

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of NEOCHIM AD

Report on the Audit of the Separate Financial Statements

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 2019, 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, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, 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 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 Separate Financial Statements* section of our report. We are independent of the Company in accordance with the *International Code of Ethics for Professional Accountants* (including the International Independence Standards) of the International Ethics Standards Board for 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 opinion.



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. For each matter included in the table below, the description of how this matter was addressed in our audit was made in this context.

<i>Key audit matter</i>	<i>How this key audit matter was addressed in our audit</i>
<p><i>Management's judgement on the impact of price factors on Company's operations. Going concern.</i></p> <p><i>Note 2.28.1, Note 5 and Note 25 to the separate financial statements and Section VII, item 12 of the Management Report.</i></p>	<p>In this area, our audit procedures comprised, among others:</p> <ul style="list-style-type: none">• Obtaining updated understanding on the statutory approval and state regulation of the two main price factors, natural gas price and carbon emission quotas price, including regarding subsequent changes after the reporting date. Examination of legislative documents, contracts, other relevant documentation and correspondence.• Examination of the Company's policy to manage the risk of the two price factors to its operations.• Examination and analysis of the effects of the impact of the two price factors on the cost structure, financial results stated, and the structure of cash flows. Inspection of internal calculation documents and discussions with the responsible persons.• Acquaintance with management's plans and estimates for mitigating the negative impact of the above-mentioned facts on the Company's results and cash flows. Inspection of internal documents. Meetings and discussions with management

IFRS adopted by EU require from the Board of Directors (management) that the Company's financial statements be prepared on the going concern basis. As disclosed in Note 2.28.1, the management has determined that the going concern basis is valid because it takes all necessary measures, in a timely manner, for the Company to maintain the viability of its business in the future.

As part of this assessment the management considers and analyses the impact of two key price factors – natural gas price and carbon emission quotas price, on the cash flows, cost (expenses) structure, respectively the significant fluctuations in the Company's financial results stated in the reporting periods.

These two risk price factors are beyond the Company's control but have a direct impact on managing the stability of its cash flows and of the key indicators of operating results thereof. On the one hand, the price of natural gas, which is the main raw material used in Company's production, is negotiated and regulated on a state and statutory level, and on the other hand – the payable for carbon emissions generated is covered by both

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<i>Key audit matter</i>	<i>How this key audit matter was addressed in our audit</i>
<p>free quotas, in accordance with an established state policy, and exchange-purchased carbon emission quotas.</p> <p>As a result of the combined simultaneous adverse impact of the two factors, in 2019, the Company stated a second consecutive annual loss, which is significant in amount – BGN 12,451 thousand, while the total losses stated in the last two years amount to BGN 31,608 thousand, respectively, cash outflows for these two components for the same period amount to BGN 384,442 thousand.</p> <p>Management's position and analyses, based on publicly available information regarding forthcoming changes and measures on a state level is that the negative impact of these two price factors will be overcome in the next few reporting years, and respectively, that the Company will be able to generate better profitability and cost structure, and save cash flows.</p> <p>Due to the inherent subjectivity, complexity and uncertainty of management's judgement and estimates regarding the forthcoming impact of these two significant price factors on the Company's cost structure, financial results and cash flow balance, we have determined this matter to be a key audit matter.</p>	<p>representatives regarding estimates and forecasts thereof.</p> <ul style="list-style-type: none"> • Critical review and assessment of the reasonableness of the assumptions of the Company's experts regarding potential scenarios for the future behaviour of the two price factors and the impacts on cost, financial results and cash flows in each scenario. Review of the management's sensitivity analysis and discussion thereon with management. • Tracking public information regarding the conducting and closing of international gas price negotiations, the price levels discussed and the enforcement periods. Analysis and assessment of the management's assumptions through the perspective of this information. • Examination of the regulatory changes and requirements planned regarding carbon emission pollution and the quotas related thereto. Analysis of the management's assumption through the perspective of this information. • Assessment of the appropriateness, completeness and relevance of disclosures in the separate financial statements regarding the two price factors, natural gas price and carbon emission quotas price, and the management's assessment of their impact on the Company's operating results and cash flows, its future viability – respectively – the appropriateness of the going concern basis.



Emphasis of Matter

We draw attention to *Note 42 to the separate financial statements*, disclosing a material non-adjusting event after the reporting date, related to the spread of the coronavirus (COVID-19) pandemic, its impact on the economic environment in Bulgaria and the uncertainties related thereto, as well as the management's position on the potential effects thereof on the Company's operations, financial position and results.

Information Other than the Separate Financial Statements and Auditor's 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 auditor's 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.

We have nothing to report in this regard.

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 applied 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.



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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.

Auditor's 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 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 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 scepticism 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 auditor's 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 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 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 auditor's 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 Auditor's 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 on new and expanded auditor's reports and auditor's communication* of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). 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. 100n, paragraph 10 of the POSA in conjunction with Art. 100n, paragraph 8(3) and (4) of the POSA) applicable in Bulgaria.



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

Based on the procedures performed, our opinion is that:

- a/ 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.
- b/ The management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100(n), paragraph 7 of the Public Offering of Securities Act.
- c/ 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 (n), paragraph 8 of the Public Offering of Securities Act.
- d/ The non-financial declaration referring to the financial year for which the separate financial statements have been prepared, is provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

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

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

The information about related-party transactions is disclosed in Note 40 to the separate financial statements. Based on the audit procedures performed by us on related party transactions as part of our



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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 2019, 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(n), 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 *Auditor's 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 2019, 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.

Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we hereby additionally report the information stated below.

- AFA OOD was appointed as statutory auditor of the separate financial statements of Neochim AD (the Company) for the year ended 31 December 2019 by the General Meeting of Shareholders held on 18 June 2019, for a period of one year.
- The audit of the separate financial statements of the Company for the year ended 31 December 2019 represents a seventeenth total consecutive statutory audit engagement for that entity carried out by AFA OOD.

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- We hereby confirm that the audit opinion expressed by us is consistent with the additional report submitted to the Company's Audit Committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that no prohibited non-audit services, referred to in Art. 64 of the Independent Financial Audit Act, were provided.
- We hereby confirm that in conducting the audit we have remained independent of the Company.

AFA OOD

AFA OOD

Audit Firm

Renny Georgieva Iordanova

General Manager

Legal Representative

Nadya Dimitrova Viachka

Registered Auditor in Charge of the Audit

6 April 2020

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