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## **INDEPENDENT AUDITOR'S REPORT**

**To the shareholders of  
Chimimport AD  
2, Stefan Karadja Str.,  
1000 Sofia, Bulgaria**

### **Report on the Audit of the Consolidated Financial Statements**

#### **Opinion**

We have audited the consolidated financial statements of Chimimport AD and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017 and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU and Bulgarian legislation.

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated 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), together with the ethical requirements of Bulgarian Independent Financial Audit Act, and we have fulfilled our other responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Key Audit Matters**

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

Impairment of bank loans granted to clients	
Note 13.1 and 16.1 to the consolidated financial statements	
Key audit matter	How this matter was addressed during the audit
<p><b>Impairment of loans and advances</b></p> <p>The Group records allowances for uncollectability of loans and advances in accordance with IFRS. The balance of the allowances for impairment and uncollectability of loans and advances was BGN 118 330 thousand as of 31 December 2017.</p> <p>The valuation of loans and advances depends on the credit risk associated to the borrower. When there is objective evidence that a loan may not be fully recovered in accordance with the contractual terms, the credit risk and the loan valuation is assessed on individual and collective basis according to the Group's policies and procedures. In determining the necessary allowances, management applies judgment regarding the factors it considers relevant. These factors include the financial condition of the borrower, the realization period and value of collateral, the expected cash flows from the borrower's activity, the local economic environment, the structure of the loan portfolio and the past experience in respect to overdue receivables.</p> <p>Due to the significance of the valuation of loans and advances for the consolidated financial statements, and due to the fact that the assumptions in determining the allowances for uncollectability by definition include significant estimates, we identified impairment calculation for loans and advances as a key audit matter.</p>	<p>Our audit procedures were focused on the following:</p> <p>We obtained understanding of the processes and policies for determination of impairment of loans and advances, applied by the Group.</p> <p>We assessed the adequacy of the policies, procedures and implemented controls in the process for compliance with IFRS and industry's best practices.</p> <p>We evaluated the design and implementation of controls, as well as their operating effectiveness.</p> <p>We challenged management's classification of loans and identification of impairment by selecting a sample of loans from the portfolio and performing detailed substantive procedures to verify the classification and amount of the loans. We analysed the financial condition of the borrowers and enquired about any breaches of the terms and conditions of the contract. We have considered the impact of the current economic conditions, the valuation of assets held as collateral, and other factors that may affect the recoverability of loans and advances included in our sample.</p> <p>We applied our professional judgment to assess the inputs used in the calculation of impairment losses.</p> <p>We evaluated management's calculation of impairment losses by applying our professional judgement to independently determine estimates and comparing them to the estimates applied by the Group.</p> <p>We evaluated the adequacy of disclosures in the consolidated financial statements, including disclosures of the main assumptions and estimates.</p>

Impairment of goodwill	
Note 11 to the consolidated financial statements	
Key audit matter	How this matter was addressed during the audit
<p>As of 31 December 2017, the Group's goodwill amounts to BGN 32 307 thousand.</p> <p>We focused on management's estimates used for impairment testing because of the significant assumptions required to predict the expected future cash flows and the applicable discount factors when calculating the recoverable amount of cash-generating units.</p>	<p>During our audit, our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>- assessment of the relevance of key assumptions, including discount factors, expected growth, and other key performance indicators, with our internal valuation experts, by comparing with average market performance of companies with similar activity and the Group's current financial performance;</li> <li>- analysis of the management calculations related to sensitivity;</li> <li>- assessment of the adequacy of the disclosures of consolidated financial statements, including the disclosures for main assumptions, judgements and sensitivity.</li> </ul>

Fair value assessment of investment property	
Note 10 to the consolidated financial statements	
Key audit matter	How this matter was addressed during the audit
<p>As of 31 December 2017, the Group's investment property amounts to BGN 405 502 thousand.</p> <p>We focused on management's judgment on the fair value measurement of investment properties because of their size and the significant assumptions used to determine their fair value. Property estimates contain significant assumptions, such as expected rental income, discount factors, employment rates, market transaction information, market assumptions, and others.</p>	<p>During our audit, our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>- analysis of the objectivity, independence and professional experience of the external valuation specialists used by the Group;</li> <li>- verifying the accuracy of incoming data related to the investment properties used in the valuations;</li> <li>- assessment and analysis of the relevance of key management assumptions about expected rental income, discount factors, employment rates, market transaction information, market assumptions, and others;</li> <li>- assessing the adequacy of the disclosures in the consolidated financial statements, including disclosures of the underlying assumptions and judgments about the fair value of investment property.</li> </ul>

#### **Information Other than the Consolidated Financial Statements and Auditor's Report Thereon**

Management is responsible for the other information. The other information comprises the annual consolidated management report, including the consolidated corporate governance statement, the consolidated non-financial declaration and the consolidated report on payments to governments, prepared in accordance with Bulgarian Accountancy Act, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or whether our knowledge obtained in the audit may indicate that there is a material misstatement or otherwise the other information appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU and Bulgarian legislation, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

#### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 and Bulgarian Independent Financial Audit Act 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 consolidated financial statements.

