No. 2.20.2/ 30.03.2015

# INDEPENDENT AUDITOR'S REPORT
## on the Financial Statements prepared on 31.12.2014 by UCM RESITA S.A. (in insolvency)

I BENEFICIARIES OF THE REPORT

(1.1) The beneficiaries (users) of this report are:
- the shareholders, creditors and management of UCM Resita (in insolvency), Resita (*the Company*);
- the authorized governmental institutions;
- other users, with the approval of the Company's management and in compliance with the regulations in force.

(1.2) Publication and use of this report and/or references to it can be done only in compliance with the stipulations of Law no. 31/1990 with respect to Trading Companies, republished, as amended and supplemented, of Law no. 85/2006 (*L85/2006*) on Insolvency Proceedings, as amended and supplemented, respectively of the Law no. 85/2014 on Proceedings for Insolvency Prevention and Insolvency (*L85/2014*), the Order of the Ministry of Finance No.1286/2012 (*OMPF 1286/2012*), the other regulations in force on financial audit in Romania, as well as the terms of the contract concluded in this respect between us (ECULDA Ltd.) and *the Company*.

## Report on the financial statements

II AUDITED FINANCIAL STATEMENTS AND RESPONSIBILITIES

(2.1) We have audited *the financial statements* prepared by the executive management of *the Company* (Special Trustees) annexed hereto, for the financial year ended on 31.12.2014, which comprise
- the statement of financial position;
- the statement of comprehensive income;
- the statement of changes in equity;
- the statement of cash flows;
- a summary of significant accounting policies and other explanatory information.

(2.2) *The Financial Statements* audited were drawn up by the executive management of the Company (*Special Trustee*), but have not yet been submitted to and approved by the General Meeting of Shareholders (AGA).

(2.3) The reference values on 31.12.2014 with respect to *the financial statements* referred to above are:

- total assets 462.848.309 lei
- total liabilities, provisions and deferred income 916.344.243 lei
- total equity - 453.495.934 lei
- net turnover 31.525.387 lei
- profit of the financial year 641.086 lei

III MANAGEMENT'S RESPONSABILITY FOR THE FINANCIAL STATEMENTS

(3.1) The executive management of *the Company* is responsible for:

- the preparation and fair presentation (faithful) of transactions and operations performed in *the financial statements*, in accordance with the applicable financial reporting framework;
- origination, implementation and maintenance of an internal control relevant (effective) for the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

IV AUDITOR'S RESPONSABILITY

(4.1) Our responsibility as independent auditor (*the Auditor*) is to express an opinion on these *financial statements* based on our audit.

V AUDIT AND FIELD OF APPLICATION

(5.1) A financial audit consists in:

- performing of procedures and tests, in order to obtain audit evidence to support the amounts and disclosures stated in the financial statements;
- assessment of the risk that the financial statements may include material misstatements whether due to fraud or error in both terms of the preparation and fair presentation (faithful) of the operations and transactions conducted, by analyzing (testing) the relevance of the internal control system in this respect, but not for the purpose of expressing an opinion on its effectiveness;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the entity audited for the preparation of financial statements;
- evaluating the overall presentation of the financial statements.

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

(5.3) ISA standards require the auditor to comply with IFAC's Code of Ethics and to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

(5.4) *The financial statements* of *the Company* have been prepared taking into account the applicable legal regulations in Romania (general framework for accounting and financial reporting), namely:

- Accounting Law no. 82/1991, republished, as amended and supplemented (*L 82/1991*);
- Order of the Ministry of Public Finance no. 1286/2012 (*OMPF 1286/2012*) approving the Accounting Regulations in accordance with International Standards for Financial Reporting (*IFRS / IAS*) applicable to companies whose marketable securities are admitted to trading on a regulated market;
- Other legal regulations and/or applicable professional standards.

(5.5) We consider that the audit evidences obtained during the mission, following the application of professional standards, tests and specific procedures, are sufficient and appropriate in order to substantiate our opinion on *the financial statements*.

## *Basis for adverse opinion*

(5.6) Considering that the structure (constituent parts) of stocks is complex and heterogeneous, especially of those from the production in progress (manufacturing), and that their inventory operations occurred at different times during the financial year (some of them shifted significantly from 31.12.2014), even with the use of alternative procedures (tests), as mention in (5.7) and (5.8) below, we cannot pronounce for a surety about the correspondence between the actual situation (on the field) resulting from these inventory documents and the records of the accounting balance sheets for these assets on 31.12.2014.

(5.7) In accordance with the stipulations of OMPF 1286/2012, the production in progress (manufacturing) is determined by its inventory at the end of the period, by technical methods in order to establish the degree of its completion or the progress of technological operations, and its assessment to the production costs (cumulative).

(5.8) In the sense of those mentioned in (5.7) above, and from the documents presented by *the Company* results that on 31.12.2014 it was performed an inventory of the physical stage of production in progress (manufacturing), expressed as a percentage, according to the internal procedures / usages applicable, its assessment in *the financial statements* being made only based on information from records (computer system) available at this time, we (*the auditor*) being unable to determine, using alternative methods, to what extent the value of these stocks is over or undervalued.

