

# RSM Scot

Auditors • Accountants • Tax Advisors

RSM Scot s.r.l

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## Report of the Independent Auditor

To:

**The Shareholders and Board of Administrators of Impact Developer and Contractor S.A.**

1. We have audited the attached standalone financial statements of Impact Developer and Contractor S.A. ("the Company"), which comprise: the balance sheet as of 31 December 2011, the income statement, the statement of changes in equity, and the cash-flow statement for the year closing on that date, as well as a summary of significant accounting policies and other explanatory notes. The above-mentioned financial statements refer to:

	<u>- Lei -</u> <u>31 December 2011</u>
Total equity	296,828,111
Net turnover	13,540,400
Net turnover (loss)	(22,261,046)

### *Management responsibility for the financial statements*

- 2 The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with OMFP no. 3055/2009. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *The auditor's responsibility*

3. Our responsibility is to express an opinion on these financial statements based on our audit. Except for the issues presented in paragraph 5, 6 and 7, we conducted our audit in accordance with the International Standards on Auditing (ISA) as adopted by the Chamber of Romanian Financial Auditors. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

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4. An audit involves performing procedures to obtain audit evidence about amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making these risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. With the exception of the issues laid out in paragraphs 5, 6, and 7, we consider that the audit evidence we have obtained is sufficient and adequate in order to form the basis for our audit opinion.

## *Limitation of the scope of the auditor's work:*

5. As the company has not established the net realizable value through valuation reports issued by independent evaluators for all houses held as stocks and presented in the financial statements as of December 31, 2011, we cannot express an opinion on the accounting value of these stocks as of December 31, 2011 and on the possible impact of the results of such valuation reports on the profit and loss account. Our audit report on the financial statements drawn up as of December 31, 2010 by the company also includes a similar limitation of scope.

6. As of December 31, 2011 Impact Developer and Contractor S.A. showed in its financial statements an investment in Clearline Development S.R.L. (a subsidiary, formerly named Lomb S.A.) with a total value of 26,900,000 lei. The cash invested was partially used (lei 17,036,601) by the subsidiary to undertake a residential project on Lomb Hill in association with the Cluj City Hall. This project was stopped in 2010 as a result of the fact that the Cluj City Hall did not transfer the land that would have been developed into association.

Because Clearline Development S.R.L. did not establish the net realisable value of the work in progress recorded in its accounts, we cannot express any opinion on the accounting value of the Impact Developer and Constructor S.A.'s investment into Clearline Development S.R.L. and on the possible impact of the results of such valuation on the profit and loss account. Our audit report on the financial statements drawn up as of December 31, 2010 by the company included an emphasis of matter in this respect.

7. For the legal litigations presented in Note 11 ("Contingent Liabilities", paragraph B2) to the financial statements, either we have not received confirmation from the company lawyers, or we have received confirmations but without an estimate of the result of each respective litigation. In the absence of this information, we cannot estimate the risks that might arise

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for the company and the possible impact on the company's position and financial performance.

## Opinion

8. In our opinion, with the exception of the adjustments that might have been necessary if we had been able to ensure ourselves on the aspects mentioned at paragraphs 5, 6, and 7 above, the financial statements give a true and fair view of the financial position of Impact Developer and Contractor S.A. as of December 31, 2011 and of the results of the company's operations and its cash flow for the year then ended in accordance with OMFP no. 3055/2009 and the accounting policies described in the notes to the non-consolidated financial statements.

