

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Neochim AD

Report on the Audit of the Separate Financial Statements

Qualified Opinion

We have audited the separate financial statements of Neochim AD (the Company), which comprise the separate statement of financial position as at 31 December 2016, and the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects on the corresponding figures of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union (EU).

Basis for Qualified Opinion

The comparative information in the separate statement of comprehensive income for 2016 includes impairment loss on an exposure to a foreign subsidiary at the amount of BGN 6,906 thousand. Due to the fact that indications for the impairment thereof existed also as at 1 January 2015, we were unable to satisfy ourselves as to whether and to what extent the stated impairment loss of BGN 6,906 thousand should have been taken in full to the financial result for 2015, as well as about the impact of this circumstance on the amount of retained earnings from prior years as at 1 January 2015. Our audit opinion on the separate financial statements for year 2015 was modified accordingly. Our opinion on the current year's financial statements is also modified because of the possible effect of this matter on the corresponding figures in the separate statement of comprehensive income for 2016.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards 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 the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the separate financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Information Other than the Separate Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the management report and the corporate governance statement, prepared by management in accordance with Chapter Seven of the Accountancy Act, 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 we do not express any form of assurance conclusion thereon, unless and to the extent explicitly specified in our report.

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.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

As described in the *Basis for Qualified Opinion* section above, we were unable to obtain sufficient appropriate audit evidence about the impairment loss stated in the comparative information in the separate statement of comprehensive income and the impact of this circumstance on the reported financial result for 2015 and on the amount of retained earnings from prior years as at 1 January 2015. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

Other Matters

Because of the matter, described in the *Basis for Qualified Opinion* section above, on 22 March 2016, we issued an auditors' report with a qualified opinion on Company's separate financial statements for 2015.

This auditors' report also included a qualification with regard to an exposure to a foreign subsidiary at carrying amount of BGN 2,052 thousand as at 31 December 2015. In 2016 additional facts and events occurred, which provided us with additional assurance and evidence for our assessment of the assumptions and judgments of the management regarding the projections made in relation to this subsidiary exposure at that date. Therefore, we have not included a qualification on the corresponding figures as at 31 December 2015 in the separate statement of financial position, and our opinion is not modified with regard to this matter in the present auditors' report.

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.

In addition to the matter described in the *Basis for Qualified Opinion* section above, we have determined the matters described below to be key audit matters to be communicated in our report.



Key audit matter**How this key audit matter was addressed in our audit***1). Measurement of investments and receivables from subsidiaries*

As disclosed in Notes 14 and 17 to the separate financial statements, the Company has investments in foreign subsidiaries, including also trade receivables from these companies – related parties at the total amount of BGN 1,461 thousand (31 December 2015: BGN 2,052 thousand). For part of these receivables there are impairment indications for their timely and full collection.

When calculating the impairment of the investments in subsidiaries and the doubtful and uncollectable receivables from them, significant judgments are used with regard to the assessment of the amounts future collectability by analysing and assessing the return on the overall exposure of the Company to these parties. For the purposes of impairment calculation the Company uses the discounted future cash flows method. The latter are determined by the management by taking into account a number of factors, specific for the particular counterpart company, such as: concluded settlement agreements, past experience with this company, quantities of finished products ordered by clients-third parties to the respective subsidiary within the next calendar year and projected selling prices, expected growth in the volume of sales in subsequent reporting periods, appropriate discount rate, etc.

In addition, based on the management's judgement, part of the investment in subsidiaries is impaired in full.

Due to the circumstances that: (a) the process of estimating the impairment losses from Company's exposure to its foreign subsidiaries assumes a number of judgments, higher degree of subjectivity in the projection assumptions and specific calculations of the impairment amount by the management; (b) the significance of the reporting item itself for the Company's separate financial statement as noted above, and (c) the fact that our auditors' opinion for 2015 was modified on this matter we have determined this matter as a key audit matter.

