

# **INDEPENDENT AUDITOR'S REPORT**

**(Translated in English language by the company based on the 2016 annual consolidated financial statements, prepared in Bulgarian language.)**

## **TO THE SHAREHOLDERS OF BILLBOARD AD**

### **Report on the audit of the consolidated financial statements**

#### **Qualified Opinion**

We have audited the consolidated financial statements of BILLBOARD AD and its subsidiaries (the "Group"), including the consolidated statement of financial position as of December 31, 2016 and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and the explanatory notes to the financial statements including summary of the significant accounting policies.

In our opinion, except for the possible effects of the issue set out in the paragraph "Basis for qualified opinion", the enclosed consolidated financial statements present fairly, in all material aspects, the financial position of the Group as of December 31, 2016 and the consolidated financial results from its operations and its consolidated cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) adopted for use in the European Union (EU).

#### **Basis to express qualified audit opinion**

We were appointed as auditors of the Group in 2016 and accordingly, we were not present at the inventarization of the Company's inventories and the inventories of the other companies in the Group as of December 31, 2015. We were not able to obtain reasonable assurance by means of alternative audit procedures regarding the existence of inventories as of December 31, 2015, referred to in the consolidated financial statements in the amount of BGN 3 449 thousand. Due to the fact that the initial balances of inventories take part in forming the consolidated operational results, we were not able to identify whether any adjustments to the initial balances of inventories, respectively adjustments to the costs for materials and the profit or loss for the year, referred to in the consolidated statement of comprehensive income for the year ended on 31 December 2016 would be necessary.

We were not present at the annual inventarization of the Company's cash and the cash of the other companies in the Group as of December 31, 2015. We were not able to obtain reasonable assurance by means of alternative audit procedures regarding the existence of the cash as of December 31, 2015 referred to in the consolidated financial statements in the amount of BGN 982 thousand and we were not able to identify whether any adjustments to the initial balances of cash accounts would be necessary.

We conducted our audit in accordance with the International Audit Standards (IAS). Our responsibilities under these standards are further described in the section of our report "Responsibilities of the auditor for the audit of the consolidated financial statements." We are independent from the Group in accordance with the Code of Ethics for Professional Accountants of the International Ethic Standards for Accountants Council, together with the ethical requirements of the Independent Financial Audit Act (IFAA), applicable to our audit of the consolidated financial statements in Bulgaria, as we have fulfilled our other ethical

responsibilities in accordance with the IFAA and the Code of IESAC. We believe that the audit evidence obtained by us are sufficient and appropriate to provide a basis for our opinion.

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

The Management is responsible for the other information. The other information consists of consolidated activity report and a corporate governance declaration, prepared by the management in accordance with Chapter VII of the Accountancy Act, but does not include the consolidated financial statements and our audit report thereon, as we received the other information prior to the date of our audit report.

Our opinion as regards the consolidated financial statements does not cover the other information and we do not express any form of conclusion of certainty about it, unless explicitly stated in our report and to the extent to which it is indicated.

With regard to our audit of the consolidated financial statements, our responsibility is to read the other information and thus to consider whether this other information is materially inconsistent with the consolidated financial statements or with our knowledge, gained during the audit, or otherwise it seems therefore to contain substantially incorrect reporting.

In the event that, based on the work we have done, we reach the conclusion that there is substantially incorrect reporting in that other information, we are required to report on this fact.

As described in the in the section "Basis for qualified opinion" above, we were not able to obtain sufficient and appropriate audit evidence about the book value of the Company's inventories and the inventories of the other companies in the Group as of December 31, 2015. Accordingly, we were not able to reach a conclusion on whether the other information contained, in relation to this issue, materially incorrect reporting of the consolidated financial indicators and the accompanying disclosures on this subject.

**Key Audit Issues**

Key audit issues are those issues which according to our professional judgment were of the greatest significance in the audit of the consolidated financial statements for the current period. These issues were addressed as part of our audit of the consolidated financial statements as a whole and the formation of our opinion thereon, as we do not provide a separate opinion on these issues.

