

# Electromagnetica SA

## Proposal for professional audit services



To: Electromagnetica S.A.,  
Mrs. Cristina Florea  
Mr. Ilie Frasineanu

March 7, 2016

Dear Mrs. Florea,

Dear Mr. Frasineanu,

Thank you for the opportunity to present our proposal for the provision of professional services to **Electromagnetica SA**. Meeting your needs offers an exciting challenge to our firm of professionals who are dedicated to exceeding the expectations of our clients. We are pleased to demonstrate our capability and commitment to meet that challenge.

Our offer includes two elements – a detailed part, which addresses your request for this proposal and provides details of our cooperation, and a general part containing a presentation of Deloitte and our professional experience.

We have continuously built our resources, invested in specialist training, developed innovative service lines and relentlessly focused on the marketplace to position ourselves to provide first-class audit and related services to premier clients. As a result, we are entirely confident in our abilities to meet your needs with the scale and expertise of our resources, and to exceed your expectations with our sheer determination to deliver outstanding quality.

When reading through this proposal, please bear in mind that our goal is to provide complete satisfaction to **Electromagnetica SA**. Therefore, we would be more than pleased to discuss with you any aspect of the services and fees set out in this proposal in greater detail at your convenience. In preparing this proposal we have made all reasonable effort to reflect your requirements and specific needs.

In accordance with Deloitte policies, this proposal is subject to the successful completion of the independence and client acceptance procedures.

We hope that our proposal exceeds your expectations and once again we appreciate the opportunity you have given us to present it to you.

Best regards,

Zeno Caprariu  
Audit director  
Deloitte Audit SRL

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# 1. Our understanding of your needs and your requested scope of services

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We are ready to serve Electromagnetica SA and are entirely confident in our ability to meet your needs.

**The scale and expertise of our resources, coupled with our absolute focus on delivering outstanding quality, will guarantee that you receive, and will continue to receive, premier service.**

## 1.1 Services required

Based on our understanding, the required services are:

- Audit of the standalone financial statements of the Company prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union for the years ending at December 31, 2016 and December 31, 2017;
- Audit of the consolidated financial statements of the Company prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union for the years ending at December 31, 2016 and December 31, 2017.

## 1.2 Scope of services

We will conduct our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. However, because of the characteristics of fraud, particularly those involving concealment and falsified information (including forgery) a properly planned and performed audit may not detect a material misstatement. Therefore, an audit conducted in accordance with International Standards on Auditing is designed to obtain reasonable, rather than absolute, assurance that the financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation.

### 1.3 Our deliverables

The financial statements including all footnotes disclosure are the responsibility of the Company's management. Our responsibility will be to express an audit opinion on the financial statements based on our audit.

Deloitte will also report to management the comments and observations on the accounting records, systems and controls that have been examined during the course of the audit and specific deficiencies and areas of material weakness in systems and controls that have been identified during the course of the assignment, as well as recommendations for their improvements, if any. These observations and recommendations will be submitted to the management under a Management Letter format.

### 1.4 Use and distribution of reports

If the Company intends to publish or otherwise reproduce in any document our audit report on the financial information, or otherwise make reference to Deloitte in a document that contains other information in addition to the audited financial statements, the management agrees that prior to making any such use of our report or the reference to Deloitte, management will provide us with a draft of the document to read and obtain our approval for the inclusion or incorporation by reference of our report, or the reference to Deloitte, in such document before the document is printed and distributed.

### 1.5 Management's responsibilities

**Management of the Company is responsible for the preparation and fair presentation of the financial statements.** This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Deloitte will make specific inquiries of management about the representations embodied in financial statements. As part of the work to be carried out, Deloitte will request that management provide them with a representation letter acknowledging management's responsibility for the preparation of the financial statements and confirming certain representations made to Deloitte during our audit. The responses to those inquiries and related written representations of management required by ISA are part of the evidential matter that Deloitte rely on as auditors.



