



AUDIT EXPERT S.R.L.

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Autorizație Camera Auditorilor Financiari din România nr. 50/ 2001



Nr. 12/08.02.2018

To,

PREFAB S.A. BUCURESTI

Mr. Marian Petre Milut

Chairman of the Board

PREFAB S.A. BUGUREȘTI
PUNCT DE LUCRU CĂLĂRAȘI

INTRARE
IEȘIRE

NR. 1066 din 08.02.2018

REPORT OF FACTUAL FINDINGS

We have performed the agreed-upon procedures listed below, on the beneficiary's transactions and legal acts, submitted by PREFAB S.A. to the Financial Supervisory Authority (A.S.F) and the Stock Exchange (B.V.B.) in its current Report dated 24.10.2017.

According to article 225 of the Law No. 297/2004 regarding the capital market, provisions taken in part by article 82 of Law no. 24/2017, and of the CNVM Regulation no. 1/2006, the directors of the companies admitted to trading are obliged to report immediately any legal act concluded by the company with the directors, the employees, the controlling shareholders, and the defendants, with the cumulative amount representing the equivalent in lei 50,000 euro.

In accordance with Article 113, paragraph (6), letter G, C.N.V.M. Regulation No 1/2006 and the terms of reference from the Engagement Letter, the purpose of the Report of Factual Findings, which was carried out in accordance with the agreed-upon procedures, is to analyze transactions reported by the company on the basis of Article 225 of Law No 297/2004 and to specify if the prices specified in the contracts concluded with related parties, in conjunction with the rights and obligations of the parties, are correct, by reference to other offers available on the market.

Establishing the criteria

- According to article 225 of the Law No. 297/2004 regarding the capital market, provisions taken in part by article 82 of Law no. 24/2017, and of the CNVM Regulation no. 1/2006, the directors of the companies admitted to trading are obliged to report immediately any legal act concluded by the company with the directors, the employees, the controlling shareholders, and the defendants, with the cumulative amount representing the equivalent in lei 50,000 euro. Also, in accordance with the Article 225 of the law above, in these situations, the management of the company has the obligation to comply with entity interests which they represent, by reference to similar offers available on the market.

- In accordance with the Law No 227/2015 on Fiscal Code, Article 19, paragraph 6, the transactions between related parties are carried out according to the market value price. When determining the taxable income of related parties, it is taken account of the transfer pricing regulations provided by the Fiscal Procedure Code.

Handwritten signature

Management's Responsibility

The company's management is responsible for the information presented in the reports transmitted to A.S.F. and B.V.B., by current reports, in order to comply to the conditions concerning the selection of offers and comparative prices envisaged for the conclusion of contracts, as well as for the way the transactions to which reference is made in this report are entered in his books.

The company's management is also responsible for the information included in this report and for making available to us the requested documents needed to carry out the agreed-upon procedures. The purpose and the sufficiency of the agreed-upon procedures have been set with the company's management and, therefore, they hold the sole responsibility of company's management.

Auditor's Responsibility

Our engagement was undertaken in accordance with:

- The International Standard on Related Services ('ISRS') 4400 Engagements to perform agreed-upon Procedures regarding Financial Information as promulgated by the IFAC;
- The Code of Ethics for Professional Accountants issued by the IFAC.

These procedures were performed only to assist the Company in assessing transactions with related parties. The sufficiency of the procedures is solely the responsibility of the users specified in this report. Considering these, we will not provide any representation about the sufficiency of our agreed procedures for the purpose for which the report was issued or for any other purpose.

Our work is limited to the agreed-upon procedures regarding only the financial information presented and our Report of Factual Findings doesn't include any other comments or evaluations on other factual findings.

Procedures Performed

Our procedures were performed to report factual findings as a result of agreed-upon procedures.

As requested, we performed only the procedures agreed in the Engagement Letter. Due to the fact that this report shall relate only to items and financial information specified above and does not extend to entity's financial statements, our agreed-upon procedures do not constitute a financial audit made in accordance with International Standards on Auditing.