In this area, our audit procedures comprised:

- Consideration and evaluation of the Company's analyses on its overall exposure to the foreign subsidiaries and its potential of return by applying the discounted future cash flows method;
- Analytical procedures as to the receivable ratios from these companies in prior and the current years as well as after the reporting period;
- Inspection of documents for facts and circumstances related to the collectability of receivables – the financial position of the companies, their counterparts and ability to generate cash flows;
- Analyses and assessment of appropriateness of the key judgments and assumptions, used by Company's management, including the discount rate used in the application of the discounted cash flows model, and also, comparison with historical data, identified trends and documents for future arrangements and plans;
- Consideration and evaluation of Company's analyses on prior year's future cash flow projections of foreign subsidiaries versus their actual performance during the current year and the updated projections. Recalculation of the effects on the opening balances for 2016 of its overall exposure to these subsidiaries.
- Comparison of the used discount rate with data about the market levels of similar items;
- Recalculation of the material amounts, recognised as impairment, on the basis of the model adopted by Company's management;
- Examination with an increased level of scepticism of the key assumptions used in the calculations and their sensitivity analysis in order to assess the impact on the determined impairment and the carrying amount of Company's exposure to these companies;

Key audit matter	How this key audit matter was addressed in our audit
	<ul style="list-style-type: none"> • Inspection of documents referring to the cash proceeds from subsidiaries in 2017 up to the date of the approval of these separate financial statements; • Assessment and testing of the completeness, appropriateness and adequacy of the disclosures in Company's separate financial statements with regard to the measurement of investments and receivables from foreign subsidiaries.
<p><i>2). Measurement of investments in specific projects for construction of non-current assets</i></p> <p>As disclosed in Note 13 to the separate financial statements, the Company implements an investment program for the construction of new non-current tangible assets according to which there are several projects under construction that are specific in their nature and supporting to the Company's main activities at the total amount of BGN 2,543 thousand (31 December 2015: BGN 4,380 thousand). Their ultimate feasibility depends also on a number of market, regional, regulatory and legislative requirements and changes, which requires from Company's management to revise periodically its judgments as to their execution, continuation or termination.</p> <p>In the end of 2016, the management revised its plans, expectations and evaluation about the efficiency from the implementation of some projects under construction, and ceased their further execution. As reasons for such revision, it pointed out the occurrence of certain facts and circumstances that, in the management position, require changes in their strategy and priorities in development of new technical projects and operations of the Company. The effects from ceasing these projects are reported in Note 8 of the separate financial statements for 2016 – BGN 2,022 thousand.</p> <p>Due to: (a) the degree of subjectivity and complexity of the management judgments as to the technical and commercial risks, implications and benefits from and in relation to the feasibility of the</p>	<p>In this area, our audit procedures comprised:</p> <ul style="list-style-type: none"> • Identification and review of projects for construction of non-current assets for which no investments have been made for a period of more than twelve months as at 31 December 2016; • Inquiries of Company's technical and financial experts and discussing in details the economic feasibility of the projects, justification and effects on their implementation as per the Company's investment program, and existing and expected regulatory requirements; • Consideration and analysis of the adequacy of the technical expert opinions, prepared by an internal commission, as to the stage of completion, the plans and capabilities for the implementation of each project commenced, upon an updated cost/benefits assessment, including comparison with previous opinions of experts and Company's management; • Testing and assessment of the completeness, appropriateness and adequacy of the disclosures in the Company's separate financial statements with regard to the presentation and valuation of Company's investments in projects for construction of non-current assets.

<i>Key audit matter</i>	<i>How this key audit matter was addressed in our audit</i>
above-described projects, as well as (b) the materiality of their carrying amounts, we have determined as a key audit matter the economic feasibility and the recoverable amount of projects, commenced by the Company.	

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

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with IFRSs, as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate 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.