## Emphasis of matters:

9. Without qualifying our opinion, we draw attention to the following matters:
  - a. As a result of the financial crisis and of the global economic downturn, the Romanian real estate market was subject to a significant fall in 2011 compared to previous years with regard to the individual value of transactions as well as their volume. This trend also became manifest in the case of Impact Developer and Contractor S.A. Given this situation, the company management drew up and presented in Note 14 ("Other juridical and economic information") to the financial statements drawn up as of December 31, 2011 a action plan on minimising over the following twelve months the negative effects of the shrinkage of the real estate market.
  - b. In the audit report on the financial statements drawn up on 31 December 2010, we did not express any opinion with regard to the correctitude of the calculation of the tax liability due to the local budgets with regard to the property tax (buildings and land), the value of the debts accruing from local taxes and their possible impact on the profit and loss account. In 2011 a tax inspections were carried out by the local authorities, with the scope of establishing the aforementioned local taxes liability, which resulted in shortfalls of local taxes of immaterial value to be paid by the company.
  - c. As of 31 December 2011 Impact Developer and Contractor S.A. presented work in progress in connection to the Lomb Hill project in an amount of 4,008,222 lei. These investments, mainly representing the drawing up of urban zoning documentation and road access for the Lomb Hill estate, were contracted through the frame contract no. 55423/4

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July 2007 signed by Impact Developer and Contractor S.A. and Cluj Local Council as a condition prior to incorporation of the Clearline Development Company (formerly Lomb S.A.). In 2011 Impact took Cluj Municipal Local Council to court (case no. 79/1285/2012) demanding compensation for damages and interest with a provisory value of 4,008,222 lei and 500,000 Euro respectively. According to the estimates of an independent lawyer office, there are significant chances for the company to recover these amounts from Cluj Local Council (see Note 10 to the financial statements).

- d. As presented in Note 13 ("Subsequent events"), in March 2012, at the request of the Public Ministry, a Bucharest Tribunal's Court decided that goods belonging to Impact Developer and Contractor S.A. up to the sum of 16,823,946 lei to be sequestered at the A.N.A.F (internal Revenue Agency) disposal. The company has appealed against this decision.
- e. As laid out in Note 1, the paragraph titled "Shares owned in affiliated entities", in December 2011 the Impact management decided to sell 36 shares owned in Bipact 1995 S.R.L. in an amount of 900 lei. As a result of this transaction, the Impact holdings in Bipact decreased from 63% to 4.83%.
- f. As laid out in Note 1 at the paragraph titled "Shares owned in affiliated entities and Note 10 ("Other information: Inventories"), Impact owns shares in value of 2,329,020 (45%) in Millennium Consult Invest 2002 S.A., the developer of the Greenfield 2 Business Support Centre, a project co-financed from the European Development Fund via the Regional Operational Programme and has executed investments (work in progress) with a value of 3,129,378 lei. Although in 2010 the Management Authority accepted the Greenfield 2 Business Support Centre project, this acceptance following to be finalised through signing of a financing contract, after evaluation of the conformity of the technical plans and a visit to the site, the Management Authority then rejected the project in 2012. Millennium Consult Invest 2002 S.A. has appealed this decision and, upon the case, it will take legal action against the Management Authority, considering that the project was rejected illegally.
- g. As mentioned in the Notes to the financial statements, independently from the audit of the individual financial statements of Impact Developer and Contractor S.A. drawn up by the company's management in conformity with OMFP. 3055/2009, the auditor, R.S.M. Scot S.R.L., has also been hired to audit the consolidated financial statements of the Impact Developer and Contractor S.A. group of companies, drawn up by the management in conformity with International Financial Reporting Standards (IFRS).

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## Report on other legal and regulatory requirements

10. Given the provisions of OMFP.3055/2009, we have also reviewed the administrator's report issued on the same date as the financial statements appended to the present audit report. Consequent to this review, we have not identified any aspect that might indicate significant inconsistencies between the administrator's report and the attached financial statements drawn up by the management.
11. The present Auditor's Report was prepared with a view to its use by the company and its shareholders gathered in General Meeting of Shareholders according to the provisions of Law no. 31/1990 (republished). To the fullest extent permitted by law, we do not accept or assume liability to anyone other than the company or the company's members as a body, for our audit work, for this report or for the opinions we have formed.

**Dan Schwartz**  
**Managing Partner**  
C.A.F.R. member (no. 404/09.12.2000)



On behalf of the company

R.S.M. Scot S.R.L.  
C.A.F.R. member (nr. 322/31.05.2001)



10 April 2012  
Bucharest