We have performed the following procedures:

1. Obtaining the contracts included in the current Report;
2. Reconciliation of the information presented in the chapters and sub-chapters of the contracts according with those from the contracts obtained under procedure 1.
3. Discussions with the management of the company related to:
 - The nature and prices of the services mentioned in the contracts included in the current Report,
 - The procedure for approving contracts / agreements between parent company and related parties and analyzing how these procedures have been followed;
 - Obtaining from the company of some alternative offers from the market, for similar transactions, comparing them with the prices of the services mentioned in the contracts included in the current Report and reporting if the transaction prices mentioned in the current Report are comparable to the prices of the similar transactions.

We report our procedures and findings as follows:

1. Regarding procedure 1, we obtained the contract concluded with the company of the group in order to establish its purpose, as well as the data on which the contract is based on and the way in which they are recorded in the company's books at the date on which company's current report is completed, with the following details:

- a. Names of parties, nature of the contract (sale/purchase, distribution);
- b. Contract date;
- c. Exhaustive description of the contract, including and non-exclusive, the description of the products which are the subject of the contract (if they concern some real transfer rights);
- d. The price and a clear statement of the method of payment, as set out in the contract;
- e. Duration of the contract;
- f. Methods for the enforcement of contractual obligations, including terms and conditions of payment, terms and conditions for delivery of the products, as they are referred to in the contract;
- g. Guarantees and penalties;
- h. Persons who have approved and those which have signed contracts.

The current report prepared according to article 82 of the Law no. 24 / 2017 regarding the issuers of financial instruments and market operations and of the C.N.V.M. no. 1/2006 on Issuers and Operations with Transferable Securities, with subsequent amendments and additions, refers to **the sale-purchase contract No 11/23.10.2017** between PREFAB S.A. as **seller** and PREFAB INVEST S.A. with its registered office in Bucharest, sector 1, Str. Dr. Iacob Felix, no. 17-19, et. 2, room 2, registered in the Register of Commerce under number RC J40/4401/2000, CUI RO 12992050, as **buyer**, with the contract value of 22.500.000 lei (VAT included), representing the value of 150,000 cubic meters of BCA.

Object of this commercial contract is:

1. sale of BCA for the purpose of resale at the price fixed by negotiation and under the conditions provided for in this contract;
2. the seller will provide services for the transportation of the goods, to the locations specified by the Buyer, within the limits of possibilities.

Duration of the contract is 1 year from the date of signing, from 23.10.2017 to 23.10.2018.

Payment methods: payment order, cash.

In addition to this contract, we also obtained other relevant documentation and information about the way in which the prices are established and the way these are reconciled with the contracts between contracting parties and bills.

Based on the documents obtained from the society, we conducted also the following procedures:

- a) we have obtained the invoices relating to the above mentioned contract and we compared the price specified therein to prices in transactions with other partners, where appropriate;
- b) we have selected a sample of invoices and documents relating to each contract and we have compared it with contract details;

- c) we have identified the registration of the selected invoices in accounting records;
- d) we have documented the method of bills' settlement for selected contracts and we've done the reconciliation of payments with extracts of account

2. Regarding procedure 2, we have reconciled the above-mentioned information to the contract obtained under procedure 1. We have not found any differences following this reconciliation.

3. Discussions with the management of a company that regarding the nature and prices of the services and goods mentioned in the contract included in the current Report. According to the discussions with the management of the Company, we found that:

• *The nature and prices of the services mentioned in the contracts included in the current Report*

PREFAB S.A. carry out the activity of distribution of its products on the basis of their own policy established at group level. The option to carry out a part of deliveries of products through PREFAB INVEST S.A., under the contract no. **11/23.10.2017** for BCA, is due to the fact that PREFAB INVEST S.A. is specialized in delivering the best services for marketing and prospecting of the market.

We found that, up to the date of 31.12.2017 PREFAB S.A. has carried out deliveries and recorded invoices worth 21.629.062.35 lei with VAT included, which according to the contract no. **11/23.10.2017** worth 3.251.269.19 lei with VAT included. Between 01.01.2017 and 31.12.2017, a total of 22.669.655 lei were collected from PREFAB INVEST S.A.

Recording in the PREFAB S.A.'s accounts was carried out by registering the invoices related to the deliveries, settling them on the due dates of contracts, or in advance, depending on the time PREFAB INVEST S.A. receive his payment from its clients.

The result of applying the procedures agreed upon was that collection of the invoices issued by PREFAB S.A. to PREFAB INVEST S.A. for the delivered products was made according to the established deadlines, based on the invoices issued by the seller.

