing.

(2.11) *The Separate Financial Statements* of *the Company* have been prepared taking into account the legal regulations applicable in Romania (*the general framework for accounting and financial reporting*) respectively:

- Accounting Law no. 82/1991, republished, with subsequent amendments (*L 82/1991*);
- Order of the Ministry of Public Finance no. 2844/2016 for the approval of Accounting Regulations compliant with the International Financial Reporting Standards (IFRS/IAS), applicable to companies whose securities are admitted to trading on a regulated market (*OMPF 2844/2016*);
- Other legal regulations and/or applicable professional standards.

(2.12) We believe that the audit evidences obtained during the mission, following the application of professional standards, the tests and specific procedures, are sufficient and appropriate to base our opposite view on *the Separate Financial Statements*, as is apparent from those shown below in "Section III - Fundamentals of opposite view".

III FUNDAMENTALS OF OPPOSITE VIEW

Concerning impairment of the qualitative characteristics of information (relevance, accuracy, comparability, etc.)

(3.1) Given that the structure (composition) of stocks is complex and heterogeneous, especially those from the production in progress (manufacturing), and that the inventory operations took place on different dates throughout the accounting year (some of them shifted significantly from 31.12.2016), even under the conditions that alternative procedures (tests) have been used, as mentioned also in paragraphs (3.2) and (3.3) below, we can not declare by certainty about the consistency between the factual situation (in the field), resulting from these inventory documents, and the script sitution according to the balance sheets, of theese assets on 31.12.2016.

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(3.2) In accordance with the legal provisions and current practices, the production in progress (manufacturing) is established by its inventory at the end of the period, by technical methods for establishing the level of completion or the stage to perform technological operations and to assess its production costs (cumulative), inclusively by considering the physical (technical) condition of its material components, respectively the perspective of completion/non-completion of some orders (contracts, projects).

(3.3) For the purposes referred to in paragraph (3.2) above, the inventory documents provided by *the Company* results that also on 31.12.2016 was carried out an inventory of the physical state of the production in progress (manufacturing), expressed as a percentage, in accordance with the internal procedures/customs applicable, but its evaluation in *the Separate Financial Statements* being made only based on script information (from the computer system) existing at that date to which some adjustments have been made taking into account other data and information about the contracts/projects concerned, respectively cancellation of provisions have been made for depreciation established in the previous period, we (*the Auditor*) being unable to assess by alternative methods whether, in these conditions, the value of these stocks is over or undervalued.

(3.4) In 2016 no other depreciation for tangible assets was performed maintaining the provisions already existent in previous accounting years, but there is still a major risk that the current result and loss carried forward will not include the corresponding depreciation in the value of remaining tangible assets according to IAS 36 - *Impairment of assets* also under the conditions stated at paragraph (3.12) below, that is, the remaining amount has not been adjusted (reduced) appropriately respectively be greater than the recoverable/achievable value of such assets on 31.12.2016.

(3.5) As result of some operations and transactions with the suppliers BETA TRADING & INVESTMENTS s.r.l. and MIKE TRADING & INVESTMENT s.r.l., respectively with the customer LIBAROM Agri s.r.l., in 2010 and 2011, entered into the insolvency proceedings (bankruptcy), mentioned in all our previous reports, investigated by the National Anticorruption Directorate (DNA), related depreciations were established (obligations/receivables, revenues/expenses) for significant values, but *the Auditor* did not get relevant and sufficient information on such transactions and operations.

(3.6) Following the opening of the insolvency proceedings for the customer LIBAROM Agri s.r.l., at the end of 2012 and subsequently in February 2013 following the entry into bankruptcy, *the Company* requested and by civil sentence no. 5762/17.06.2015 was included in the Final Table of Creditors with the amount of 3,706,200 lei, with little chance of collecting.