(5.9) In 2014, the buildings were revalued at their fair value, which causes an increasing of their value (95,492,237 lei) and, although was made a provision of 20% for their impairment and the retained loss recorded by the Company is of 1,253,770,751 lei (including 619,158,675 lei loss resulting from the application of IAS 29 for the first time in 2012, which did not adversely affect the value of the equity than the sum of 28,466,982 Lei), there is still a major risk that it will not include a proper depreciation of the remaining value of tangible fixed assets, according to *IAS 36 - Impairment of Assets*, and under the conditions mentioned in (5.19) below, that this value (the remaining value) has not been adjusted (decreased) properly during the last revaluation performed, respectively to be much higher than the recoverable / realizable value of these assets on 31.12.2014.

(5.10) Accounting record in 2010 of the operations for purchasing some components and technical instructions (Suppliers - BETA TRADING & INVESTMENT Ltd., MIKE TRADING & INVESTMENT Ltd.), subsequently resold together with four engines from the own production which were to be exported (Beneficiary - AGRI LIBAROM Ltd.), transactions that are subject of an investigation file by the National Anticorruption Directorate (DNA), has significantly affected (with over 1,300,000,000 lei), likely meaning overvaluation, both the assets (receivables) and the liabilities (debts) of *the Company* for that financial year and thus opening balances of the 2011 financial year.

(5.11) As concerns the operations/transactions mentioned in (5.10) above, regarding the liabilities and receivables of *the Company* on 01.01.2011 arising from these, we had at our disposal only 4 contracts (no. 10/276C/10.08.2010, no. 10/34/10.08.2010, no. 10/35/10.08.2010, no. 10/01/10.08.2010), 6 invoices unsigned by the buyers for receipt (no. 0009007/1452/31.08.2010, no. 0009425/1870/15.11.2010, no. 0009424/1869/ 15.11.2011, no. 540/28.08.2010, no. 531/28.08.2010 and no. 104/28.08.2010) and 3 minutes of custody (without the number, two of them dated 23.08.2010 and one of them dated 27.08.2010) from the documents sequestered by DNA, so that we (*the auditor*) could not get any other evidences regarding the content and actual values of these transactions, including other information (documents) regarding the existence and acceptance (receipt) of goods / components / technical documentation in question.

(5.12) In the financial year 2011 there were made depreciations for the receivables (1.301.100.281 lei) and were recorded revenues (1,290,427,345 lei) related to the obligations under the transactions referred to in (5.10) above for which, however, no statements of claims were made and no registration in *the Company's* Table of Creditors have been made by the suppliers concerned. All steps taken by the management of *the Company* to contact the parties concerned (customer, supplier) and to clarify somehow the situation have failed.

(5.13) During 2010, for the operations/transactions mentioned in (5.10) above, *the Company* applied various accounting policies and reclassifications of them in the accounting, some of them not complying with the requirements of the applicable accounting regulations, but nevertheless, by the adjustments referred to in (5.12) above, the effect of accounting for these operations/transactions in *the financial statements* on 31.12.2014 (opening balances, closing balances) was diminished in terms of possible overvaluation referred to in (5.10) above.

(5.14) Following the opening of the insolvency procedure for the client LIBAROM Agri Ltd., at the end of the year 2012 and subsequently after its entry into bankruptcy in February 2013, *the Company* requested enrollment in the Table of creditors of the full amount receivable, respectively 1,289,597,079.97 lei, of which was accepted only the



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amount of 3,706,200 lei, the difference being taken (written) as a claim under the condition.

(5.15) Given those mentioned in (5.10), (5.11), (5.12), (5.13) and (5.14) above, respectively given the uncertain legal situation (absence of any responses to the requests to confirm the receivables / liabilities, starting of the bankruptcy proceedings at the client) we are unable to express an opinion neither on these transactions nor about the legality and/or possible fraudulent nature, our documentation being limited to information that refer to these issues, to the statements of the management and the records made as such in the book-keeping accounts (receivables, liabilities, income, expenses) with tremendous impact on assets, liabilities and results for earlier financial years (see *Note 4*).

(5.16) Even if by the application of *OMPF 1286/2012* the year 2014 is the third year when the Company prepares *Financial statements* in conformity with *IFRS*, not even at the end of this financial year some of the requirements of these accounting standards (IFRS / IAS) have not been followed (absence of sufficient and credible data and information) or have not been correctly applied, as follows:

- Presentation of tangible fixed assets, on the one hand, includes only partially (equipment / machinery / equipment fully depreciated) data and information on residual values, according to IAS 16 - *Property, Plant and Equipment*, and on the other hand, given the significant reduction in activity and the risks arising from the conduct of the insolvency proceedings in which *the Company* is found, these assets have been neither reclassified nor properly revalued as required by IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*, respectively *IAS 36 - Impairment of Assets*.
- Given that from the correspondence with the National Agency for Fiscal Administration (*ANAF*) and the Authority for the Management of State Assets (*AAAF*) was unable to clarify the differences between the amounts from the Table of creditors and the amounts in the accountancy (see *Note 8*), *the Company* considered that the accounting treatment applied in 2011 to the accessories related to the liabilities to the state budget, for which the payment facilities were lost, by keeping them off balance was wrong, so that in 2014 their corresponding amount (61,999,636 Lei) in the accounts of current liabilities to the state budget was also recorded, significantly affecting both the retained earnings and the profit of the year (following cancellation of provisions made) and thus breaching the stipulations of *IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors.*