The price set by contract presented in this report is a price accepted by the final beneficiaries of PREFAB INVEST S.A. and ensures a profit margin for deliveries carried out by PREFAB S.A. as producer.

• *Procedure for the approval of contracts/ agreements between mother company and related parties and analyze of the way in which they have complied with these procedures.*

Verifying the competences granted by the delegated bodies of the company, respectively, by the General Meeting of the Shareholders, to the persons who represents the company in these transactions, those who shall sign on behalf of the company, of the company in dealings with third parties, have been transmitted by the judgment A.G.A. no. 7 of 19.04.2017 to:

1. Milut Petre Marian – General Director – Chairman of the Board;
2. Boitan Daniela - Economic Director, with responsibilities of Deputy General Director,
3. Macovei Olimpian - Commercial Director,
4. Cocoranu Tudor - Energy Director.

The General Director is **empowered with full powers to represent PREFAB S.A. interests** in relations with third parties, for any issue regarding the entity's activity.

The Economic Director with responsibilities of Deputy General Director is empowered to represent the entity's interests in relations with third parties, for issues according to his job description.

From the verification of the documents made available by the management of the company has resulted in that the persons designated for the approval and signature of the contracts respects their job terms.

- **Obtaining from the company of some alternative offers from the market, for similar transactions, comparing them with the prices of the services mentioned in the contracts included in the current Report and reporting if the transaction prices mentioned in the current Report are comparable to the prices of the similar transactions.**

Regarding these aspects, we found that the prices are set at the group level and are transmitted at regular intervals, through the grid of prices, to the management of PREFAB S.A. commercial compartment.

The expertise of the group specialists is used both in the case of transactions with companies in the group as well as, for the background information for the contracts with customers outside the group.

After our verification, resulted that both for sale-purchase contracts of the products and work concluded by PREFAB S.A. **directly with the beneficiaries**, as well as in the case of contracts concluded **through PREFAB INVEST S.A.** as buyer/distributor, for the same type of products, the price conditions are established following negotiations with the beneficiary on the basis of the same tariffs and rules of price. Regarding the **contract no. 11/23.10.2017**, we have found that this type of contract is carried out only with PREFAB INVEST S.A., without any other contracts of this type. The company relies on expertise and results from the specialists inside the group for the contracts with customers inside or outside of the group.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the financial statements of the entity as a result of the agreed procedures.

Therefore, the report in accordance with ISRS 4400 applicable to agreed-upon procedures engagements, relates only to the accounts and items specified above and does not extend to any financial statements of PREFAB S.A., taken as a whole or as a part.

Our activity is limited to the agreed-upon procedures, and our report regards factual findings. Our report is solely for the purpose of the agreed procedures and is not to be used individually for any other conclusions.

We believe that the evidences we have obtained are sufficient and appropriate to provide a basis for our conclusions.

Sources of information

The Report is based on the information supplied by the entity's management regarding the specific questions or those obtained from the financial recordings of PREFAB S.A., Bucharest.

Conclusions

Based on the agreed-upon procedures, we report our findings below:

- Details of contract, as reported by the managers of the company to A.S.F. are in accordance with the contracts signed;
- Contract has been correct authorized by the contracting parties
- The contract contains information concerning: the parties who have concluded the legal act, the date of completion and the nature of the document, the description of the object, the total amount of legal act, the terms and conditions of payment;
- The price agreed between the parties has been accepted by mutual agreement on the basis of the type of products/services and other terms and conditions stipulated in the contract and this price complies with the interests of the company, in relation to the offers of the same type existing on the market.

Use of the report

Our report is addressed to the management of the entity and its shareholders, has been drawn up on the basis of current Report from 24.10.2017 and the documents presented by the company and it's going to be submitted, in accordance with Article 113, paragraph (6), letter G of CNVM Regulation Law No 1/2006 – consolidated form, to B.V.B. and A.S.F. to be published in the Bulletin of information of A.S.F.

Ploiesti, 06 February 2018

On behalf and by charge of the company,

S.C. AUDIT EXPERT S.R.L.

Audit Firm - registered at the Chamber of Financial Auditors of Romania with certificate no. 50/2001

General Director,

Constantin Maria – C.A.F.R. certificate no. 184/ 2001



Financial Auditor,

Roman Ileana - registered at the Chamber of Financial Auditors of Romania with certificate no. 1199/2001