(3.7) Following the entry of *the Company* in the insolvency proceedings, the Romanian Commercial Bank S.A. (BCR) joined the Preliminary Table of Creditors with amounts representing credits/interests/outstanding fees and letters of bank guarantees, and on 25.04.2016 sent a notification *("Notification no. 1/25.04.2016 assignment of claims arising from the following contracts, as they have been modified and/or supplemented: 258/09.01.2003, 229/10.12.2007, 247/42692/29.08.2006, 225/10.09.2007, 165/09.11.2001, 225/10.09.2007")* by which *the Company* is informed that contracts for assignment of claims have been made in favor of Assets Recoverz debts Assets s.r.l.,

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which in turn transferred them to another third party (Serraghis Loan Management Ltd.), without being specified any values or composition (mainly, interests/penalties) of those receivables assigned.

(3.8) Considering those mentioned under paragraph (3.7) above, without questioning the content and relevance of the documents at our disposal and/or the calculation method (reflected in the accountancy) on interests earned on credits taken with BCR, respectivly the quantum of the amounts with which the bank enrolled in the list of creditors, however in the absence of confirmation of these balances at 31.12.2016 by the bank, or by the assignees/assignors, we cannot be sure of the correctness and accuracy of these obligations (*see also Note 7*).

(3.9) According to OMPF 2844/2016, *the Company* prepares *the Separate Financial Statements* in accordance with IAS/IFRS, but the requirements of these standards either could not be complied with (lack of sufficient and reliable data and information) or some of these requirements have not been properly applied, as follows:

- Presentation of tangible assets includes only partially (equipment / machinery / equipment fully depreciated) data and information on the residual values, under IAS 16 - *Tangible Assets*.
- Due to the significant decrease of the activity and the risks arising from the conduct of the insolvency proceedings of *the Company*, the tangible assets were reclassified accordingly as required by IFRS 5 - *Fixed assets*s *held for sale and discontinued operations*, even if taking into account other data and information on estimating thei value, in the absence of arevaluation at 31.12.2016, some depreciatio were applied in accordance with the requirements of IAS 36 - *Depreciation of assets*, as mentioned under paragraph (3.4) above.
- *The Company* decided, in 2016, to change the policy of provisioning for benefits granted to employees, so that there was no longer made provisions for all employees that in the next year will be eligible for retirement, but only for 52% of them (the average number of persons who have retired in the last three years, based on the average number of people eligible for retirement).
- For the purposes referred to in the previous paragraph for employees who have a seniority of less than 25 years within *the Company*, the benefits that are to be granted were calculated only at the level of two average salaries compared to previous periods when they have been calculated at the level of four average salaries.
- The last two paragraphs referred to provisions for benefits granted to employees who will retire emphasize that the comparability of information is significantly affected and thus are infringed the provisions of IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*.

Regarding the principle of business continuity

(3.10) Observing the principle of business continuity claimed by the Company's management (Special Trustees) in preparing *the Separate Financial Statements*, according to the information (arguments) presented in *the Report of Special Trustees* and *the Explanatory Notes* (see *Note 17*) is questionable, being significantly affected, in our view, by the current legal situation thereof, respectively by the acceptance on 06.12.2011 of the application for opening the insolvency proceedings by the Law Court of Bucharest (file no. 75017/3/2011).

(3.11) Other risks and situations/adverse events, which are likely to maintain, or to have effect during the accounting year 2017 and the next, which also put into question *the Company's* business continuity and solvency, are as follows:

