

INDEPENDENT AUDITOR'S REPORT

**TO
THE SHAREHOLDERS OF
UNION-GROUP AD**

Opinion

We have audited the consolidated financial statements of UNION-GROUP AD and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017, and the consolidated profit and loss statement, consolidated equity statement and consolidated cash flow statement for the year then ended, and note to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with National Accounting Standards (NAS) applicable in Bulgaria.

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 the Independent Financial Audit Act (IFAA) that are relevant to our audit of the consolidated 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.



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

Management of the Group is responsible for the other information. The other information comprises the consolidated management report prepared by management of the Group in accordance with Chapter Seven of the 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, unless and to the extent explicitly specified in our report.

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 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 this other information, we are required to report that fact.

We have nothing to report in this regard.

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the management report, we have also performed the procedures added to those required under ISAs in accordance with the Guidelines on new and enhanced 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 existence, 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 applicable in Bulgaria.

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 consolidated management report referring to the financial year for which the consolidated financial statements have been prepared is consistent with those consolidated financial statements.
- b) The consolidated management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

Responsibilities of Management for the Consolidated Financial Statements

Management of the Group is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with NAS applicable in Bulgaria 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.

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 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 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 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 and 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 are solely responsible for our auditor's opinion.

We communicate with management 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.


AFA OOD
Audit Firm


Valia Iordanova Iordanova
General Manager
Legal Representative


Renny Georgieva Iordanova
Registered auditor in charge of the audit

20 June 2018
38, Oboriste Street
1504-Sofia, Bulgaria

This is a translation from Bulgarian of the Independent Auditor's Report on the Consolidated Financial Statements of Union-Group AD for the year ended 31 December 2017.

UNION GROUP
PROFIT AND LOSS STATEMENT (consolidated)
for the year ended 31 December 2017

	Note	2017 BGN'000	2016 BGN'000
A. Expenses			
1. Expenses on raw materials, consumables and hired services, including:	6	16 268	19 354
a) raw materials and consumables		5 727	7 228
b) hired services		10 541	12 126
2. Personnel costs, including:	7	11 187	11 499
a) remuneration expense		4 901	4 607
b) social security contributions, including:		1 012	999
aa) related to pensions		187	768
c) other personnel costs		5 274	5 893
3. Depreciation/amortisation expense and impairment loss, including:		7 908	9 376
a) depreciation/amortisation expense and impairment loss on tangible fixed and intangible assets, including:		7 908	9 376
aa) depreciation/amortisation expense	11, 13, 14	7 175	7 294
bb) impairment loss		-	1 349
cc) amortisation and impairment of positive goodwill	5, 12	733	733
4. Other expenses, including:	8	9 478	12 836
a) carrying amount of assets sold		8 902	12 111
Total operating expenses (1 + 2 + 3 + 4)		44 841	53 065
5. Impairment loss on financial assets, including investments, recognised as current (short-term) assets	9	-	365
6. Interest expense and other finance costs, including:	9	982	665
a) interest expense and charges on loans		825	-
b) foreign currency exchange losses		135	641
c) foreign currency exchange losses		22	24
Total finance costs (5 + 6)		982	1 030
Total expenses (1 + 2 + 3 + 4 + 5 + 6)		45 823	54 095
7. Accounting profit for the year (total revenues - total expenses)		10 128	15 066
8. Tax expense on profit	10	(964)	(1 648)
9. Net profit for the year (7 - 8), including:		9 164	13 418
attributable to:			
Owners of the parent company		8 470	12 278
Minority interests		694	1 140
Grand total (Total expenses - 8 + 9)		55 951	69 161

B. Revenues

	Note	2017 BGN'000	2016 BGN'000
1. Net sales revenue, including:	3	53 245	66 696
a) services		32 132	35 314
b) finished goods		20 085	30 348
c) goods for resale		1 028	1 034
2. Other revenue, including:	4	1 775	1 356
a) grant income		66	68
b) sales of tangible fixed assets		959	69
3. Amortisation of negative goodwill	5, 12	31	31
Total operating revenues (1 + 2 + 3)		55 051	68 083
4. Interest income and other finance income, including:	8	900	1 078
a) interest income		898	1076
b) foreign currency exchange gains		2	2
Total finance income (4)		900	1 078
Total revenues (1 + 2 + 3 + 4)		55 951	69 161
Grand total (Total revenues)		55 951	69 161

The accompanying notes on pages 5 to 75 form an integral part of these financial statements.

