

10678/05.09.2014

**EXPLANATORY MEMORANDUM REGARDING THE CALLING OF THE ORDINARY AND EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS**

The Special Administrator of Societatea Asigurare-Reasigurare Astra S.A., KPMG Advisory S.R.L., with the registered office in Bucharest, Șos. București-Ploiești, no. 69-71, sole registration code no. 13204347, registered with the Trade Register Office of the Bucharest Tribunal under no. J40/6657/2000, district 1 („Special Administrator”), mandated to act as a special administrator by the Financial Supervisory Authority (“ASF”) under Decision no. 42/2014 on the opening the financial recovery procedure through special administration of Societatea Asigurare-Reasigurare Astra S.A., a company managed under a two-tier system, with the registered office in Bucharest at str. Nerva Traian no. 3, building M101, 10<sup>th</sup> floor, district 3, registered with the Trade Register Office of the Bucharest Tribunal under no. J40/305/1991, sole registration code no. 330904 (the “Company”), decision that was published in the Official Journal of Romania, Part I, no. 120 of 18.02.2014 (“Decision 42/2014”),

Has decided to call the Ordinary and Extraordinary General Meeting of Shareholders according to Decision no. 29/01.09.2014 of the Special Administrator, in consideration of the following.

- **Calling of the Ordinary General Meeting of Shareholders**

The Company is currently under financial recovery procedure by special administration and depends on the successful implementation of the measures proposed and undertaken by the Special Administrator in the exercise of its mandate as granted by the ASF under Decision 42/2014.

The Special Administrator performed a long and complex analysis of Company’s financial position, which was the basis for the recovery plan submitted to ASF. **The accounting records underlying the financial statements as of 31 December 2013 have been corrected** to reflect the results of this analysis, of the inventory process of claims files and receivables from insurance activities imposed under Decision no.42 as well as of the audit carried out by independent auditor Deloitte Audit S.R.L.

The Auditor’s report on the individual financial statements **does not include qualifications related to amounts disclosed in the Company’s balance sheet as at 31 December 2013, prepared in accordance with the accounting regulations applicable to Romanian insurance companies acting as a going concern.**

**Due to the uncertainties existing in connection with the procedure and time limits for the implementation of recovery measures, the Auditor concluded that it could not express an opinion related to the Company’s going concern.** However, the Auditor’s report does not include an adverse opinion, which, according to International Standards on Auditing (“ISA”) is issued when the Auditor concludes that “*misstatements, individually or in the aggregate, are both material and pervasive to the financial statements*” (quoting ISA 705 “Modifications to the Opinion in the Independent Auditor’s Report”, paragraph 8).

Thus, the audit opinion on the Company’s individual financial statements is a “*Disclaimer of opinion*” provided by the standards, applicable when “the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion” (quoting ISA 705, paragraph 9). In such an instance, the auditor concludes that “*the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive*” (quoting ISA 705 “Modifications to the Opinion in the Independent Auditor’s Report”, paragraph 9).

**Therefore, the Company’s auditor informs the users of the financial statements that it does not hold sufficient evidence to state whether the financial statements should have been prepared on the basis of liquidation principle,** requiring as a consequence the adjustment of assets to a forced sale value. The auditor does not state that the Company should have prepared a liquidation balance sheet, in which case it would have expressed an adverse opinion, according to previous definition.

**The company is currently implementing the recovery measures proposed and undertaken by the Special Administrator in exercising the mandate given by ASF, a GMS resolution having been adopted for delegating to the Special Administrator the duty to increase the Company’s share capital according to applicable legal provisions and steps have been taken to attract strategic investors.**

**As a conclusion, the financial statements as at 31 December 2013 have been prepared on a going concern basis, in line with the recovery plan proposed by the Special Administrator according to the mandate granted**

by ASF, and the balance sheet as at 31 December 2013 presents the financial position of the Company in line with accounting regulations applicable to Romanian insurance companies acting as a going concern.

It should be noted that the main issues taken into consideration in preparing the Company's income and expenses budget for 2014 financial year are presented in a separate explanatory note.

• **Calling of the Extraordinary General Meeting of Shareholders:**

The Special Administrator's decision to call the Extraordinary General Meeting of Shareholders was taken in order to fulfill the legal obligation which is binding on Special Administrator according to art. 153<sup>24</sup>, paragraph 1 of Company Law no. 31/1990, as subsequently amended and supplemented, pursuant to which "If the board of directors, managing board respectively, establishes that following certain losses as determined under the annual financial statements approved according to the law, the company's net asset determined as the difference between total assets and total liabilities has diminished to less than half of the subscribed share capital value, it shall promptly call the extraordinary general meeting to decide whether the company must be dissolved."

However, as stated above, the Company is subject to a financial recovery process and is dependent on the successful implementation of the measures proposed and undertaken by the Special Administrator in exercising the mandate granted by the ASF.

The recovery plan seeks to avoid the bankruptcy procedure, and also to achieve the Company's recovery through measures meant to restore its liquidity and solvency, according to realistic and operational measures identified, taking into consideration the applicable economic constraints, the cumulative legal requirements for insurance activities, the stock market and legal entities as well as the complex diagnosis of the Company's worsened, generalized symptoms, accruing over time.

At present, the first share capital increase by RON 70 Million from existing shareholders is in progress. Discussions are concurrently held with a number of potential strategic investors for a second share capital increase by an amount that will supplement the contribution of existing shareholders from the first stage of share capital increase, up to a total of RON 490 Million, if the existing shareholders do not exercise their preference right during the second stage.

Following the net accounting loss of RON 917 Million recorded as at 31 December 2013, the Company registered a net accounting profit of RON 15.8 Million for the first six months of 2014. Also, according to the Income and Expenses Budget for 2014, the Company estimates the financial year 2014 to close on a net accounting profit position.

**In conclusion, the Special Administrator considers that there are prerequisites for continuing the implementation of the recovery plan proposed and undertaken in the exercise of the mandate granted by the ASF, and the Special Administrator's firm recommendation is that the Company should not be dissolved in light of the provisions of art. 153<sup>24</sup>, par 1 under Company Law no. 31/1990, as subsequently amended and supplemented.**

**SOCIETATEA ASIGURARE - REASIGURARE ASTRA S.A.**

Through Special Administrator

KPMG Advisory S.R.L.

By Proxy