- The Statement of financial position on 31.12.2016, highlights the negative equity (-683,895,034 lei) and financial rates (solvency, liquidity) which is well below the normal range, and a current loss recorded (-24,870,550 lei).
- Although in 2016 Hidroelectrica s.a. came out of insolvency, carrying out of some contracts with this company is questioned, and *the Company* still depends on (domestic market) of this customer, directly or indirectly (through Romelectro s.a. and/or S.S.H. Hidroserv s.a.), in a proportion of more than 85%.
- The entry in insolvency proceedings of S.S.H. Hidroserv s.a., while *the Company's* claims against it are over 20,000,000 lei basically will significantly increase its losses.
- Although the Authority for State Assets Administration (AAAS) took over the budgetary claims administered by ANAF (approx. 530 million lei based on the Government Emergency Ordinance no. 97/2013, becoming the main creditor, there are no clear signs that they could possibly be converted into shares of the state to the registered capital of *the Company,* as a real possibility to get out of the insolvency.
- Compliance/noncompliance, namely achievement/failure by the management of *the Company* of the forecasts assumed witht restect to revenues/expenses or cash flows for the period begining with 2017, as well as acceptance or non-acceptance of that achievement or failure as such of business reorganization plan, make also uncertain the business continuity.
- Alte evenimente ulterioare datei de închidere a exerciţiului financiar 2016, prezentate ca atare de *Societate* (vezi *Nota 18*), reprezintă de asemenea cauze posibile ale nerespectării principiului continuităţii activităţii. Other events subsequent to closing of the accounting year 2016, presented as such by *the Company* (*see Note 18*), are also possible causes for failure to observe the principle of business continuity.

(3.12) Failure, most likely, to observe the principle of business continuity at least for the following 12 months starting with 01.01.2017, as noticed from the paragraphs (3.10) and (3.11) above, is likely to affect very significantly *the Company's* assets that cannot be carried out in normal operating conditions, under such circumstances being necessary a massive depreciation of their value (possibly by more than 50%) due to the very probable sale (recovery) of them by way of enforcement and/or in accordance of the insolvency proceedings, situation resulting in a corresponding impairment on the comprehensive income (profit and loss account).

(3.13) Given those referred to in paragraph (3.12) above, there are enough conditions, information and issues likely to argue that the principle of business continuity will not be met, in which case, according to applicable legal regulations, *the Separate Financial Statements* would have to be prepared or adjusted (corrected) on the basis of such premises and in accordance with a set of specific accounting policies approved by *the Company's* management.

(3.14) Since *the Company's* management disagreed with *the Auditor* as concerns the principle of business continuity, not accepting those referred to in paragraph (3.12) above, and by not applying those specified in paragraph (3.13) above, the information in the Separate Financial Statements (assets value, losses by depreciation, statement of comprehensive result, cash flows, other adjustable values under these conditions) are damaged (denatured) significantly.

IV OTHER MATTERS

(4.1) Apart from the opposite view presented above, we draw attention to users of the information in *the Separate Financial Statements* and in this *Report*, that the current legal situation of *the Company*, including its administration and management imposed by the insolvency proceedings, can create significant difficulties on the reorganization itself and achievement of current activities related to this phase, including the measures to safeguard and ensure the security of some assets.

(4.2) In accordance with the *general framework for accounting and financial reporting*, *the Company* was required to prepare *Consolidated Financial Statements* on 31.12.2016 and to request their auditing, but decided not to apply these provisions (see *Note 2*), a decision which take into account the situation of shareholdings (securities) held within the three subsidiaries, which are practically fully depreciated and cannot change significantly the consolidated financial position.

V KEY MATTERS OF THE AUDIT

(5.1) Except the matters described under " Section III - Basis for opposite view" and "Section IV - Other Matters", which by their nature and content were very important to perform the audit mission, being also discussed with the management of *the Company*, we did not thought that it would be necessary to provide in this *Report* other key matters of the audit.

VI MANAGEMENT LIABITY

(6.1) The management of *the Company* is liable for:

- preparation and fair presentation (true) of transactions and operations performed in *the Separate Financial Statements* in accordance with the applicable *general framework for accounting and financial reporting*;
- drafting, implementing and maintaining of a internal control relevant (effective) for preparation of the financial statements so that they are free from material misstatement due to fraud or error.

(6.2) When preparing *the Separate Financial Statements*, the management of *the Company* is responsible for assessing the company's ability to continue the activity and to apply the accounting principle of business continuity as basis for financial reporting and accounting.

