



Independent Auditor's Report

To the shareholders of Korado-Bulgaria AD

Report on the audit of the financial statements

Our opinion

We have audited the financial statements of Korado-Bulgaria AD (the "Company"), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) 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 Financial Statements section of our report.

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Independent Financial Audit Act that are relevant to our audit of the financial statements in Bulgaria. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Independent Financial Audit Act.

*PricewaterhouseCoopers Audit OOD, 9-11 Maria Louisa Blvd., 1000 Sofia, Bulgaria
T: +359 2 9355200, F: +359 2 9355266, www.pwc.com/bg*

Registered with the Sofia City Court under company file number 13424/1997.

This version of our report/the accompanying documents is a translation from the original, which was prepared in Bulgarian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.



Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

<i>Overall materiality</i>	BGN 339 thousand
<i>How we determined it</i>	0.8% of total revenue
<i>Rationale for the materiality benchmark applied</i>	We chose total revenue as the benchmark because, in our view, it is one of the Company's key performance indicators analysed by management and communicated to the shareholders. We chose 0.8% which is consistent with quantitative materiality thresholds used for public interest entities.

Key audit matters

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

Key audit matter

How our audit addressed the key audit matter

Risk of fraud in revenue recognition

The Company had one major revenue stream in 2017 consisting of sale of finished products and goods for resale, i.e. household heating radiators, amounting to BGN 42,387 thousand.

We focus our audit work on the revenue recognition, as this is an area of significant risk and requires significant time and resource to audit due to its magnitude.

Revenue from the sales of finished products and goods for resale is recognised when significant risks and rewards of ownership have been transferred to the buyer, usually on dispatch of the goods. Sales invoice is generated when a goods dispatch note is issued from the store. The transactions are uniform, not complex with high volume through the year.

The majority of revenue is derived from a limited number of customers, who settle their due balances within agreed terms. The sales to the parent company represent more than 60% of total revenue. This structure of the Company's sales is driven by the business of the group the Company is part of, where trading is centralised. The Company is focused on the production of one of the major products sold by the group.

We have performed an assessment of the appropriateness and consistency of the application of the Company's revenue recognition policy.

We tested the design and operating effectiveness of the relevant controls over the revenue process of the Company. Specific focus was given to the key control over matching dispatch notes, issued invoices and cash receipts. Based on those procedures, we decided to extend substantive testing for individual transactions as well as for balances resulting from sales transactions.

Our substantive procedures consisted mainly of confirming sales transactions for the year by sending confirmation letters, confirming also a sample of specific transactions. We also sent confirmation letters to third party customers as unpredictable procedures and tested to supporting documentation a sample of specific revenue transactions.

We have also tested the receivables as at 31 December 2017 by sending confirmation letters and testing a sample of payments after the year end.

We have tested selected revenue transactions realised close to the year end in order to assess the recognition of revenue in the correct accounting period and credit notes after year end, as well as different types of discounts to test the accuracy and completeness of revenue.

Our audit work included also testing of the manual journal entries that have impacted revenue for the year by understanding the rationale for the journals.

We found no material issues arising from our testing.

Information other than the financial statements and auditor's report thereon

The management is responsible for the other information. The other information comprises the Annual Activity Report and the Corporate Governance Statement, prepared by the management in accordance with Chapter Seven of the Accountancy Act, but does not include the financial statements and our Auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 and the Public Offering of Securities Act

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the Annual Activity Report and the Corporate Governance Statement, we have also performed the procedures added to those required under ISAs in accordance with the "Guidelines Regarding the New and Enhanced Auditor Reporting and Communication by the Auditor" 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 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:

- a) The information included in the Annual Activity Report referring to the financial year for which the financial statements have been prepared, is consistent with the financial statements.
- b) The Annual Activity Report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of art. 100(m), para 7 of the Public Offering of Securities Act.
- c) The Corporate Governance Statement referring to the financial year for which the financial statements have been prepared presents the information required under Chapter Seven of the Accountancy Act and art. 100(m), para 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 the 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 part 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.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as adopted by 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 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 financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the 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 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 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

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 18 to the financial statements. Based on the audit procedures performed by us on related party transactions as part of our audit of the financial statements as a whole, no facts, circumstances or other information have come to our attention based on which it could be concluded that the related party transactions have not been disclosed in the accompanying financial statements for the year ended 31 December 2017, 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 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report include an evaluation as to whether the 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 financial statements for the year ended 31 December 2017, no facts, circumstances or other information have come to our attention based on which it could be concluded that there are material misrepresentations and missing disclosures in accordance with the relevant requirements of IFRS, as adopted by the European Union. The results of our audit procedures on Company's transactions and events significant for the financial statements were addressed by us in the context of forming our opinion on the financial statements as a whole and not for the purpose of expressing a separate opinion on those significant transactions.


Additional reporting on the audit of the financial statements in connection with art. 10 of Regulation (EU) 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) 537/2014, we hereby additionally report the information stated below:

- PricewaterhouseCoopers Audit OOD was appointed as a statutory auditor of the financial statements of the Company for the year ended 31 December 2017 by the general meeting of shareholders held on 23 May 2017 for a period of three years. We were first appointed as auditors of the Company on 23 May 2017.
- The audit of the financial statements of the Company for the year ended 31 December 2017 represents first year of statutory audit engagements for that Company carried out by us.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report provided to the Company's Audit committee in compliance with the requirements of art. 60 of the Independent Financial Audit Act.
- We hereby confirm that we have not provided the prohibited non-audit services referred to in art.64 of the Independent Financial Audit Act.
- We hereby confirm that in conducting the audit we have remained independent of the Company.
- For the period to which our statutory audit refers, we have not provided services to the Company, in addition to the audit, which have not been disclosed in the Company's management report or financial statements.

The engagement partner and registered auditor on the audit resulting in this independent auditor's report is Tsvetana Tsankova.


Tsvetana Tsankova
Registered Auditor
15 March 2018
Sofia, Bulgaria


Rositsa Boteva
PricewaterhouseCoopers Audit OOD

