

A.B.A. AUDIT S.R.L.

S.C. A.B.A. Audit S.R.L.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
TURISM, HOTELURI, RESTAURANTE MAREA NEAGRĂ S.A MANGALIA

Qualified opinion

1. We have audited the accompanying separate financial statements of Turism, Hoteluri, Restaurante Marea Neagră SA Mangalia („the Company”), with headquarters in Mangalia, Lavrion Street, No. 29, identified by unique tax registration number RO2980547 which comprise the statement of financial position as at December 31, 2017, the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and notes to separate financial statements for the year then ended, represented by:

2. Separate financial statements at December 31, 2017, are identified as follows

- Revenues:	39,058,296 RON
- Net profit:	1,691,836 RON
- Total assets:	252,370,128 RON

3. In our opinion, except for some adjustments which could be determined as necessary by the possible effects of the matter described at point 3 and 4 in the *Basis for Qualified Opinion*, the separate financial statements present fairly, in all material respects, the financial position of Turism, Hoteluri, Restaurante Marea Neagră SA Mangalia as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with Accounting Law no. 82/1991, republished, including subsequent amendments and additions, Order of the Minister of Public Finance of Romania no. 881/2012 on application by companies whose securities are admitted to trading on a regulated market of International Financial Reporting Standards and the Order of the Minister of Public Finance no. 2844/2016 for approval of the Accounting Regulations in accordance with International Financial Reporting Standards, including subsequent amendments and additions.

Basis for qualified opinion

4. Based on tests for audit on the accuracy and completeness of the company estimates relating to the provision constituted on December 31, 2017, we have identified the need for the recognition of additional provisions for litigation in the sum of 434,252 RON and provisions for not taken holidays of 175,151 RON, of a total of 609,403 RON, which would affect the result for the year 2017. According to IAS 37 Provisions, contingent liabilities and contingent assets which require that a provision should be recognized in the accounts when and only when: (i) an entity has a current obligation generated by an event; (ii) it is likely that an output of resources which affect the economic benefits is necessary in order to fulfill the obligation in question; (iii) may be carried out as a reliable estimate of the amount of the obligation.

5. On December 31, 2017, the Company has not quantified and presented the impairment of financial fixed assets represented by the titles of shares in the company Transylvania Hotels & Travel Bucharest (in insolvency), as well as trade receivables held from this company for the estimated amount of to 394,693 RON, as required by the International Financial Reporting Standards as an asset to be impaired if it is found that the index of depreciation. In our opinion these treatments are not in accordance with the requirements of International Financial Reporting Standards which provides that the assets of the nature of the financial assets valued at depreciable cost, the receivables should be presented in the balance sheet at the input value less without the cumulative adjustments for loss of value. The estimated value, which should affect the result for the year, for the purpose of diminishing the value of the fixed assets is 2,432,010 RON and diminishing the commercial receivables – 394,693 RON, respectively, a total of 2,826,703 RON.

6. We conducted our audit in accordance with International Standards on Auditing ("ISA"), the EU Regulation No 537 of the European Parliament and of the Council of the European Parliament (the "Regulation") and the Law no. 162/2017 ("the law"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. We consider that the audit evidences we have obtained are sufficient and appropriate in order to form a basis for our audit opinion.

Emphasis of matters

7. Without further qualifying our opinion on the separate financial statements prepared by the Company for the financial year ended December 31, 2017, we consider necessary to present the existence of litigations - as disclosed in Note 24 "Contingencies" may involve risks of ownership of assets, along with evidence of losses from other operating activities, as the litigation against Mangalia Tax Department and Eforie Tax Department which highlights the risk of increasing debts and additional penalties beyond the amounts recognized and assumed by the Company as at December 31, 2017 depending on evolution of the litigation.

Key audit matters

8. The key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters.

i) Revenue recognition

At the level of revenue recognition there are risks of material misstatements like the situations where there may not be recognized by the company's management in accordance with applicable accounting regulations. There may be risks both in terms of the amount of revenue recognized as well as the time of their recognition of possible significant material misstatements regarding the application of the principle of accrual-based accounting.

Our response to these risks of material misstatements have resulted in performing audit procedures with the purpose of: analysis of contracts, testing the revenue recognition method in accordance with the contract clause, to obtain sufficient audit evidence and adequate both in connection with the recognition of revenue, but also with accuracy assertions testing.

ii) Valuation of receivables

According to the applicable accounting regulations, requirements management achieves assertions concerning the assessment of receivables at the reporting date, presenting them at the value at which they are expected to be completed.

Our response concerning the risks of material misstatement relating to the management of the company related to the valuation of such receivables at the reporting date, resulted in audit procedures whereby we tested the recognition of doubtful receivables as well as tests for the recalculation of the provisions for doubtful receivables, for those receivables whose due date had been exceeded by more than a year, i.e. claims involved in litigation.

Material misstatements identified in these tests led us, moreover, to amend the opinion as a result of significant material misstatements.

iii) Valuation of tangible assets

The management's assertions regarding the valuation of tangible fixed assets can pose risks of significant material misstatements that would manifest itself in the sense of the non-provision of applicable accounting regulation to assessment in accordance with IAS 16 "Tangible assets", at the time of reporting.