As part of our 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 consolidated 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 Group’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 Group’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 consolidated 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 Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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 to 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 consolidated 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**

In addition to our responsibilities for reporting under ISAs, described above in section “Information Other than the Consolidated Financial Statements and Auditor’s Report Thereon”, regarding annual consolidated management report, including the consolidated corporate governance statement, the consolidated non-financial declaration and the consolidated report on payments to governments, we have performed the additional procedures contained in the Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria - Institute of Certified Public Accountants (ICPA). The procedures on the existence, form and contents of the other information have been carried out in order to state whether the other information includes the elements and disclosures in accordance with Chapter Seven of Bulgarian Accountancy Act and Article 100m, paragraph (10) in relation to Article 100m, paragraph (8), subparagraphs (3) and (4) of Bulgarian Public Offering of Securities Act.

### ***Statement Pursuant to Article 37, Paragraph (6) of Bulgarian Accountancy Act***

Based on the procedures performed, we describe the outcome of our work:

- (a) the information in the consolidated management report is consistent with the consolidated financial statements for the same reporting period;
- (b) the consolidated management report is prepared in accordance with the applicable legal requirements, apart from the following:

- information included in the consolidated activity report according to item 17 of Annex 10 to Ordinance 2 / 17.09.2003 in relation to Art. 100 (n), para 5 of POSA is incomplete.
- (c) as a result of the acquired knowledge and understanding of the activities of the Group and the environment in which it operates, we have found no cases of material misrepresentation in the consolidated management report;
- (d) the consolidated corporate governance statement for the financial year contains the required information in accordance with the applicable legal requirements, including Article 100m, paragraph (8) of Bulgarian Public Offering of Securities Act;
- (e) the consolidated non-financial declaration is prepared and made available in accordance with the requirements of Bulgarian Accountancy Act;
- (f) the consolidated report on payments to governments is and made available in accordance with the requirements of Bulgarian Accountancy Act.

**Statement Pursuant to Article 100m, Paragraph (10) of Bulgarian Public Offering of Securities Act**

Based on the procedures performed and our knowledge of the Group and the environment in which it operates, in our opinion, there is no material misstatement in the description of the main characteristics of the internal control system and of the risk management system of the Group in connection with the financial reporting process and also in the information pursuant to Article 10, paragraph 1, items "c", "d", "f", "h" and "i" of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids, which are included in the consolidated corporate governance statement, being a component of the annual consolidated management report.

**Reporting Pursuant to Article 59 of Bulgarian Independent Financial Audit Act in relation to Article 10 of Regulation (EC) № 537/2014**

In accordance with the requirements of Bulgarian Independent Financial Audit Act and in relation with Article 10 of Regulation (EC) № 537/2014, we report additionally the information as follows:

- Grant Thornton OOD was appointed as statutory auditor of the financial statements of Chimimport AD for the year ended on 31 December 2017 by the general meeting of shareholders, held on 27.06.2017, for a period of one year.
- The audit of the consolidated financial statements of the Group for the year ended on 31 December 2017 has been made for sixteenth consecutive year.
- In support of our audit opinion, we have provided a description of the most significant assessed risks of material misstatement, a summary of the auditor's response and where relevant, key observations arising with respect to those risks in the section „Key audit matters“ of this report.
- We confirm that our audit opinion is consistent with the additional report to the audit committee, which was provided in accordance with Article 60 of Bulgarian Independent Financial Audit Act.
- We declare that prohibited non-audit services referred to in Article 64 of Bulgarian Independent Financial Audit Act were not provided.
- We confirm that we remained independent of the Group in conducting the audit.
- For the period for which we were engaged as statutory auditors, we have not provided any other services to Chimimport AD and its subsidiaries in addition to the statutory audit, which have not been disclosed in the management report or financial statements.

**Mariy Apostolov**  
Managing partner

**Grant Thornton Ltd.**  
Audit firm

30 April 2018  
Bulgaria, Sofia

**Zornitza Djambazka**  
Registered auditor responsible for the audit

