

1014 / 09.03.2020

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of "CONTED" S.A. Dorohoi

Report on financial individual statements

Opinion

1. We audited the enclosed financial statements of the trading company **CONTED S.A.** (hereby referred to as the „Company”), with registered office in Dorohoi, street 1st December 1918 no. 8, unique identification code 622445, which comprise the statement of financial position at 31 December 2019, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

2. The individual financial statement at 31 December 2019 are identified as follows:

- Net assets/Total shareholder's equity 8.784.735 lei
- Total incomes from the basic activi ... 13.689.123 lei
- The net result of the financial year: 338.375 lei

3. In our opinion, the annexed financial situations of **S.C. CONTED S.A.** suply an exact image of the financial position of the Company at the date of 31 December 2019, as well as the result of the operations and the cash flows for the financial year ended at this date, in accordance with the Order of the Public Finances Ministry number 2844/2016 for the Accounting Regulations in conformity with the International Standards of Financial Reports.

The basis of the opinion

4. We conducted our audit in accordance with International Standards on Auditing (ISA). REGULATION (EU) No 537 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL (in the folowing „Regulation”) and Law nr. 162/2017 („ Law”).

Our responsibilities under those standards are further described in the „Auditor's Responsibilities for the Audit of the Financial Statements” section of 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 the audit of the financial statements in Romania, included Regulation and Law, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion .

Key audit issues

5. The key audit issues are those issues that, in our professional reasoning, had the greatest importance to audit the financial statements of the current period. These issues were addressed in the context of the audit of the financial statements as a whole and in forming our opinion, and we do not offer a separate opinion on these issues..

Key audit issues

Approach taken in the audit

1. Revenue recognition

Revenues represent a significant amount of 13.649 thousand lei.

Refer **Note 5 „Revenues”**

The income recognition policy is presented in note 3 "Accounting Policies" point. g.-„Revenue Recognition. "

According to the International Standards of Audit, there is an implicit risk in recognizing revenue, thanks to the pressure that management can feel in connection with obtaining the results planned.

The company generates income on the basis contractual agreements concluded with its customers for the sale of products and provision of services.

Revenues are recognized at the time delivering products to the customer based on contract conditions.

Our audit procedures included, among others:

- evaluating the principles of recognition of revenue in accordance with IAS 18 "Revenue" and in relation to the accounting policies of the company;
- testing the existence and effectiveness of internal controls as well as performing detail tests to verify correct recording a transactions;
- examining the accuracy of adjustments made by society to respect the principle of the exercises independence, considering delivery terms and contractual provisions on the modalities of delivery;
- Sample testing of trade receivables on December 31st, 2019 by sending confirmation letters.
- examining the sales record after the end of the financial year to identify significant credit notes issued and inspecting the relevant documentation to assess whether the related income has been accounted for in the corresponding financial period

2. Analysis of depreciation of tangible assets

As shown in the **Note 12** "Tangible fixed assets", on December 31st, 2019, the company owned tangible fixed assets amounting to 13.303 thousand lei for whom it recorded depreciation and impairment in the value of 7.710 thousand lei. The net book value of tangible fixed assets represents a significant percentage of total assets.

Identification made by management of some depreciation indices, such as the decline in the market value or a moral depreciation of assets may result in the need to record some depreciations (additional adjustments) on the book value of tangible fixed assets.

If such indices are identified, management must estimate the recoverable amount of the asset which is compared with the net book value.

3. Existence and evaluation of stocks

In accordance with those presented in **Note 15** "Stocks", the total stocks are in amount of 1.611 thousand lei and represent a significant percent of the company's total assets, their evaluation involving a high degree of management judgment. These stocks consist mainly of raw materials, products under execution and finished products.

Evaluation of stocks is made, in principle, at the lower value between the cost and net achievable value.

Cost measurement includes different components such as the production or acquisition cost, including the commercial discounts received.

We analyzed the process conducted by the management on identifying and evaluating the depreciation indices.

The result of this analysis was that there were no indications of impairment of tangible assets during the period that would require an assessment of the recoverable amount of assets.

Our audit examined the reasonableness of the results of the identification and evaluation process conducted by management. Specifically, our work included but not limited to the following procedures:

- benchmarking and analysis of the relevant assumptions, which formed the basis of the calculations for determining the recoverable value of assets;
- analysis for a sample of the production capacities of the tangible fixed assets and their usability;
- analysis for a sample of the periods of use and the cost calculation on the depreciation of tangible fixed assets;
- verification of the estimated future cost established by the investment budget.

Our audit procedure for testing the existence of stocks consisted mainly but not limited to our participation in the end of year inventory, including the reconciliation of the counting performed by the auditor with that one performed by the company representatives, identification of some possible physically/ morally depreciated stocks.

In order to validate the evaluation of the acquisition/production cost of stocks, we conducted detail tests regarding the evaluation based on the IAS 2 requirements "Stocks".

As regards products under execution and the finished products and goods, the net achievable value is estimated in relation to the sale price, including the trade discounts granted.

We verified the estimations regarding the net achievable value in relation to the sale price, including the trade discounts granted and we analyzed the recent invoices for the sales made in January and February 2020 to see if there were stocks sold with a negative margin.

Other information – The Report of the Administrators

6. Other information includes administrators' report. Administrators are responsible for preparing and presenting the Administrators' report in accordance with OMFP requirements no. 2844/2016 Accounting regulations in line with International Financial Reporting Standards, paragraphs 15-19, which are free from material misstatement and for internal control that the management considers necessary to enable the management report to be prepared that is free from material misstatement due to fraud or error.

