

ELECTROAPARATAJ S.A. - TÎRGOVIȘTE

INDEPENDENT AUDITOR'S REPORT

**REGARDING
THE ANNUAL FINANCIAL STATEMENTS**

FOR

DECEMBER 31, 2018

IRAMTAS EXPERT S.R.L.

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No. 91/11.04.2019

INDEPENDENT AUDITOR'S REPORT

**TO
THE SHAREHOLDERS OF ELECTROAPARATAJ S.A.**

Opinion

We have audited the accompanying individual financial statements of **ELECTROAPARATAJ S.A.** (the Company), having the registered office in Tirgoviste, Romania, Calea Cimpulung, no. 121, County Dambovita, unique registration code: 51, which comprise: the balance sheet as at December 31, 2018, the profit and loss account for the financial year then ended, **cash flow statement, statement of changes in equity**, as well as a summary of significant accounting policies and explanatory notes.

The individual financial statements at December 31, 2018 are identified as follows:

Indicators	2017 lei	2018 lei
Total equity	12.993.856	11.709.245
Net result(loss)	(1.310.317)	(765.451)

In our opinion, the accompanying financial statements **present fairly** the financial position of the company **ELECTROAPARATAJ S.A.** as at December 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with the Order of the Minister of Public Finances no. 2844/2016 approving of the Accounting Regulations in line with International Financial Reporting Standards, with subsequent modifications and completions, as well as with:

- Accounting Law no. 82/1991, republished, with subsequent modifications and completions;
- Law no. 31/1990 on companies, republished, with subsequent modifications and completions;
- Order of the Minister of Public Finance no. 2861/2009 for approval of rules for organization and inventory carrying elements of the nature of assets, liabilities and equity, with subsequent modifications and completions;

- Order of the Minister of Public Finance no. 10/2019 regarding the main aspects related to the preparation and submission of the annual financial statements and the annual accounting reports of the economic operators to the territorial units of the Minister of Public Finance and to regulate accounting issues;

Basis for Opinion

We conducted our audit in accordance with:

- International Standards on Auditing adopted by the Chamber of Financial Auditors of Romania;
- Regulation (EU) No 537/2014 of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (hereinafter "Regulation (EU) No 537/2014");
- Law no. 162/2017 on statutory audits of annual accounts and consolidated accounts and amending certain enactments;
- Government Emergency Ordinance no. 75/1999 regarding the financial audit activity, republished, with subsequent modifications and completions,
- Code of ethics for professional auditors issued by the International Federation of Accountants and adopted by the Chamber of Financial Auditors of Romania.

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 Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants' together with ethical requirements that are relevant to our audit of the financial statements in Romania, including Regulation (EU) and the Law no. 162/2017, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

The Company's Administrators declares that it will be able to continue its business in the foreseeable future and therefore the annual financial statements have been prepared on a going concern assumption.

The Management's Report is not a part of the individual financial statements.

Our opinion regarding the individual financial statements does not cover the Management's Report.

This audit report is prepared only for internal requirements of the Company.

This independent auditor's report is addressed exclusively to the shareholders of the Company as a whole.

Our audit was conducted to report to the Company's shareholders those matters that we need to report in a statutory audit report, and not for other purposes.

To the extent permitted by law, we do not assume responsibility only to the Company and its shareholders as a whole for our audit, for this report, or for our opinion.

During the audited financial year have been changes in the economic department.

Partner of the audit engagement on the basis of which this Independent Auditor's Report was prepared is Mrs. Satmari Tudorita.

Key Audit Matters

Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period.

These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters.

Existence and Valuation of Inventory

Inventories and their valuation method implies from the management of the audited company a significant reasoning, related to the estimation of the importance of the risks, given the nature, size and complexity of the company's activity, i.e. the production of low-voltage electrical equipment.

The high level of subjectivity in inventories valuation may present a risk of material misstatement of the financial statements compared to legal regulations.

Significant stock transactions have taken place during the year, which also has implications for the audit strategy.