## 2. Why Deloitte?

**We have grown our practice through our commitment to our clients.**

Our team is multi-disciplinary with industry-specific expertise. This means we can embed experts within our audit teams to bring you the latest best practice, identify issues early and deliver value. You will be in good company if you appoint Deloitte.

- **Our firm** - We are one of the most client focused, industry specialised, profitable, fastest growing accountancy and professional services firm in Romania. The relentless pursuit of the highest quality in our professional work and passion for client focus and service remain the cornerstones of our success. All partners, from our Chief Executive down, actively serve clients on a day-to-day basis. The firm has won many new engagements over the past years, so we are very experienced at transitioning audits and advisory services to Deloitte.
- **An experienced team in the energy field**, which understands your organization and business. Based on our understanding of your business, we shall identify the potentially efficient modalities to accelerate both the streamlining of the accounting department, and the Company's overall activity. The team members include specialists with experience in Romanian Accounting Standards ("RAS"), International Financial Reporting Standards ("IFRS"). Please find below some of the audited energy companies: Hidroelectrica, Transelectrica, Transgaz, Romgaz, Complexul Energetic Oltenia Electrocentrale Bucuresti, Electroputere, Energy Holding, Wind Power Park, Grup Servicii Petroliere, Alpha Wind Romania, Tractebel Engineering Romania, Petrom, OMV Romania, Buzzman Industries, Kosovo Electricity Corporation, Foraj Sonde Craiova, Solar Electric, etc
- **Our enthusiasm** - We are confident that in Deloitte you have a long-term partner for your business who will bring you the right combination of people, insight and challenge to help you grow.
- **Global experience** - Deloitte's global structure includes industry groups specialized in problem solving for different areas of client's activity. When faced with a specific problem, we can always rely on the expertise of our colleagues around the world.

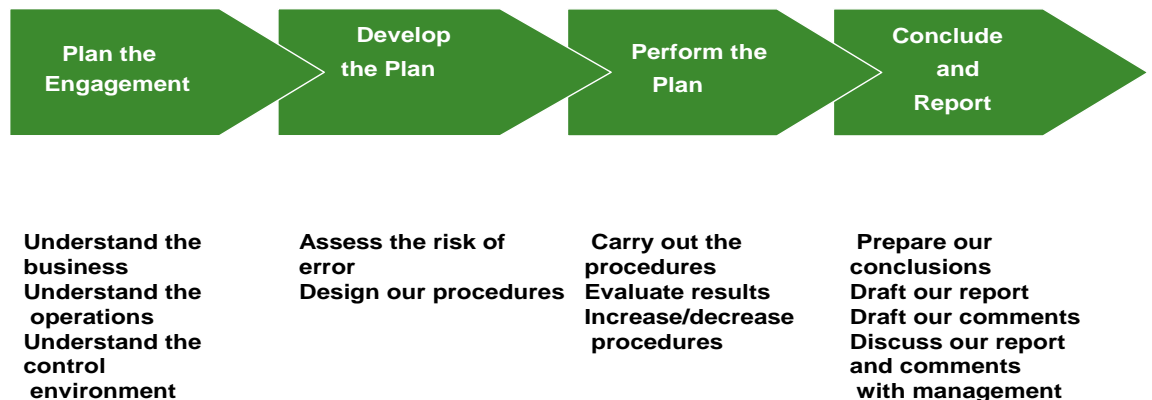


# 3. Our approach

## 3.1 Conceptual approach

Based upon our discussions with you and our experience in engagements of a similar nature we have developed an approach to the project, which consists of four key conceptual stages. After each task is completed we will discuss the results with the management and adjust further engagement activities if necessary. Our conceptual approach is illustrated in the following diagram. We have also taken into consideration the fact that the accounting function is outsourced to an accounting firm and we will develop a required “prepared by client list” and review it with the appropriate person in the respective firm. We would ask management to assign project manager for the audit so we can have an efficient and effective approach.

