



**INDEPENDENT AUDITOR'S REPORT**

**TURISM FELIX S.A. – BĂILE FELIX**

**31 DECEMBER 2019**

***Leocont Expert S.R.L.***

Member of the Chamber of  
Financial Auditors of Romania (CAFR),  
under no. 164

Financial Auditor – ***Leonica BOCHIȘ***  
Member of the Chamber of  
Financial Auditors of Romania (CAFR)  
under no. 706

Registration no. 5 / 13.03.2020

## INDEPENDENT AUDITOR'S REPORT

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*To: The Board of Directors and Shareholders of TURISM FELIX S.A. – Băile Felix*

### Audit Report on the Annual Financial Statements

#### Unqualified Opinion

1. We audited the individual financial statements of the company TURISM FELIX S.A. (Company), with headquarters in Victoria Street, Băile Felix, Sânmartin commune, Bihor county, identified by the unique fiscal registration code RO 108526, which comprise the Balance Sheet as of 31 December 2019, the Profit and Loss Account, the Statement of Changes in Equity and the Cash Flow Statement for the year then ended, as well as a summary of significant accounting policies and explanatory notes.
2. The individual financial statements on 31 December 2019 are identified as follows:

➤ Total equity:	211.033.381 lei
➤ Overall result for the period – net profit:	14.211.525 lei
3. In our opinion, the accompanying separate financial statements provide a true and fair view of the Company's financial position as of 31 December 2019, as well as of the financial performance and cash flows for the year then ended, in accordance with Order 2844/2016 by the Ministry of Public Finance for the approval of accounting regulations in line with International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market.

## **Basis for our Opinion**

4. We conducted our audit in accordance with the International Standards on Auditing ("ISA"), EU Regulation no. 537/2014 of the European Parliament and of the Council (hereinafter "the Regulation") and Law no. 162/2017 (hereinafter "the Law"). Our responsibilities under these standards are described in detail in the "Auditor's Responsibilities in an Audit of Financial Statements" section of our report. We are independent from the Company, according to the Ethics Code of Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA Code), according to the ethical requirements that are relevant for the audit of financial statements in Romania, including the Regulation and the Law, and we have fulfilled our ethical responsibilities according to these requirements and according to the IESBA Code. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our opinion.

## **Key audit issues**

5. Key audit issues are those issues that, based on our professional judgment, have been of the highest importance for the audit of the current period's financial statements. These issues were addressed in the context of the audit of the financial statements as a whole and we do not provide a separate opinion on them.

The key issues taken into consideration were:

*a. Valuation of property, plant and equipment*

(Note 1 to the Financial Statements)

*Risks:* Management assertions on the valuation of property, plant and equipment can present significant misstatements if the applicable accounting regulations for the measurement of property, plant and equipment, in accordance with IAS 16 – Property, Plant and Equipment, are not applied at the reporting date.

*Our response to these risks of material misstatement:* In assessing property, plant and equipment, we

tested the nature of expenditures capitalized in the cost of the upgraded assets during the year 2019. We accounted for the risks identified in the accounting treatments presented by the Company in the previous financial years. We performed procedures to obtain reasonable assurance that there is no material misstatement regarding the upgrades to existing property, plant and equipment at the reporting date.

*b. Valuation of operating revenue*

(Note 18 to the Financial Statements)

The operating revenue increased during the last financial period by approximately 32%, from 70.609.406 lei in 2018, to 93.465.489 lei in 2019.

*Risks:* A distortion of the revenue accounts' turnover might result in a significant distortion of the operating revenue presented in the Profit and Loss Account, as well as other elements of the global result.

*Our response to these risks of material misstatement:* We extended the audit procedures in order to establish whether the recorded revenue was justified by contracts, invoices and other documents, we applied an increased level of skepticism throughout the audit mission and we analyzed the Management's estimates concerning this position within the Balance Sheet.

*Our ascertainment:* In 2019, the Company's revenue represented the gross financial benefits that resulted from its normal activity. The revenue from accommodation services is recognized as the services are being provided. The largest portion of the total turnover was generated by the public food department (restaurants) – 38,91%, and the accommodation services accounted for 34,45% of the revenue. After conducting the supplementary audit procedures, we concluded that revenues are correctly recognized in the Profit and Loss Account, as we as in all other elements of the global result, and the financial statements are not distorted.