(6.3) If *the Company's* management identify high risks and great uncertainty as concerns the business continuity, it has the obligation and responsibility to approve a set of

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accounting policies that take into account these risks and uncertainties and to prepare *the Separate Financial Statements* assuming breach of the principle of business continuity (see paragraph 3.13).

VII AUDITOR LABILITY

(7.1) During an audit in accordance with ISAs, the auditor uses professional judgment and shall maintain professional skepticism throughout the audit, namely:

- Should identify and assess the risks of material misstatement of the financial statements, due either to fraud or error, and to design and perform audit procedures in response to such risks, or to obtain audit evidence sufficient and appropriate to substantiate the his audit opinion.
- Has to understand the internal control relevant to the audit, in order to choose the work procedures most appropriate to the circumstances, but has no obligation and it's not the purpose of his mission to express an opinion on the effectiveness of the internal control of the audited entity.
- Assess the adequacy of the accounting policies used and the reasonableness of accounting estimates and financial and accounting disclosures in the financial statements prepared and presented by the management of the entity.
- Inform those responsible for the governance, among other things, planning and timing of the audit and the main findings, including any weaknesses of the internal control identified during the mission.
- Has to draw a conclusion on the appropriateness of the use by the management of accounting based on business continuity and to establish, based on the audit evidences obtained, whether there is a significant uncertainty regarding events or conditions that may lead to significant doubt on the ability of the audited entity to continue its activity.
- If the auditor concludes that there is a significant uncertainty regarding business continuity, he must draw attention in his report on the related presentations from the financial statement or, if these disclosures are inadequate to change the view.
- The conclusions on compliance with the principle of business continuity are based on the audit evidences obtained until the date of the report but nevertheless, future events or conditions may cause that the audited entity will not carry out its activity based on the principle of business continuity.

(7.2) Our liability as independent auditor was to observe those referred to in paragraph (7.1) above and to express an opinion on *the Separate Financial Statements* prepared by *the Company*, based on the audit performed.

(7.3) Our objective was to get reasonable assurance on whether *the Separate Financial Statements*, as a whole, are free from significant misstatement, due to fraud or error, as well as in issuing of this *Report* that includes our opinion.

VIII Report on other legal and regulatory requirements

VIII REPORT OF SPECIAL TRUSTEES

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(8.1) The attached *Report of the Special Trustees* is not part of *the Separate Financial Statements* even though it was submitted/presented with them, and our opinion on the financial statements does not cover also this report.

(8.2) Our liability, *as the Auditor,* is to study *the Report of the Special Trustees,* to determine whether there is significant discrepancy between it and *the Separate Financial Statements*, if *the Report of the Special Trustees* includes the information required by legal regulations applicable and if, based on our knowledge and understanding acquired during the auditing of *the Company* and the specific of its business, the information included in *the Report of the Special Trustees* are erroneous (affected) significantly.

(8.3) Regarding the data and financial-accounting information that can be found in *the Report of the Special Trustees* on *the Company's* business in 2016, *the Auditor* did not identify any aspect to determine him to question their compliance with those in *the Separate Financial Statements* audited, they in turn being significantly misstated, as mentioned above in "Section III - Basis for opposite view".

(8.4) Taking into account those specified in paragraph 8.3 above, *the Report of the Special Trustees* is issued in terms of structure (composition) of information in accordance with applicable legal requirements, the Special Trustees being liable for its preparation and presentation.

(8.5) Based on our knowledge and understanding acquired during the audit on *the Company* and its current activities, including the economic environment in which they operate, we have not identified any other information significantly misstated (erroneous) which have been included in *the Report of the Special Trustees*, other than those referred to by the paragraphs (3.1), ..., (3.14), respectively (4.1) and (4.2) above.

On behalf of ECULDA s.r.l.
Registered at the Chamber of Financial Auditors of Romania with the number 597

EMIL CULDA
managing partner
Registered at the Chamber of Financial Auditors of Romania with the number 152

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