### Plan



## 3.2 Detailed approach

We will perform each assignment in four phases, as follows:

### Phase 1: Plan the engagement.

The key word in this phase is “understanding” which will be performed during our planning phase. During this phase: we obtain an understanding of your business and your operations, an understanding of your control environment (management and accounting controls), and an understanding of your accounting processes and procedures. We believe that we cannot perform an

effective audit, and provide the best service to you, without this basic understanding.

## **Phase 2: Develop the Plan.**

We assess the internal control and accounting procedures to enable us to plan the strategy for our assignment. The first part of this process is the assessment of the risk of error in the accounts; we then design our assignment to focus on the areas of likely errors. We also identify the controls that are in place at the Company to prevent or detect these errors, and determine if it is more efficient to test these controls rather than to perform detailed tests of transactions and balances. Based on our preliminary analysis of the accounting controls and procedures, we design the procedures to test the controls, and we also design in general terms the other review procedures we expect to apply to transactions and account balances. The tests of transactions and account balances actually performed will be more or less detailed depending upon our preliminary estimate of the reliability of the controls.

To ensure that our audit plan is efficient and effective, we will immediately understand and evaluate the design of internal controls. This includes review of the structure of the Company's organization, the prescribed accounting procedures and methods, the authorization and approval functions, and the segregation of duties. We will use our top-down approach to identify high-level management controls, which management relies upon to prevent or detect errors.

## **Phase 3: Perform the Plan.**

In this phase, audit tests are carried out to determine the existence and effectiveness of accounting controls. We evaluate the results of these procedures, and increase or decrease the detailed tests of transactions and account balances depending upon the reliability of the accounting records.

Our study and evaluation of the system of controls will encompass significant data processing activities and the relationship between the data processing functions and their users. By developing a thorough understanding of the different control environment, including any controls that exist within your information systems, we will be able to test and then place reliance on these controls, making the audit as efficient as possible.

## **Phase 4: Conclude and Report.**

This phase consists of the discussions with management on our findings, the accounting adjustments found as well as the risks the Company may encounter we noted during our work. During this phase we will prepare the draft audit report, which will be discussed with management. We would also like to inform you that our findings will be communicated throughout the audit so that no surprises occur. Our approach is that constant communication will be ensured with the management of the company.



## 4. Our team

**Our experience tells us that establishing the right team and team structure is critical to the world class service that you expect and we commit to deliver.**

Our team consists of professionals in the fields of expertise required to perform the audit, including audit, accounting, tax, information systems, internal controls and any other specialisation appropriate to your business. The comprehensive experience they contribute stems largely, although not exclusively, from projects carried out by Deloitte.

You will see a consistency of style and approach throughout and continuity of our team that will genuinely deliver premier service. The partners and managers that will be chosen to serve you combine in-depth experience of the areas to which they have been assigned with extensive experience from the due diligence engagement and the proven ability to work together as a team. We guarantee that all partners and managers involved will have sufficient capacity to serve you to the highest standards at all times.





Zeno Caprariu  
Audit Director

Zeno is an experienced audit director responsible with overall coordination of various audit and advisory projects. His main focus is energy industry.

Zeno is responsible for managing audit engagements reporting under Romanian accounting standards, IFRS and US GAAP.

He is part of the Energy & Resource Group within Deloitte Balkans and he served as director several Energy & Resource companies in Deloitte Romania for the audit and other services. His main clientele includes electricity producers, power distributors and suppliers and the power transmission company.