Executive Director:
Todor Aleksandrov

Preparer:
Vania Papazova
(Chief Accountant)



AUDITED BY AFA
20/06/2018

UNION GROUP
BALANCE SHEET (consolidated)

as at 31 December 2017

	Note	31.12.2017 BGN'000	31.12.2016 BGN'000		Note	31.12.2017 BGN'000	31.12.2016 BGN'000
ASSETS				EQUITY AND LIABILITIES			
A. Non-current (long-term) assets				A. Equity			
I. Intangible assets				I. Subscribed capital			
1. Concessions, patents, licences, trademarks, software and other similar rights and assets	11	6 674	7 136			20 640	20 640
2. Goodwill	12	(574)	128	II. Legal reserves			
Group I total:		6 100	7 264			5 812	6 088
II. Tangible fixed assets				III. Accumulated profits from prior years			
1. Land and buildings, including:		7 573	8 848			145 570	136 699
- land		1 766	2 441	IV. Net profit for the year			
- buildings		5 807	6 407			8 470	12 278
2. Ships		31 764	35 027	Equity attributable to owners of the parent			
						180 492	175 705
3. Machines, production equipment and other assets		38 882	43 321	V. Equity non-attributable to the group (minority interests)			
4. Motor vehicles (cars)		899	902			9 148	9 932
5. Advances granted and tangible fixed assets in progress		4 351	821	Section A total:			
Group II total:	13	83 469	88 919		23	189 640	185 637
III. Non-current financial assets				LIABILITIES			
1. Loans granted to affiliated undertakings outside of the group	15	-	19 558	B. Provisions and similar liabilities			
2. Long-term investments, including:		20 783	20 823	I. Provisions for taxes, including:			
- investment property	14	20 783	20 823	- deferred taxes	24	2 553	2 823
3. Loans granted to third parties	16	1 076	1 115			2 553	2 823
Group III total:		21 859	41 496	2. Provisions for pensions and other similar liabilities			
IV. Deferred taxes	24	303	138		25	197	84
Section A total:		111 731	137 817	Section B total:			
B. Current (short-term) assets						2 750	2 907
I. Inventories				C. Creditors			
1. Construction work in progress, including:		7 473	7 858	I. Amounts owed to financial institutions, including:			
2. Advances granted		544	401	up to 1 year	26	1 031	3 683
3. Raw materials and consumables		784	901	over 1 year		-	338
4. Finished goods		9 709	14 962	2. Accounts payable to suppliers, including:	27	1 031	3 347
Group I total:	17	18 510	23 721	up to 1 year		1 236	1 643
II. Debtors				over 1 year		1 236	1 645
1. Amounts owed by affiliated undertakings	15	19 558	-	3. Advances received from clients, including:	27	1 567	370
2. Accounts receivable from clients	18	866	2 230	up to 1 year		1 567	376
3. Advances paid to suppliers	18	280	66	over 1 year	28	1 281	1 190
4. Receivables from loans granted to third parties	16	44	85	6. Amounts owed to affiliated undertakings, including:		292	130
5. Other receivables, including:	19	2 215	2 258	up to 1 year		989	1 060
over 1 year		33	43	over 1 year	29	2 375	2 853
Group II total:		22 963	4 639	5. Other liabilities, including:		2 375	2 853
III. Bank deposits	20	9 834	28 070	up to 1 year	29	847	1 442
IV. Cash at bank and in hand, including:				- tax payables, including:		847	1 442
- cash in hand		112	98	up to 1 year	29	857	768
- cash in current bank accounts (deposits)		38 247	5 590	- payables to personnel, including:	29	857	768
Group IV total:	21	38 359	5 688	up to 1 year	29	152	172
Section B total:		89 666	62 118	- payables for social security, including:	29	152	172
C. Deferred expenses				up to 1 year		7 490	9 741
	22	175	192	Section C total, including:		5 470	5 341
TOTAL ASSETS (A + B + C)		201 572	200 127	over 1 year		2 020	4 403
				D. Grants and deferred income, including:			
				- grants	30	1 692	1 833
						1 692	1 833
				TOTAL EQUITY AND LIABILITIES (A + B + C + D)			
						201 572	200 127

The accompanying notes on pages 5 to 75 form an integral part of these financial statements.

The financial statements on pages 1 to 75 were approved by the Board of Directors and signed on 17 June 2018 by:

 Executive Director:
Todor Aleksandrov

 Preparer:
Vania Papazova
(Chief Accountant)

 AUDITED BY AEA
20/06/2018

UNION GROUP
CASH FLOWS STATEMENT (consolidated)
for the year ended 31 December 2017

