



# Independent Auditors' Report

(free translation<sup>1</sup>)

## To the Shareholders of Societatea de Investitii Financiare Muntenia S.A.

Headquarters: 16 Splaiul Unirii, Bucharest – 040035, Romania

Unique Registration Code: 3168735

## Report on the Audit of the Separate Financial Statements

### Opinion

We have audited the accompanying separate financial statements of Societatea de Investitii Financiare Muntenia S.A. ("the Company"), which comprise the separate statement of financial position as at 31 December 2017, and the separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

The separate financial statements as at and for the year ended 31 December 2017 are identified as follows:

- Total equity: RON 1,204,627,895
- Net Profit for the year: RON 51,005,327

In our opinion, the accompanying separate financial statements as at and for the year ended 31 December 2017 give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2017 and its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with the Norm of the Financial Supervisory Authority no. 39/2015 for the approval of accounting regulations in accordance with International Financial Reporting Standards applicable to entities authorised, regulated and supervised by the Financial Supervisory Authority, operating in the Financial Instruments and Investments Sector.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) no. 537/2014 of the European Parliament and of the Council ("the Regulation") and Law no. 162/2017 ("the Law"). Our responsibilities under those standards and regulations are further described in the *Auditors' Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Company in accordance with *International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the separate financial statements in Romania, including the Regulation and the Law and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

<sup>1</sup> TRANSLATOR'S EXPLANATORY NOTE: The above translation of the auditors' report is provided as a free translation from Romanian which is the official and binding version and refers to the Romanian official and binding version of the financial statements.

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## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Valuation of financial assets

As at 31 December 2017, the Company carried financial assets at fair value through profit or loss at RON 98,683,282 (31 December 2016: RON 79,279,822) and available for sale financial assets at RON 1,164,697,391 (31 December 2016: RON 954,163,015).

The carrying amount of fair value reserves for financial assets available for sale as at 31 December 2017: RON 371,561,473 (31 December 2016: RON 252,168,284),

Net gain from financial assets at fair value through profit or loss recognized in 2017: RON 38,880,342 (31 December 2016: net loss RON 8,438,880).

Impairment losses recognised in 2017 with respect to financial assets available for sale: RON 7,442,339 (31 December 2016: RON 9,551,202).

Refer to the following notes to the separate financial statements:

- Note 3 (e) *Significant accounting policies, Financial assets and liabilities*
- Note 5 *Use of estimates and judgments*
- Note 9 *Net gain/(loss) from financial assets at fair value through profit or loss*
- Note 10 *Impairment losses on financial assets*
- Note 15 *Financial assets*

The key audit matter	How the matter was addressed in our audit
<p>As described in Note 3 (e) <i>Significant accounting policies, Financial assets and liabilities</i> to the separate financial statements:</p> <ul style="list-style-type: none"> <li>— financial assets at fair value through profit or loss are recognized at fair value in the separate statement of financial position; and</li> <li>— available for sale financial assets are recognised at fair value, with the exception of those assets for which fair value cannot be determined reliably at the reporting date, which are carried at cost and tested annually for impairment.</li> </ul> <p>As described in Note 15 <i>Financial assets</i>, as at 31 December 2017, the Company's financial assets portfolio comprises the following: Financial assets at fair value through profit or loss amounting to RON 98,683,282 and Available for sale</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> <li>— We tested the key controls the Company has in place for the prevention, detection and correction of errors in the process of valuation of financial assets.</li> </ul> <p>The key controls refer to: annual assessment of the active market criteria for quoted shares, annual analysis of indicators of impairment for available for sale financial assets, appropriate involvement of the management of S.A.I. Muntenia Invest S.A. in the selection of valuation experts, supervision over transfer of relevant data to those experts and also analysis of valuation results.</p> <ul style="list-style-type: none"> <li>— We involved our own valuation specialists to assist us in: <ul style="list-style-type: none"> <li>• Evaluating the professional competence and qualifications of valuation experts used by the Company;</li> <li>• Evaluating the appropriateness of the valuation</li> </ul> </li> </ul>



financial assets of RON 1,164,697,391. Valuation of these instruments often involves the exercise of significant judgement and the use of assumptions and estimates. The risk is that these valuations are misstated.

Of the financial instruments that are stated at fair value, RON 680,298,340, representing 57% of financial assets measured at fair value were classified as Level 1 in the fair value hierarchy at 31 December 2017. The remaining 43%, RON 503,355,636 were classified as Level 3 valuations, because the valuations techniques use significant inputs which are unobservable.

With respect to the Level 1 fair values, a judgment is required to determine whether the relevant markets are liquid enough to conclude that Level 1 categorization is appropriate.

With respect to the Level 3 fair values - shares, unit funds and structured products that do not have a quoted market price in an active market, the Company uses valuation techniques.

The valuations based on unobservable inputs require significant judgments and assumptions from the management of S.A.I. Muntenia Invest S.A. (the administrator of the Company) to estimate the fair value. For the valuation of shares, the Company used certified valuers.