**Qualifications**

Member of Romanian Chamber of Financial Auditors (“CAFR”)  
Member of Romanian Chamber of Certified Accountants (“CECCAR”)  
Member of Association of Chartered Certified Accountants (“ACCA”), United Kingdom

**Clients**

Transelectrica, Hidroelectrica, Smart, Complexul Energetic Oltenia, Electrocentrale Bucuresti, Complexul Energetic Hunedoara, Solar Electric Mostistea, Solar Electric Frasinet, Electroputere Craiova, Tractebel Engineering, Rudnap Romania, Electroputere, Alro, Alum, Vimetco Extrusion, Vimetco Trading, Vimetco Management, Conef, Vimetco Power, Grup Servicii Petroliere, Upetrom 1 Mai, Foraj Sonde Ploiesti, Melrose, Renesola, etc.



Razvan Nicolescu  
Audit Director  
Executive Lead Advisor

Răzvan Nicolescu is the Executive Lead Advisor for the Energy & Resources practice in Deloitte. He has professional experience in private and public sector.

He has acted as Minister of Energy of Romania in 2014, Director of OMV Petrom and the Romanian Energy Attaché to the European Union.

He is now the President of the Administrative Board of the Agency for the Cooperation of Energy Regulators. He holds an MBA degree at Solvay Business School.

**Academic and Professional Background:**

- 2007 – 2009 Master Business Administration, “Solvay Business School” (Brussels, Belgium)
- 2004 Master, Carol I National Defense College, thesis on energy security
- 1996 – 2001 Faculty of Energy, “Politehnica” University of Bucharest
- Thesis – “The Impact of the Wood Combustion on Environment in the Trentino Region”, Erasmus Program, Università degli studi di Trento (Italy)



Oana Nicula  
Audit Manager

Oana is a manager in the audit department with more than 7 years of experience. She is experienced with large scope audits, being responsible for coordination of audit for clients with subsidiaries in various fields (manufacturing, retail sale and distribution, etc). Most of her portfolio includes clients with financial reporting under Romanian Accounting Standards and International Financial Reporting Standards.

Her main tasks include coordination and review the fieldwork, communication with clients regarding the identified issues within the audit mission and the way they could be solved.

Oana is part of the Energy & Resource Group within Deloitte Romania and she served as manager several Energy & Resource companies.

#### **Qualifications**

ACCA member  
Chartered Financial Auditor in Romania (CAFR)  
Chartered Accountant in Romania (CECCAR)

#### **Clients**

Electroprecizia S.A., Electroprecizia Electrical Motors, Complexul Energetic Craiova; Electroputere Craiova; Alro; Michelin Romania; Complexul Energetic Rovinari; Hotel Bucuresti; Accor Hotels, Mecanica Ceahlau, Griro; SIF Moldova; Societatea Nationala de Radiocomunicatii; Euromaster Romania, Grupul Verbund, UPS Romania, Sehora Romania, Grupul Espe etc.



**Dan Badin**  
Tax Partner

Dan is Tax Partner at Deloitte Romania, providing tax assistance to clients in several industries that include: electricity, financial services, retail and consumer products, advertising, telecommunications, tobacco and real estate.

Dan has wide experience in transactions and M&A, international restructuring and taxation of complex cross-border derivative products. He has also been involved in coordinated international projects, such as advising on tax-related matters for the first application of innovative business solutions in Romania.

Dan is active in several professional associations and has been involved in talks with government officials over changes in tax laws.

Dan is involved in discussions with Government officials on changes to corporate tax legislation.

#### **Qualification**

Dan has been a member of Romanian Chamber of Tax Consultants since 2007 and a member of the International Fiscal Association since 2006.



**Silviu Sandache**  
Tax Senior Manager

Silviu is a Senior Manager of the Corporate Tax Department of Deloitte Romania. Silviu advises both domestic and international clients and has over 18 years of professional experience in the fields of taxation, accounting and financial reporting.

Silviu has a significant experience in the Energy and Resources sector, assisting large companies by providing tax consultancy on specific aspects for this industry such as analysis of the implications of farm-out agreements, joint operation agreement. Also, Silviu provided tax advisory on group restructuring for major players in this field.