*c. Valuation of operating expenses*

(Note 19 to the Financial Statements)

The operating expense increased during the last financial period by approximately 15%, from 68.570.385 lei in 2018, to 79.136.579 lei in 2019.

*Risks:* If expenses are recorded improperly, the operating expense presented in the Profit and Loss Account, as well as other elements of the global result might be considerably distorted.

*Our response to these risks of material misstatement:* We extended the audit procedures in order to establish whether the operating expenses reflected correctly in the Financial Statements. We applied an increased level of skepticism throughout the audit mission and we analyzed the Management's estimates concerning this position within the Financial Statements.

*Our ascertainment:* During 2019, operating expenses increased by 15,4%, mainly because of wage costs, as well as third party expenses. This evolution is a result of the increase in production. After conducting the supplementary audit procedures, we concluded that expenses are correctly recognized in the Profit and Loss Account, as well as in all other elements of the global result, and the financial statements are not distorted.

*d. Inventory valuation*

(Note 5 to the financial statements)

*Risk:* Management assertions regarding inventory valuation may present significant misstatements in the sense of non-application of accounting inventory valuation regulations at the reporting date, at the lowest of cost and net realizable value.

*Our response to these risks of material misstatement:* In terms of inventory valuation, we tested the nature of the costs incurred within the cost of the services provided. We tested the depreciation of inventories as estimated by the Management taking as a basis the net realizable value and we performed procedures which provided reasonable assurance that there is no material misstatement of these assertions.

*e. Continuity of the activity*

(Notes 24 and 26 to the Financial Statements)

*Risks:* The Management is responsible for assessing the assumptions for the continuity of the Company's operations when preparing the annual Financial Statements.

*Our response to these risks of material misstatement:* We set out to understand the risks of material misstatement in connection with the Management's assertions on the continuity of the business. To this end, we analyzed aspects of the Company's evolution, the revenue and expenditure budget approved for the financial year 2020, we examined the minutes and reports of the Board of Directors' Meetings and General Meetings of Shareholders, as well as contracts for the financial year 2020.

*Our ascertainment:* After careful analysis of these risks, we believe that the assumptions for the continuity of the Company's operations made by the Management when preparing the annual Financial Statements are appropriate. Consequently, we did not identify any significant uncertainty that might cast doubt on the Company's ability to continue its business in a foreseeable future.

### **Other information - Administrators' report**

6. The Administrators are responsible for compiling and presenting other information. This information is included in the Administrators' Report, but does not encompass the Financial Statements and the Auditor's Report thereon.

Our opinion on the financial statements does not cover this other information, and unless expressly stated in our report, we do not express any assurance about it.

It is our responsibility to read the information presented in the Administrators' Report and, in this regard, to assess whether that information is materially inconsistent with the financial statements, whether it appears to be materially distorted or whether it contradicts the knowledge that we obtained during the audit mission.

As far as the Administrators' Report is concerned, we need to read it and report on whether it was been prepared in all material respects in accordance with Order 2844/2016 issued by the Ministry of Public Finance for the approval of the Accounting Regulations in accordance with International Financial Reporting Standards, Chapter III, points 15-19.

Based solely on the activities to be performed during the audit of the Financial Statements, in our opinion:

- a. The information presented in the Administrators' Report for the financial year for which the Financial Statements were prepared is consistent, in all material respects, with the financial statements;
- b. The Administrators' Report was drawn up, in all significant aspects, in accordance with the Order of the Minister of Public Finance no. 2844/2016 for the approval of the Accounting Regulations in line with International Financial Reporting Standards, Chapter III, points 15-19.

In addition, we are required to report whether we identified significant misstatements in the Administrators' Report, based upon our knowledge and understanding of the Company and its environment, knowledge and understanding which we acquired during the audit of the financial statements for the year ended 31 December 2019. We have nothing to report on this issue.

### **Responsibilities of Management and those responsible for governance for the individual Financial Statements**

7. The Management of the Company is responsible for the preparation and fair presentation of the separate Financial Statements in accordance with International Financial Reporting Standards and with the OMFP no. 2844/2016 of 12 December 2016 for the approval of the Accounting Regulations in line with the International Financial Reporting Standards and for such internal control as the Management considers necessary to allow the preparation of Financial Statements free of material misstatement, whether caused by fraud or error.

