



KPMG Audit SRL
Victoria Business Park
DN1, Soseaua Bucuresti-Ploiesti nr. 69-71
Sector 1

P.O. Box 18-191
Bucharest 013685
Romania
Tel: +40 (21) 201 22 22
+40 (372) 377 800
Fax: +40 (21) 201 22 11
+40 (372) 377 700
www.kpmg.ro

Independent auditor's report

To the shareholders of Vrancart S.A.
17 Ecaterina Teodoriu Street, Adjud municipality, Vrancea county
Tax Identification Number: 1454846

Report on the auditing of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Vrancart S.A. ("the Company") and of its branches (hereinafter collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at December 31st, 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year then ended and a summary of the significant accounting policies and other explanatory notes.

The consolidated statements as at and for the financial year ended on December 31st, 2017 are identified as follows:

- Net assets/ Total equity: 196.743.443 lei
- Net profit of the financial year: 25.438.954 lei

According to our opinion, the accompanying consolidated financial statements provide a fair view of the Group's consolidated financial position as at December 31st, 2017, as well as of its consolidated financial performance and of its consolidated cash flows for the financial year then ended, in accordance with the Order of the Public Finances Ministry no. 2844/2016 for the approval of the Accounting regulations compliant with the International Financial Reporting Standards ("OMFP no. 2844/2016").

Basis for our opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA), the EU Regulation no. 537 of the European Parliament and of the Council ("the Regulation") and of Law no. 162/2017 ("the Law"). Our responsibilities under these standards and regulations are described in detail in the "Auditor's responsibility in an audit



of the consolidated financial statements” section of our report. We are independent from the Group, in accordance with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (“IESBA code”) and in accordance with the professional ethics requirements relevant to the auditing of consolidated financial statements in Romania, including the Regulation and the Law, and we complied with our other professional ethics responsibilities, according to these requirements and the IESBA code. We believe that the audit evidence that we have obtained is sufficient and adequate to provide a basis for our opinion.

Key audit aspects

The key audit aspects are those aspects that, according to our professional reasoning, had the greatest significance in the performance of the audit of the consolidated financial statements for the current period. These aspects were approached in the context of the audit of the consolidated financial statements as a whole and in the formation of our opinion on these consolidated financial statements. We do not provide a separate opinion on these key audit aspects.

Recognising of revenues	
Income from turnover – 324.981.015 lei as at December 31 st , 2017 (232.281.259 lei as at December 31 st , 2016)	
See Note 3 (accounting policies) and note 18 (explanatory information) to the consolidated financial statements	
Key audit aspects	The approach modality within the audit mission
<p>Revenues comprise mainly the revenues from the sales of the corrugated cardboard and tissue paper production to a large number of customers. The revenues are recognised on the delivery of goods and finished products, and the sales are adjusted by trade discounts, in accordance with the agreements concluded with customers.</p> <p>The management gives particular attention to the increase of revenues and it has continued making investments for the upgrade of the production lines in order to increase their capacity.</p> <p>We identified the recognising of revenues as a key audit aspect, as revenues represent one of the Group’s key performance indicators and, therefore, there is an inherent risk related to their recognising by the management to meet</p>	<p>Our audit procedures for the evaluation of the recognising of sales revenues included the following:</p> <ul style="list-style-type: none"> • testing the main controls of the Group to prevent and detect fraud and errors in recognizing revenues. This procedure included the testing of controls for the recognising of revenues based on the deliveries made, by reference to some sample-transactions; • inspecting the agreements with the customers, based on sampling, in order to understand the terms of the sales transactions, including the delivery terms, the modalities in which discounts are applied or any other terms related to returns, to assess whether the criteria for the recognising of the Group’s income were in compliance with the accounting

<p>some specific objectives or expectations.</p>	<p>requirements and standards in force;</p> <ul style="list-style-type: none"> • evaluating, based on sampling, the recognising of the discounts given based on sales during the financial year in the corresponding financial period; recalculating the discounts recognised during the financial year based on the terms agreed-upon in the agreements concluded with the customers and the reconciling with the amounts recognised in the consolidated financial statements; • evaluating, based on sampling, the recognising of the revenues recorded close to the financial year end, in the corresponding financial period; by comparing the selected transactions with the relevant documentation, including the delivery notes and the sales terms in the contractual agreements with the customers; • obtaining confirmations of the customers' balances as at the year end, based on sampling; • checking the sales register after the financial year end to identify significant credit notes issued and returns and checking the relevant documentation in order to evaluate whether the related revenues were accounted for in the corresponding financial period; • checking the sales register in order to identify any unusual transactions.
--	---