According to the information in the annual financial statements and in the explanatory note no. 19 "Inventories", the total value of

Approach to the key audit matters during the audit mission

Our audit procedures for addressing significant risk assessment in relation to "Existence and Valuation of Inventory" included:

- observation of physical inventory count,
- procedures for testing the existence of inventories by sampling,
- procedures for identifying physical or morally impaired inventories,
- procedures for the reconciliation of the items actually inventoried, with those in the inventory lists, respectively with their scriptic balance,
- interviews of the executive management, the internal auditor, staff involved in internal control and inventories management,
- analytical background procedures, detailed

lei, which represents a significant percentage (44%) of the total assets of the company, amounting to 15,288 thousand lei.

Inventories consist of raw materials and consumables (39%), finished goods and goods purchased for resale (39%), work in progress, semi-finished goods, other inventories (22%).

At the time of entry into the company, inventories are valued and recorded in the accounting at the entry value, which is as follows:

-at the cost of purchase - for the purchased inventories;

-at fair value - for inventories obtained free of charge or found plus inventory.

At the balance sheet date, inventories are measured at the lower of cost and net realizable value (IAS 2).

If the the carrying amount of inventories is greater than the inventory value (net realizable value), the value of the inventories decreases by making a write-down to net realisable value.

Assets in the nature of inventories are measured at their carrying amount, less the write-down found.

For finished goods and goods purchased for resale, net realizable value is estimated in relation to the sale price, including trade discounts to customers.

When removing from the records, the FIFO method - first-in, first-out - is applied.

The company applies, for inventories, the permanent inventory method.

control and inventories management,

- analytical background procedures, detailed tests to obtain sufficient and adequate audit evidence,

- consideration of internal control related to inventories,

- physical observation and inspection for a sample of items in inventory lists,

- valuation of accounting policies used in the inventory field, etc.

Other Information - Management's Report

Management is responsible for the preparation and presentation of the other information. The other information comprises the Management's Report but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements made on December 31, 2018, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Regarding the Management's Report, after reading it, we are able to report on whether it was performed in all material respects in accordance with the provisions of Annex 1, Chapter 3, paragraphs 15-20 of the Order of the Minister of Public Finances no. 2844/2016 approving of the Accounting Regulations in line with International Financial Reporting Standards, with subsequent modifications and completions.

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

- a) The information presented in the Management's Report for the financial year for which the financial statements were prepared are consistent, in all significant aspects, with the financial statements;
- b) The Management's Report was prepared, in all significant aspects, in accordance with the provisions of Annex 1, Chapter 3, paragraphs 15-20 of the Order of the Minister of Public Finances no. 2844/2016 approving of the Accounting Regulations in line with International Financial Reporting Standards, with subsequent modifications and completions;

In addition, based on our knowledge and understanding of the Company and its environment, acquired during the audit of the financial statements for the year ended 31 December 2018, we are required to report if we have identified material misstatements in the Management's Report. We have nothing to report on this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Order of the Minister of Public Finances no. 2844/2016 approving of the Accounting Regulations in line with International Financial Reporting Standards, with subsequent modifications and completions and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.
- If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion.
- Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also, provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we 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 describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

We have been appointed by the General Meeting of Shareholders since 27.04.2016 to audit the financial statements of ELECTROAPARATAJ SA and for the financial year ended December 31, 2018. The uninterrupted total duration of our engagement is seven years, covering the financial years ended on 31.12. 2012, until 31.12.2018.

We confirm that:

- Our audit opinion is in line with the additional report submitted to the Audit Committee of the Company, which we issued on the same date that we issued this report. Also, in conducting our audit, we have retained our independence from the audited entity.
- We have not provided for the Company the non-audit services referred to in Article 5 (1) of EU Regulation No.537 / 2014.

In the name of Audit Company

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SATMARI TUDORIȚA

Auditor registered in The Electronic Public
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BUCHAREST, ROMANIA

11.04.2019