Our response to these risks of misstatements regarding the valuation, meant using tests by which we observed the nature of expenditure capitalised into the cost of the upgraded asset during the year 2017.

We had in mind the risks identified in accounting treatments presented by the company in the preceding financial years in connection with the refurbishment carried out on the existing tangible asset that existed at the reporting date, and we performed procedures whereby we obtained reasonable assurance that there are no significant material misstatements with respect to these assertions.

iv) *Continuity of activity*

The management of the entity is responsible for the evaluation and assessment of preconditions for the continuity in the establishment of the financial statements.

Our response was the understanding of the existing risk of material misstatements in connection with the management's assertion regarding on-going concern and we analyzed aspects of developments, the budget of income and expenditure for the financial year approved for 2018, we have examined the records and the minutes of the Management Board and the General meetings of shareholders, as well as existing assumptions for tourist season for 2018.

All of this led us to the assessment that:

- presumption of going concern in the preparation of the annual financial statements, assumed by the company's management, is adequate; and
- we have not identified any significant uncertainty that could question the company's ability to continue working, in the foreseeable future.

Other Information – Management Report

9. Directors are responsible for compiling and presenting other information. That other information includes the Directors' Report but does not include the financial statements and the auditor's report thereon.

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

In relation to the audit of the individual financial statements for the year ended at December 31, 2017, it is our responsibility to read that other information and, by doing so, to assess whether that other information is materially inconsistent with the financial statements or with this knowledge that we obtained during the audit whether they appear to be significantly denatured.

As far as the Directors' Report is concerned, we have read and reported that it has been prepared in all significant aspects in accordance with Order of the Minister of Public Finance no. 2844/2016 for approval of the Accounting Regulations in accordance with International Financial Reporting Standards, chapter III, points 15-20.

On the sole basis of the activities to be carried out during the audit of the financial statements, in our opinion:

- a) The information presented in the Directors' Report for the financial year for which the financial statements have been prepared is consistent, in all significant aspects, with the financial statements;
- b) Directors' Report has been prepared in all significant aspects in accordance with Order of the Minister of Public Finance no. 2844/2016 for approval of the Accounting Regulations in accordance with International Financial Reporting Standards, chapter III, points 15-20.

In addition, based on our knowledge and understanding of the Company and its environment, acquired during the audit of the separate financial statements for the year ended December 31, 2017, we are required to report whether we have identified significant misstatements in the Directors' Report. We have nothing to report on this issue.

Other matters

10. This independent auditor's report is addressed exclusively to the shareholders of the Company. Our audit was conducted in order to be able to report to the shareholders in accordance with the reporting requirements of a financial audit, and not for other purposes. To the extent to which the law allows it, we do not accept and assume any responsibility except for the Company and its Shareholders in respect to our audit, to the report on the separate financial statements and the report on conformity or the opinion.

11. The annexed financial statements are not meant to show the financial position, the financial performance and a complete set of notes to the separate financial statements in accordance to accounting regulations and principles in other countries and jurisdictions than Romania. Therefore, the annexed separate financial statements are not for the use of persons who are not familiar with legal regulations in Romania, including OMFP no. 881/2012 on application by companies whose securities are admitted to trading on a regulated market of International Financial Reporting Standards and OMFP no. 2844/2016 for the approval of the accounting regulations in accordance with International Financial Reporting Standards.

Responsibility of management and those responsible for governance for financial statements

12. Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with the Accounting Law no. 82/1991, republished, including subsequent amendments and additions, Order of the Minister of Public Finance of Romania no. 881/2012 on application by companies whose securities are admitted to trading on a regulated market of International Financial Reporting Standards and the Order of the Minister of Public Finance no. 2844/2016 for approval of the Accounting Regulations in accordance with International Financial Reporting Standards and for internal control that management deems necessary to enable it to prepare financial statements free of material misstatement, whether due to fraud or error.

13. In preparing the financial statements, management 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

15. Our objectives are to obtain reasonable assurance that the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to the issuance of an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISA will always detect significant misstatement, if any exists. 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 made on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the 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 management.
- Conclude on the appropriateness of management's 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 auditor's report to the related disclosures in the 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 auditor's 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

17. 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.

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

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

20. We were appointed by the General Meeting of Shareholders at the date of April 20, 2017, as a result of a public selection of tenders in the statutory audit, for the audit of the financial statements of the Company for the financial year ended on December 31, 2017. The total uninterrupted period of our commitment is 7 years, covering the financial years from December 31, 2011 to December 31, 2017.

We confirm that:

- Our audit opinion is in accordance with the additional report presented to the Audit Committee of the Company, which we have issued on the same date in which we have delivered this report. Also, in the conduct of our audit, we have kept the independence regarding the audited entity.
- We have not provided the Company with prohibited non-audit services, as referred to Article no. 5 paragraph (1) of the EU Regulation No 537/2014.

Timișoara, March 20, 2018

On behalf of A.B.A. AUDIT SRL

Registered with the Chamber of Financial Auditors from Romania
No. 305/23 December 2002

Dr. Dumitrescu Alin Constantin

Registered with the Chamber of Financial Auditors from Romania
No. 4227/29 February 2012