Accounting for the acquisition of Rom Paper S.R.L.	
<p>Goodwill – 5.145.580 lei as at December 31st, 2017</p>	
<p>Intangible assets – 9.228.337 lei as at December 31st, 2017</p>	
<p>See Note 3 (accounting policies) and Note 6 (explanatory information) in the consolidated financial statements</p>	
Key audit aspects	The approach modality within the audit mission
<p>In 2017, Vrancart S.A. acquired 85% of</p>	<p>Our audit procedures to address this key</p>

<p>the shares of Rom Paper S.R.L., a manufacturer of tissue paper products, mainly paper napkins.</p> <p>The accounting for the acquisition is considered a key audit aspect as a result of the following aspects:</p> <ul style="list-style-type: none"> • The Group must make a series of judgments and estimates related to the identification of the intangible assets purchased and the recognising of goodwill. • For the determination of the fair value of the intangible assets purchased, the Group prepares cash flow forecasts. The preparation of cash flow forecasts involves a series of uncertainties and judgements related to the key assumptions used, such as the evolution of income, the level of the gross operating profit and the selection of some relevant discount rates. 	<p>audit aspect included the following:</p> <ul style="list-style-type: none"> • Inspecting the contract for the sale of the shares of Rom Paper S.R.L. and assessing the accounting treatment applied by the management in relation to the contractual terms; • Reading the evaluation report drafted by an authorised appraiser, based on which the management estimated the fair values of the net assets acquired; • Evaluating the competences, skills and experience of the appraiser contracted by the management to perform the evaluation; • Evaluating, with the involvement of our evaluation specialists, the degree of adequacy of the methodology for the identification of the intangible assets and of the evaluation methodology applied to determine fair value, the critical evaluation of the key assumptions and judgements made by the management, such as income evolution, the level of the gross operating profit and of the discount rate by comparison with the market data and our understanding of the business plans related to the acquisition and, where available, external documentation; • Evaluating the degree of adequacy of the presentation in the notes to the financial statements in relation to the acquisition and the judgements made by the management.
---	---

Other information – The consolidated report of the Board of Administrators

The Board of Administrators is responsible for the drafting and submission of other information. Other information comprises the Consolidated Report of the Board of Administrators, but does not include the consolidated financial statements and the auditor’s report in this respect.

Our opinion on the consolidated financial statements does not cover that other information and, unless expressly stated in our report, we do not state any assurance conclusion related thereto.

In relation to the auditing of the consolidated financial statements, our responsibility is to read that other information and, within this action, to assess whether there are any significant inconsistencies between that other information and the consolidated financial statements or the knowledge that we have obtained during the audit, or whether it seems to be a material misrepresentation therein.



In what concerns the Consolidated Report of the Board of Administrators, we have read and report whether the Report of the Board of Administrators was drafted, in all significant aspects, in accordance with OMFP no. 2844/2016, items 26-28 of the Accounting Regulations compliant with the International Financial Reporting Standards.

Based exclusively on the activities to be performed within the auditing of the consolidated financial statements, according to our opinion:

- a) the information presented in the Consolidated Report of the Board of Administrators for the financial year for which the consolidated financial statements were drawn up are compliant, in all material aspects, with the consolidated financial statements;
- b) the Consolidated Report of the Board of Administrators was drawn up, in all material aspects, in accordance with OMFP no. 2844/2016, points 15-19 of the Accounting regulations compliant with the International Financial Reporting Standards.

Moreover, based on our knowledge and understanding obtained during the audit, related to the Group and its environment, we are required to report whether we have identified any material misrepresentation in the Consolidated Report of the Board of Administrators. We have nothing to report in this respect.

The management's responsibility and of the people responsible for governance in relation to the consolidated financial statements

The Company's management has the responsibility to draft consolidated financial statements that provide a fair view in accordance with OMFP no. 2844/2016 and for the internal control deemed necessary by the management in order to allow the drafting of the consolidated financial statements free from significant misrepresentations, whether due to fraud or error.

In the drafting of the consolidated financial statements, the management has the responsibility to assess the Group's capacity to continue its business, to present, if necessary, the aspects related to business continuity and to use the business continuity accounting principles, except for the case when the management intends either to liquidate the Group or to stop its operations, or if it has no realistic alternatives besides these.

The persons responsible for governance have the responsibility to supervise the Group's financial reporting process.