8. When preparing the individual financial statements, the Management is responsible for assessing the Company's ability to continue its operation. This entails presenting, where appropriate, aspects referring to the business continuity and using accounting based on the business continuity, unless the Management either intends to liquidate the Company or to stop its operations, or has no other realistic alternative.
9. The people in charge of the governance are responsible for the surveillance of the Company's financial reporting process.

### **Auditor's responsibilities within an audit of Financial Statements**

10. Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether caused by fraud or error, as well as issuing an Auditor's Report which includes our opinion. Reasonable assurance represents a high level of assurance, but there is no guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement, if any. Distortions may be caused either by fraud or by error and are considered significant if reasonable assurance can be given that they, individually or collectively, will influence the economic decisions of users, when made on the basis of those financial statements.
11. As part of an audit in accordance with ISAs, we express a professional judgment and maintain professional skepticism throughout the audit. Furthermore:
  - We identify and evaluate the risks of material misstatement of Financial Statements, whether caused by fraud or error, we design and execute audit procedures in response to those risks, and obtain sufficient and appropriate audit evidence to provide a basis for our opinion. The risk of not detecting significant misstatement caused by fraud is higher than the failure to detect a significant misstatement caused by error, as fraud may imply secret, deceit, deliberate omissions, false statements, and avoidance of internal control.
  - We understand the internal control relevant to the audit in order to design audit procedures that are appropriate to the circumstances, but without the purpose of expressing an opinion on the

effectiveness of the Company's internal control.

- We assess the suitability of the Company's accounting policies and the reasonableness of the accounting estimates and related disclosures made by the Management.
- We formulate a conclusion on the appropriateness of the Management's use of accounting based on the continuity of activity, and determine, based on the audit evidence we obtained, whether there is significant uncertainty about events or conditions that could generate significant doubts about the company's ability to continue its activity. If we conclude that there is significant uncertainty, we must draw attention to it in the auditor's report on the accompanying financial statements or, if these presentations are inappropriate, change our opinion. Our findings are based on audit evidence obtained by the date of the auditor's report. However, future events or conditions may cause the Company not to continue operating on a business continuity basis.
- We evaluate the presentation, structure and content of financial statements, including disclosures, and the extent to which the financial statements reflect the transactions and events underlying them in a manner that results in a fair presentation.

12. We communicate to those responsible with governance, among other things, the planned area and timing of the audit, as well as the main findings of the audit, including any significant internal control deficiencies that we identify during the audit.

13. We also provide a statement to those responsible for governance that we complied with relevant ethical requirements in terms of independence and that we communicated all relationships and other matters which we reasonably assume that might affect our independence and, where appropriate, the corresponding protective measures.

14. Among the aspects communicated to those in charge of the governance, we determine which ones are the most important for the audit of Financial Statements of the current period and therefore which ones represent key audit aspects. We describe these aspects in the Auditor's Report, unless laws or regulations prohibit public disclosure of the aspect or of the case in which, in extremely rare circumstances, we believe that it should not be communicated in our report. as we are reasonably convinced that the negative consequences of such communication would overcome the benefits of the public interest.

## Report on other legal and regulation provisions

15. On 07.12.2017, we were appointed by the General Meeting of Shareholders to audit the financial statements of TURISM FELIX S.A. for the financial years 2017 to 2019. The total uninterrupted duration of our commitment is 6 years, covering the financial years ended 31 December 2014 to 31 December 2019. The legal document for this appointment is the original auditing contract, bearing no. 8 / 28.08.2014, renewed by addendum no. 1 / 08.12.2017.

We hereby 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.
- In conducting our audit, we retained our independence from the audited entity.
- We did not provide any prohibited non-audit services for the Company, referred to in Art. 5 (1) of EU Regulation no. 537/2014.

On behalf of,

**Leocont Expert S.R.L.**  
Member of the Chamber of  
Financial Auditors of Romania (CAFR),  
under no. 164

Autoritatea pentru Supravegherea Publică a  
Activității de Audit Statutar (ASPAAS)  
Firma de Audit: Leocont Expert SRL  
Registrul Public Electronic: FA 164

Autoritatea pentru Supravegherea Publică a  
Activității de Audit Statutar (ASPAAS)  
Auditor financiar: Bochiș Leonica  
Registrul Public Electronic: AF 706

Financial Auditor – **Leonica BOCHIȘ**

  
Member of the Chamber of  
Financial Auditors of Romania (CAFR)  
under no. 706

Oradea, 13 March 2020