	Note	2017 BGN'000			2016 BGN'000		
		Proceeds	Payments	Net cash flow	Proceeds	Payments	Net cash flow
A. Cash flows from operating activities							
Cash flows related to trade counterparts (clients and suppliers), including:		64 478	25 609	38 869	72 128	26 371	45 757
Cash flows related to personnel and social security		-	10 908	(10 908)	-	11 562	(11 562)
Taxes paid and refunded (except income taxes)		3 282	5 745	(2 463)	-	3 157	(3 157)
Income taxes paid and refunded		-	1 864	(1 864)	-	1 456	(1 456)
Interest paid to affiliated undertakings (minority interests) under loans for working capital		-	2	(2)	-	5	(5)
Other cash flows from operating activities		317	1 356	(1 039)	136	902	(766)
Total cash flows from operating activities		68 077	45 484	22 593	72 264	43 453	28 811
B. Cash flows from/used in investing activities							
Cash flows related to tangible fixed assets and intangible assets		959	5 758	(4 799)	285	1 729	(1 444)
Cash flows related to investment property		958	578	380	-	54	(54)
Proceeds from the sale of subsidiaries		1 858	-	1 858	-	-	-
Remitted (placed) bank deposits, net		37 829	19 608	18 221	300	6 434	(6 134)
Interest received on bank deposits		91	-	91	225	-	225
Cash flows related to loans granted to related parties (associates, subsidiaries, joint undertakings)		1 083	1 083	-	-	7	(7)
Cash flows related to loans granted to third parties		80	-	80	45	3	42
Interest received on loans granted to related parties		685	-	685	831	-	831
Interest received on loans granted to third parties		58	-	58	61	-	61
Cash flows associated with increase participations in subsidiaries		-	-	-	-	20	(20)
Total cash flows from investing activities		43 601	27 027	16 574	1 747	8 247	(6 500)
C. Cash flows from financing activities							
Dividends paid to the owners of the parent company		-	3 911	(3 911)	-	978	(978)
Dividends paid to minority owners		-	408	(408)	-	653	(653)
Cash flows, related to bank loans		-	432	(432)	1 865	10 773	(8 908)
Interest and charges paid on investment-purpose bank loans		-	77	(77)	-	313	(313)
Cash flows related to loans from related parties (associates, subsidiaries, joint undertakings)		606	2 226	(1 620)	11	10 289	(10 278)
Interest paid on loans from related parties		-	48	(48)	-	290	(290)
Total cash flows used in financing activities		606	7 102	(6 496)	1 876	23 296	(21 420)
D. Change in the cash flows for the year (A + B + C)				32 671			891
E. Cash flows at the beginning of the year				5 688			4 797
F. Cash flows at the end of the year	21			38 359			5 688
- including blocked cash				4 715			57

The accompanying notes on pages 5 to 75 form an integral part of these financial statements.

Executive Director:
Todor Aleksandrov

Preparer:
Vania Papazova
(Chief Accountant)



AUDITED BY AFA
20/06/2018

UNION GROUP
EQUITY STATEMENT (consolidated)
for the year ended 31 December 2017

Note	Equity, attributable to owners of the parent				Equity non-attributable to the group (minority interests)		Total equity
	Share capital, subscribed	Legal reserves	Retained earnings	Net profit for the year	Total		
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
1. Balance at 1 January 2016	20 640	6 041	127 433	10 258	164 372	9 353	173 725
2. Net profit for the year	-	-	-	12 278	12 278	1 140	13 418
3. Transfer to retained earnings	-	-	10 258	(10 258)	-	-	-
4. Distribution of profit for: - distributed to Reserve Fund - dividends	-	47	(1 025)	-	(978)	(746)	(1 724)
	-	47	(978)	-	(978)	(746)	(1 724)
5. Effects on minority interests: * Contributions of owners with minority interest in the capital of subsidiaries * Increase in shares of a subsidiary	-	-	33	-	33	185	218
1,3, 23	-	-	33	-	-	238	238
	-	-	-	-	33	(53)	(20)
6. Balance at 31 December 2016	20 640	6 088	136 699	12 278	175 705	9 932	185 637
7. Net profit for the year	-	-	-	8 470	8 470	694	9 164
8. Transfer to retained earnings	-	-	12 278	(12 278)	-	-	-
9. Distribution of profit for: - distributed to Reserve Fund - distributed from Reserve Fund - dividends	-	1276	(3 635)	-	(3 911)	(577)	(4 488)
	-	102	(102)	-	-	-	-
	-	(378)	378	-	-	-	-
	-	-	(3 911)	-	(3 911)	(577)	(4 488)
10. Effects on minority interests: * Sales of subsidiaries - written off minority interest * Others	-	-	228	-	228	(901)	(673)
	-	-	228	-	228	(673)	(673)
	-	-	-	-	-	(228)	-
11. Balance at 31 December 2017	20 640	5 812	145 570	8 470	180 492	9 148	189 640

The accompanying notes on pages 5 to 75 form an integral part of these financial statements.

Executive Director:
Todor Aleksandrov

Prepared:
Vania Popisova
(Chief Accountant)