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

Auditors' Responsibilities 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 International Standards on Auditing (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 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 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 will 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 which have been 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 of information 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

Additional Matters to be Reported under the Accountancy Act and the Public Offering of Securities Act

In addition to our responsibilities and reporting in accordance with ISAs, described above in the *Information Other than the Separate Financial Statements and Auditors' Report Thereon* section, in relation to the management report and the corporate governance statement, we have also performed the procedures added to those required under ISAs in accordance with the Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA), issued on 29 November 2016. These procedures refer to testing the form and content of this other information to assist us in forming an opinion about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act (Art. 100m, paragraph 10 of the POSA in conjunction with Art. 100m, paragraph 8(3) and (4) of the POSA) applicable in Bulgaria.



Opinion in connection with Art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, our opinion is that:

- The information included in the management report referring to the financial year for which the separate financial statements have been prepared is consistent with the separate financial statements on which we have expressed a qualified opinion in the *Report on the Audit of the Separate Financial Statements* above.
- The management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100(m), paragraph 7 of the Public Offering of Securities Act.
- The corporate governance statement referring to the financial year for which the separate financial statements have been prepared presents the information required under Chapter Seven of the Accountancy Act and Art. 100 (m), paragraph 8 of the Public Offering of Securities Act.

Opinion in connection with Art. 100(m), paragraph 10 in conjunction with Art. 100(m), paragraph 8(3) and (4) of the Public Offering of Securities Act

Based on the procedures performed and the knowledge and understanding obtained about Company's activities and the environment in which it operates, in our opinion, the description of the main characteristics of Company's internal control and risk management systems relevant to the financial reporting process, which is a component of the content of the corporate governance statement and the information under Art. 10 paragraph 1(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, do not contain any material misrepresentations.

Additional Reporting on the Audit of the Financial Statements in connection with Art. 100(m), paragraph 4(3) of the Public Offering of Securities Act

Statement in connection with Art. 100(m), paragraph 4(3)(b) of the Public Offering of Securities Act

The information about related-party transactions is disclosed in Note 35 to the separate financial statements. Based on the audit procedures performed by us on related party transactions as part of our audit of the separate financial statements as a whole, no facts, circumstances or other information have come to our attention based on which to conclude that the related party transactions have not been disclosed in the accompanying separate financial statements for the year ended 31 December 2016, in all material respects, in accordance with the requirements of IAS 24 *Related Party Disclosures*. The results of our audit procedures on related party transactions were addressed by us in the context of forming our opinion on the separate financial statements as a whole and not for the purpose of expressing a separate opinion on related party transactions.

Statement in connection with Art. 100(m), paragraph 4(3)(c) of the Public Offering of Securities Act

Our responsibilities for the audit of the financial statements as a whole, described in the *Auditors' Responsibilities for the Audit of the Separate Financial Statements* section of our report include an evaluation as to whether the separate financial statements present the significant transactions and events in a manner that achieves fair presentation. Based on the audit procedures performed by us on the significant transactions underlying the separate financial statements for the year ended 31 December 2016, no facts, circumstances or other information have come to our attention based on which to conclude that there are material unfair presentations and disclosures in accordance with the relevant requirements of IFRSs as adopted by the European Union. We have considered the results of our audit procedures on the Company's significant transactions and events underlying the separate financial statements in forming our opinion on the separate financial statements as a whole and not for the purpose of expressing a separate opinion on those significant transactions.

Deloitte Audit OOD

Deloitte Audit OOD

Audit Firm

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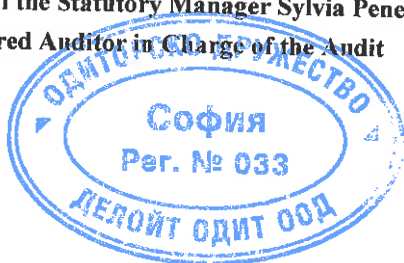
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Desislava Dinkova

Proxy of the Statutory Manager Sylvia Peneva

Registered Auditor in Charge of the Audit



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Valia Iordanova Iordanova

General Manager

Registered Auditor in Charge of the Audit

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Valentina Todorova Brankova

Registered Auditor in Charge of the Audit

24 March 2017

Sofia

This is a translation from Bulgarian of the Independent Auditors' Report on the Separate Financial Statements of Neochim AD for the year ended 31 December 2016.