The auditor's responsibilities in an audit of the consolidated financial statements

Our objectives consist of obtaining reasonable assurance on the extent in which the consolidated financial statements, as a whole, are free from significant misrepresentations, whether due to fraud or error, as well as of issuing an auditor's report that includes our audit opinion. The reasonable assurance represents a high level of assurance, but it is not a guarantee of the fact that an audit performed in accordance with ISA will always find a significant misrepresentation, if it exists. Misrepresentations can be due either to fraud or to error and are considered significant if it can be reasonably foreseen that these, individually



or cumulated, will influence the economic decisions of the users, based on these consolidated financial statements.

As part of an audit in accordance with ISA, we exercise the professional reasoning and we maintain our professional scepticism during the audit. Also:

- We identify and assess the risks of significant misrepresentation of the consolidated financial statements, whether due to fraud or to error, we design and perform audit procedures in response to those risks and we obtain sufficient and adequate audit evidence to provide a basis for our audit opinion. The risk of not detecting a significant misrepresentation due to fraud is higher than the one of not detecting a significant misrepresentation due to error, as fraud can involve secret understandings, forgery, wilful omissions, false statements and the eluding of internal control.
- We understand the internal control relevant to the audit, for the designing of audit procedures adequate to the circumstances, but without having the purpose to express an opinion on the effectiveness of the Group's internal control.
- We assess the degree of adequacy of the accounting policies used and the reasonable nature of the accounting estimates and of the related presentations of information made by the management.
- We file a conclusion on the degree of adequacy of the use by the management of the business continuity accounting principles and we determine, based on the audit evidence obtained, whether there is a significant uncertainty in relation to any events or conditions that may generate significant doubts on the Group's capacity to continue its business. If we conclude that there is a significant uncertainty, we must draw attention in the auditor's report on the related presentations in the consolidated financial statements or, if these presentations are inadequate, we must change our audit opinion. Our conclusions are based on the audit evidence obtained until the date of the auditor's report. However, future events or conditions may lead the Group not to perform its business based on the business continuity principle.
- We evaluate as a whole the presentation, the structure and the contents of the consolidated financial statements, including the presentation of information and the extent to which the consolidated financial statements reflect the transactions and the events underlying these, in a manner that results in a fair presentation.
- We obtain sufficient and adequate audit evidence in relation to the financial information of the entities or business activities within the Group, in order to state an opinion related to the consolidated financial statements. We are responsible for the coordination, supervision and conducting of the Group's audit. We are exclusively responsible for our audit opinion.

We communicate to the people responsible for governance, among other aspects, the area planned and the time schedule of the audit, as well as the main audit findings, including any significant deficiencies of the internal control, that we identify during the audit.

Also, we provide to the people responsible for governance a statement according to which we complied with the relevant ethical requirements related to independence and we informed them of all the relations and other aspects that could be reasonably assumed to affect our independence and, where applicable, the related protection measures.



From among the aspects communicated to the people responsible for governance, we establish which are the most important aspects for the auditing of the consolidated financial statements from the current period and, therefore, which represent key audit aspects. We describe these aspects in the auditor's report, except for the case when the laws or regulations forbid the public presentation of the aspect or except for the case when, in extremely rare circumstances, we believe that an aspect should not be communicated in our report as it is reasonably foreseen that the benefits of public interest will be exceeded by the negative consequences of this communication.

Report on other legal and regulatory provisions – Entities of public interest

We have been appointed by the General Meeting of the Shareholders on April 26th, 2017 to audit the consolidated financial statements of Vrancart S.A. for the financial year ended on December 31st, 2017. The total uninterrupted duration of our engagement is 5 years, covering the financial years ended on December 31st, 2013 to December 31st, 2017.

We confirm that:

- Our audit opinion is in accordance with the additional report submitted to the Company's Audit Committee, that we issued on the same date when we issued this independent auditor's report. Also, in performing our audit, we have kept our independence from the audited entity.
- We did not provide to the Company the forbidden non-audit services (SNA) mentioned under paragraph 5, item 1 of the EU Regulation no. 537/2014.

Other aspects

This independent auditor's report is addressed exclusively to the Company's shareholders, as a whole. Our audit was performed so that we are able to report to the Company's shareholders those aspects that we must report in a financial audit report, and not for any other purposes. To the extent permitted by law, we only accept and assume the responsibility towards the Company and its shareholders, as a whole, for our audit, for the report on the auditing of the consolidated financial statements and for the report on other legal and regulatory provisions – entities of public interest and for the opinion formed.

The partner of the audit mission based on which this independent auditor's report was drafted is Soare Paula Raluca.

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

Soare Paula Raluca

registered with the Chamber of Financial
Auditors of Romania under no. 1518/2003

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

Bucharest, March 22nd, 2018