During his professional life, he has mainly focused on optimization projects for the development of new tax products designed to help businesses take advantage of tax provisions

#### **Qualification**

Romanian Chamber of Tax Consultants and ACCA.



**Alexandru Aparaschivei**  
**Senior Tax Manager**

With more than 8 years of experience in indirect tax, Alexandru has specialized in VAT. He has conducted his professional activity in Romania and Luxembourg and is also part of the work group that collaborates with the Romanian Ministry of Finance in relation to the VAT-related legislative amendments.

His experience also includes income and international tax in all fields of the industry and economic sectors.

Alexandru has granted consultancy to the most important energy companies in Romania on projects related to taxation, planning, cross-border structuring (restructuring), tax reporting, VAT refund, tax audit, litigation assistance and customized training.

**Qualification**

Bachelor's Degree Management – University of Iași, Faculty of Economics and Business Administration.

He is a tax consultant, member of the Chamber of Tax Consultants.

## 5. Timing of the engagement



Our proposed timing for this project will be mutually agreed between Deloitte team and your team so that the required statutory deadlines could be met.

It is essential to our common understanding that our audit work will begin once all the documents from the Company are available and the financial statements are prepared. Further, the availability of your personnel to assist the audit team is another key factor.

Therefore, achieving any timing commitment is dependent upon the availability and completeness of accounting records, documents, analyses, and personnel on a timely basis.

## 6. Our fee proposal

Our proposed fee for the audit is presented below. The fee is based on our hourly rates, the estimated number of hours required to perform the engagement, the type of services to which we commit and the timing of services. We have made every effort to prepare a fee proposal that will be both competitive and will enable us to provide your company with premium quality services.

Our objective is to agree on a fee that is deemed to be adequate in terms of the required scope and risk profile of the engagement and enables us to perform our work to the highest quality.

Based upon the structure of required work as outlined above, we propose a fee of **EUR 23,000/year**:

Services	Fee (Euro without VAT)
Audit of the standalone financial statements of the Company prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union for the years ending at December 31, 2016 and December 31, 2017	20.000 Euro/year*
Audit of the consolidated financial statements of the Company prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union for the years ending at December 31, 2016 and December 31, 2017	3.000 Euro / year additional fee to the audit fee for the Company's standalone financial statements

\* The audit fee includes the organization of a training for the financial-accounting department of Electromagnetica S.A. regarding the annual changes in the International Financial Reporting Standards as adopted by the European Union for each audited year. The training shall last two days and shall total a number of 8 hours/year.

VAT and Out-of-pocket expenses will be billed at actual amounts incurred and added to the above fees.

Expenses related to telecommunication, mail, stationary and other similar expenses will be billed separately at a rate of 4% of the above fees.

Fees will be billed in RON, at the exchange rate of the NBR in effect on the invoice date.

Payments are due 7 days from the date of the invoice. In case the Company is in delay with the payment of the invoices, Deloitte reserves the right to charge interest for late payment up to 1% per month.



The estimated fees are based on the time required by the individuals assigned to the engagement. Individual hourly rates vary according to the degree of responsibility involved and the experience and skill required. The estimate of our fees is based on certain assumptions. To the extent that certain circumstances, as listed in **Appendix A** (see attached), arise during the engagement, our fee estimate may be significantly affected and additional fees may be necessary. We will notify you promptly of any circumstances we encounter that could significantly affect our estimate and discuss with you any additional fees. Additional services provided beyond the described scope of services will be billed separately.

We propose the following payment terms and conditions which are derived from key milestones in performing the audit. Individual invoices are issued as the key parts of the audit engagement are completed.

Invoice	Key milestone	% of the total fee
First partial invoice	On commencement of audit fieldwork	40%
Second partial invoice	At the end of audit fieldwork	40%
Third partial invoice	On issuance of the draft audit report	20%
<b>Total</b>		<b>100%</b>



# 7. About Deloitte

**Deloitte Romania is one of the leading professional services organisations in the country, delivering world-class assurance and advisory, tax, consulting and financial advisory services. The practice serves many of the country's largest companies, public institutions, and successful, fast-growing companies.**

Our internationally experienced professionals strive to deliver seamless, consistent services wherever our clients operate.