The Report of the administrators does not belong to the individual financial situations.

Our audit opinion on the financial statements does not cover the other information unless explicitly mentioned in the report , and we do not express any form of assurance conclusion thereon.

In connection with our audit of the individual financial statements for the year ended 31 December 2019, it is our responsibility to read that other information - the Administrators' report and, in this regard, to assess whether there are significant inconsistencies between the Administrators' report and the financial statements, administrators include, in all material respects, the information required by OMFP 2844/2016, paragraphs 15-19, of accounting regulations that comply with International Financial Reporting Standards, and whether based on our knowledge of the Company and its environment acquired during the audit financial statements, the information included in the Administrators' report is erroneous. We are asked to report on these issues. Based on our ongoing activity, we report that:

a) In the administrators' report we didn't identify information that do not correspond , in all significant aspects, with the information described in the annexed individual financial situation;

b) The Administrators' report includes, in all its significant aspects, the information requested by OMFP nr. 2844/2016, paragraphs 15-19, from the Accounting Regulations in conformity with the International Standards of Financial Report.

Besides, based on our knowledge and comprehension concerning the Company and its circumstances acquired during and submitting the financial

situations audit for the cash flow ended at 31 December 2019, we didn't identified mistaken information included in the administrators' report.

Responsibilities of management and of the persons responsible for the governance for the financial statements

7. Management of the company is responsible for the preparation and fair presentation of these financial statements in accordance with Ordinance of the Public Finance Ministry no.2844/2016 for the approval of the Accounting Regulations conforming to the International Financial Standards and for the internal control the management considers necessary to enable the preparation of the set of financial statements that are free from significant distortions, whether caused by fraud or error.

In preparing its financial statements, the management is responsible for assessing the company's ability to continue its operation, setting out, where appropriate, the matters relating to the continuity of activity and using the accounting based on the continuity of the activity unless management either intends to liquidate the Company or cease the operations, or has no other realistic alternative.

The persons responsible for the governance are also responsible for monitoring the financial reporting process of the company.

Auditor's responsibilities in an audit of financial statements

8. Our goals are to obtain reasonable assurance regarding the extent to which the financial statements, taken as a whole, are free of significant distortion, caused either by fraud, or by error, as well as to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but there is no guarantee that an audit conducted in accordance with the auditing standards adopted by the Chamber of Financial Auditors of Romania, which are based on International Standards on Auditing, will always detect a material misstatement, if any. The material misstatements can be caused either by fraud or by error and are considered significant if it can be reasonably expected that, individually or in aggregate, they will influence the economic decisions of users taken on the basis of these financial statements.

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

- We identify and assess the risks of the financial statements caused either by fraud or by error, and design and execute audit procedures in response to such risks and obtain sufficient appropriate audit evidence to provide a basis for our opinion. The risk of non-detecting a material misstatement due to fraud is higher than the risk of non-detecting of a material misstatement due to error because fraud may involve collusion,

forgery, deliberate omissions, misrepresentations and avoiding internal control;

- We consider the internal control relevant to the audit, in order to design audit procedures appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of the Company;
- We assess the adequacy of the accounting policies used and the reasonableness of accounting estimations and related presentations made by management;
- We formulate a conclusion regarding the suitability of the accounting used by the management based on the business continuity and we determine, based on the audit evidence obtained, if there is a significant uncertainty relating to events or conditions that could generate significant doubts regarding the company's ability to continue its activity. If we conclude that there is significant uncertainty, we must draw the attention in the auditor's report on the presentations related to the financial statements or, if these presentations are inadequate, we must change our opinion. Our conclusions are based on the audit evidence obtained until the date of the auditor's report. However, future events or circumstances may cause the company to no longer operate on the basis of the principle of the continuity of the business;

We evaluate the overall presentation, structure and content of the financial statements, including disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

10. We communicate to the persons responsible for governance, among other things, the planned scope and timing of the audit, as well as the main audit findings, including any internal control weaknesses that we identified during the audit.

11. We are also required to provide the persons responsible for governance, with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all the relationships and other matters that may reasonably be thought to bear our independence, and where applicable, the related safeguards.

12. From the matters communicated with the persons responsible for governance, we are required to determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We are required to describe these matters in our auditor's report unless law or regulation preclude public disclosure about the matter and when, in extremely rare circumstances, we determine that a matter that has not otherwise been publicly disclose should not be communicated in our report in view of the significance of the adverse consequences that can reasonably be expected to arise as a result of such communication.

Other aspects

13. This report of the independent auditor is addressed exclusively to the shareholders of the Company, in the whole. Our audit was done in order to report to the shareholders of the Company those aspects which should be reported in a financial audit report, and not for other purposes. As far as the law allows, we do not accept and we do not undertake the responsibility but only towards the Company and its shareholders, in the whole, for our audit, for this report or for our opinion.

The audit partner based on which the hereby independent auditor report was done is Merghidan Constantin-Ovidiu.

On behalf of,
S.C. MCO CONTAB CONSULT S.R.L.
Registered at the Financial Auditors Chamber from Romania
Authorization nr. 1105/2012

Name of the person who signs:

MERGHIDAN CONSTANTIN OVIDIU
Registered at the Financial Auditors Chamber from Romania
Certificate number nr. 1809/2006

Locality :Dorohoi,Romania, 09 March 2020