(5.17) **Keeping the principle of business continuity** sustained by the management *of the Company* (*Special Trustee*) when preparing the *financial statements,* according to information (arguments) disclosed in the *Explanatory Notes,* in our opinion, is **questionable, being significantly affected** by the commencement of legal proceedings in insolvency on 30.11.2011 according to *L 85/2006* and acceptance on 06.12.2011 of the application for opening this procedure by the Law Court Bucharest (*file 75017/3/2011*).


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(5.18) Other adverse situations/events, which are likely to be maintained, to take effect or to be held in the financial year 2015 and in the following, which also put into question *the Company's* business continuity and solvency, are the following:

- statement of financial position on 31.12.2014, which highlights the negative equity or financial rates (solvency, liquidity) which are well below the normal range;
- re-entry into insolvency of Hidroelectrica S.A. on 25.02.2014, while *the Company* depends on this client at a rate of about 70%;
- taking over by *AAAS* of the budgetary liabilities administered by *ANAF* (approx. 530 million lei) based on the Emergency Ordinance no. 97/2013, without them being transformed yet, possibly, in shares of the state to the registered capital of *the Company*;
- compliance/non-compliance, respectively achievement/failure by *the Company's* management of the forecasts made on the income/expenses and, respectively, the cash flows for 2015 and thereafter;
- acceptance or non-acceptance, respectively achievement or failure as such of the plan for business reorganization;
- other subsequent events to the closing date of the financial year 2014, presented as such by *the Company* in the Explanatory Note no. 18.

(5.19) The very possible failure of the principle of business continuity in at least the next 12 months as of 01.01.2015, is likely to affect very significant the assets of *the Company*, which will no longer be achieved in normal operating conditions, under these conditions being required a massive depreciation of their value (possibly more than 50%) due to their very probable sale (recovery) by enforcement and/or in accordance with the insolvency proceedings, situation that causes a corresponding impairment on the comprehensive income (the profit and loss account).

(5.20) Given those mentioned in (5.17), (5.18) and (5.19) above, are enough conditions, information and issues likely to argue that, the principle of business continuity cannot be complied with, in which case, according to applicable legal regulations, the *financial statements* should be prepared or adjusted (corrected) on the basis of such premises and in accordance with a special set of accounting policies approved by *the Company's* management.

(5.21) Since *the Company's* management disagreed with *the auditor* on failure to respect of the principle of business continuity, and did not comply with those mentioned in (5.19) and (5.20) above, the information in the *financial statements* (the value of assets, losses from depreciation, financial flows, other values adjustable in these conditions) are affected (distorted) significantly.

VI ADVERSE OPINION

(6.1) **In our opinion, according to those presented in (5.6) - (5.21) above, the *financial statements* of UCM Resita SA for the financial year ended on 31.12.2014, attached to this, do not present fairly (do not give a true and fair view of), in all material respects, the financial position and its changes, the comprehensive income**



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**(performance), the cash flows and other information from the explanatory notes (accounting policies) in accordance with the requirements of the applicable financial reporting framework established by the applicable regulations in force (*L82/1991, OMPF 1286/2012*).**

VII HIGHLIGHTING RELEVANT ASPECTS

(7.1) Besides the adverse opinion presented above, we draw attention to the users of the information from the *financial statements* and from this *report*, that the current legal situation of *the Company*, including in terms of its administration and management imposed by the insolvency proceedings, can generate important difficulties on the reorganization and fulfillment of current activities related to this stage, including in terms of the measures for storage, keeping and providing security of the assets.

VIII OTHER MATTERS

(8.1) In accordance with the *applicable financial reporting framework*, *the Company* had the obligation to prepare consolidated financial statements on 31.12.2014 and to request their auditing, but it was decided to not apply these stipulations (see *Basis for preparation of separate financial statements / consolidated financial statements* from *the Explanatory Notes)*, decision which take into account the holdings (securities) held in three subsidiaries, which are practically fully depreciated and cannot affect significantly the consolidated financial position.

## Report on other legal and regulatory requirements

IX REPORT OF SPECIAL TRUSTEES

(9.1) In terms of financial and accounting data and information presented in the Report of Special Trustees concerning *the Company's* activity for the year 2014, *the auditor* has not identified any issue that causes him to question their compliance with those from the audited financial statements, besides those related to the accuracy of the data and information that are significantly misstated as a result of not drawing up the *financial statements* in accordance with the requirements of the *applicable financial reporting framework*, as we mentioned in our adverse opinion expressed above.

**EMIL CULDA**
Auditor

Resita
30.03.2015

Camera Auditorilor Financiari din Romania
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