Deloitte in Romania employs more than 500 staff with offices in Bucharest, Timisoara and Cluj. Our Romanian practice is part of our regional firm, Deloitte Central Europe.

Deloitte Central Europe has more than 5000 staff in 17 countries providing international and local services across the borders of the region.

Our regional firm in Central Europe is a member of our international organisation, Deloitte Touche Tohmatsu Limited.

## Deloitte's profile

- Deloitte delivers measurable value to our clients through a global network of diverse professionals who bring unmatched depth and breadth of expertise.
- Our firm ranks among the four largest audit and consulting firms worldwide.
- With 23 years of operations in Romania, we are a reputable firm and enjoy the distinction of being a market leader in respect of audit and consulting services.
- Our major strength is our ability to render comprehensive services covering all principal areas of concern to the Company. Our services are coordinated by the lead client service partner and are rendered by individual professional partners and managers within the firm.
- Another competitive edge of our firm stems from the industry and technical expertise of our local and foreign professionals. As a result of the regional structure of Deloitte, we are able, as and when necessary, to draw upon the experience of our specialists in the Central European region and other professionals from our global network.
- Our firm is fully integrated across Central Europe. This means that multinational companies which do business in more than one Central European country benefit from our use of a regional leadership team that delivers services locally.



# Appendix A

## Circumstances affecting Timing and fee estimates

The fees quoted for the audit of the Company are based on certain assumptions. Circumstances may arise during the engagement that may significantly affect the targeted completion dates and our fee estimate. As a result, additional fees may be necessary. Such circumstances include but are not limited to the following:

1. Changes to the timing of the engagement at the Company's request. Changes to the timing of the engagement usually require reassignment of Deloitte's professional staff. However, because it is often difficult to reassign staff to other engagements, Deloitte may incur significant unanticipated costs.
2. All supporting schedules and financial information are not (a) provided by the Company on the date requested, (b) completed in an acceptable format, (c) mathematically correct, and/or (d) in agreement with the underlying records (e.g., general ledger accounts). Deloitte will provide the Company with a separate listing of required schedules and deadlines.  
In the event that the Company does not, or cannot make the information required for the audit available to Deloitte on a timely basis, Deloitte reserves the right to temporarily suspend the work, which shall be continued as soon as the necessary information is available. Deloitte reserves the right to be reimbursed for all justifiable costs incurred in such situations, including additional time spent.
3. Significant new issues or changes as follows:
  - Significant new accounting issues that require an unusual amount of time to resolve.
  - Significant changes in accounting policies or practices from those used in prior years.
  - Significant changes or transactions that occur prior to the issuance of our reports.
  - Significant changes in the Company's accounting personnel, their responsibilities, or their availability.
4. Significant delays in the Company's assistance in the engagement or delays by the Company in reconciling variances as requested by Deloitte. All invoices, contracts, and other documents, which Deloitte will identify for the Company, are not located by the Company's personnel or made ready for our easy access.
5. Poor quality of the Company's accounting records or significant weaknesses in internal controls.
6. Significant level of proposed audit adjustments are identified during our audit.
7. A trial balance in financial-statement format, which references to supporting detailed working papers (by general ledger account number), is not provided by the Company. All entries are not posted to this trial balance prior to the agreed date for starting the field work.

8. The draft financial statements that agree with the trial balance and are internally referenced to supporting documentation (for footnotes and cash flow statements) are not prepared by the Company's personnel by the agreed upon deadlines.
9. Changes in audit scope caused by events that are beyond our control, including changes in regulatory reporting requirements.

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Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte has in the region of 200,000 professionals, all committed to becoming the standard of excellence.