Other matters related to the valuation of financial assets that require significant judgement include identifying impairment indicators, assessing whether a decline in fair value is significant or prolonged and whether the fair value of financial assets carried at cost which are classified as available for sale (RON 79,726,697 as at 31 December 2017) cannot be reliably determined.

Due to the significant judgement and assumptions required in relation to valuation of financial assets we have considered this area as a key audit matter.

techniques used to measure fair value against the relevant accounting standards; and

- Challenging the assumptions made by the management of S.A.I. Muntenia Invest S.A. by comparing them to our knowledge about the general economic environment, the regulatory environment of the industry, and the Company's specific circumstances, and by testing the historical accuracy of the Company's forecast process.
- We evaluated whether fair value of shares carried at cost and classified as for available for sales could not be reliably determined by the Company by considering the available data and by evaluating the range of fair value estimates determined for those entities.
- We obtained confirmation letters from external counterparties on the holdings of the Company and the underlying fair values of unit funds and we evaluated the Company's estimates in respect of the fair values by considering the types of the assets underlying the unit funds.
- For a sample of available for sale financial assets we assessed whether the Company has appropriately identified the impairment indicators and whether they were appropriately reflected in the valuation of the respective assets, by:
- Challenging the assumptions made by the management of S.A.I. Muntenia Invest in terms of whether impairment indicators exist or not by independently searching for impairment indicators in relation to those businesses in publicly available databases (such as published financial results, court of law portals);
  - Assessing whether a decline in fair value for quoted shares is significant or prolonged in accordance with the applicable accounting framework.
- We assessed the appropriateness of the categorization within the fair value hierarchy by considering liquidity of relevant markets, which included our evaluation of the Company's analysis of volume and frequency of trade on those markets.
- We assessed the adequacy and accuracy of the disclosures in the separate financial statements in relation to valuation of financial instruments against the relevant financial reporting requirements.

## **Other information – Annual Administrator's Report**

The administrator S.A.I. Muntenia Invest S.A. is responsible for the preparation and presentation of other information. The Other information comprises the Annual Administrator's Report, but does not include the separate financial statements and our auditors' report thereon.

Our opinion on the separate financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Annual Administrator's Report, we read and report whether the Annual Administrator's Report is prepared, in all material respects, in accordance with the Norm of the Financial Supervisory Authority no. 39/2015 articles 8 - 13 of the accounting regulations in accordance with International Financial Reporting Standards applicable to entities authorised, regulated and supervised by the Financial Supervisory Authority, operating in the Financial Instruments and Investments Sector.

Based solely on the work required to be undertaken in the course of the audit of the separate financial statements, in our opinion:

- a) The information given in the Annual Administrator's Report for the financial year for which the separate financial statements are prepared is consistent, in all material respects, with the separate financial statements;
- b) The Annual Administrator's Report has been prepared, in all material respects, in accordance with the Norm of the Financial Supervisory Authority no. 39/2015 articles 8 - 13 of the accounting regulations in accordance with International Financial Reporting Standards applicable to entities authorised, regulated and supervised by the Financial Supervisory Authority, operating in the Financial Instruments and Investments Sector.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of our audit we are required to report if we have identified material misstatements in the Annual Administrator's Report. We have nothing to report in this regard.

## **Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements**

The Management of S.A.I. Muntenia Invest S.A. (the administrator of the Company) is responsible for the preparation and fair presentation of these separate financial statements in accordance with the Norm of the Financial Supervisory Authority no. 39/2015 for the approval of accounting regulations in accordance with International Financial Reporting Standards applicable to entities authorised, regulated and supervised by the Financial Supervisory Authority, operating in the Financial Instruments and Investments Sector and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, the management of S.A.I. Muntenia Invest S.A. is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.



Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditors' Responsibility for the Audit of the Separate Financial Statements**

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management of S.A.I. Muntenia Invest S.A.
- Conclude on the appropriateness of the management of S.A.I. Muntenia Invest S.A. use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless

law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on Other Legal and Regulatory Requirements Public Interest Entities

We were appointed by the Ordinary General Shareholders' Meeting on 31 August 2017 to audit the separate financial statements of Societatea de Investitii Financiare Muntenia S.A. for the year ended 31 December 2017. Our total uninterrupted period of engagement is 13 years, covering the periods ending 31 December 2005 to 31 December 2017.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company on 7 March 2018. We also remained independent of the audited entity in conducting the audit
- we have not provided to the Company the prohibited non-audit services (NASs) referred to in Article 5(1) of EU Regulation (EU) No 537/2014.

## Other matters

This independent auditors' report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinion we have formed.

The engagement partner on the audit resulting in this independent auditors' report is Greco Tudor Alexandru.

Refer to the original signed  
Romanian version

**For and on behalf of KPMG Audit S.R.L.:**

**Greco Tudor Alexandru**

registered with the Chamber of Financial  
Auditors of Romania under no. 2368/22.01.2008

Bucharest, 19 March 2018

**KPMG AUDIT S.R.L.**

registered with the Chamber of Financial  
Auditors of Romania under no 9/2001