<b>Key Audit Issue</b>	<b>How this key audit question was addressed while conducting our audit</b>
<p><i>Revaluation of real estate property - land under the fair value model – BGN 4300 thousand</i> Enclosure 1.1. to the financial statements</p> <p>The Group has adopted the revaluation model for subsequent valuation of property - land and as of the date of the financial statements a revaluation was made by certified independent valutors of those assets. The valuation of properties at fair value is an approximate valuation associated with the use</p>	<p>In this field our audit procedures included:</p> <ul style="list-style-type: none"> <li>• We took into consideration the competence and objectivity of the independent valuator appointed by the Company. In addition we reviewed the scope of his work and the conditions under which he was engaged.</li> <li>• We reviewed the key assumptions in the process of defining the fair value of the real estate properties and in particular the valuation models and the significant estimates applied.</li> </ul>

of specific methods and models. Real estate properties - land are located in areas with inactive market. Due to the specific characteristics of the evaluation process and the location of the properties we have identified this issue as a key audit issue.

- Comparing these data with market data and the specific for the company historical information to assess the validity of these estimates.
- Testing selected incoming data based on which the valuation of the real estate properties was made.
- We reviewed the disclosure appropriateness and completeness of the results from the revaluation of property - land in accordance with IAS 16 Property, plant and equipment.

## **Other issues**

The consolidated financial statements of BILLBOARD AD for the year ended on December 31, 2015, was audited by another auditor who expressed a qualified opinion as regards this report on April 18, 2016.

## **Responsibilities of the management and the people, engaged with general management in terms of the consolidated financial statements**

The management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the IFRS applicable in the EU and for such an internal control system as the management has considered being necessary to ensure the preparation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the consolidated financial statements the management is responsible for valuating the Group's ability to continue functioning as an active enterprise, disclosing, when applicable, issues related to the active enterprise assumption and using the accounting basis based on the active enterprise assumption, unless the management intends to liquidate the Group or to suspend its operations, or if the management does not actually have any alternative but to do so.

People, engaged with general management, are responsible for supervising the financial reporting processes of the Group.

## **Responsibilities of the auditor for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance on whether the consolidated financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an audit report that includes our audit opinion. Reasonable assurance is a high level of assurance but it does not guarantee that an audit conducted in accordance with the IAS will always reveal materially incorrect reporting whenever such reporting exists. Incorrect reportings may occur as a result of fraud or error and are considered to be material if it could reasonably be expected that they, individually or in the aggregate, could influence the economic decisions of users based on these consolidated financial statements.

As part of the audit in accordance with IAS, we use professional judgment and preserve professional skepticism throughout the audit. We also:

- identify and assess risks from material misstatements in the consolidated financial statements, whether due to fraud or error, develop and implement audit procedures in

response to these risks and obtain sufficient and appropriate audit evidence to provide a basis for our opinion. The risk for a given significant misstatement not to be revealed, resulting from fraud is higher than the risk of material misstatements resulting from error due to the fact that fraud may involve secret collusions, falsification, deliberate omissions, statements aimed at misleading the auditor and neglecting or circumventing of internal controls.

- obtain understanding of the internal control related to the audit in order to design audit procedures that are appropriate in the particular 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 the accounting estimates and related disclosures made by the management.
- reach a conclusion on the appropriateness of the accounting basis based on the active enterprise assumption, use by management and, based on the audit evidence obtained as to whether there is a material uncertainty related to events or conditions that might provoke significant doubts on the Group's ability to continue functioning as an active enterprise. If we reach the conclusion that there is a significant uncertainty, we are required to draw attention in our audit report to the disclosures related to this uncertainty in the financial statements or in the event that these disclosures are inadequate to modify our opinion. Our conclusions are based on audit evidence obtained to the date of our audit report. Future events or conditions may, however, cause the Group to suspend its operations as an active enterprise.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures and whether the consolidated financial statements present fundamental transactions and events in a manner that achieves fair presentation.
- obtain sufficient and appropriate audit evidence about the companies's financial information or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the Group's auditing, supervision and performance. We bear the exclusive responsibility for our audit opinion

We communicate with the people engaged with general management, among other issues, the planned scope and timing of the audit and the significant audit findings, including significant deficiencies in internal control that we identify during our audit.

We also provide the people engaged with general management with a statement that we have fulfilled the relevant ethical requirements in terms of independence and that we will communicate with them all relations and other issues that could reasonably be regarded as relevant to our independence, and where applicable - the related precautions.

Among the issues communicated with the people engaged with general management, we set up those issues that were of the greatest significance during the audit of the consolidated financial statements for the current period and which are therefore key audit issues. We describe these issues in our audit report, except for the occasions where the law or other regulations prevent public disclosure of information on this issue or where, in extremely rare cases, we decide that a question should not be communicated in our report, since it could reasonably be expected that the adverse consequences of this action would exceed the benefits in terms of public interest in this communication.

## **Report in relation to other legal and regulatory requirements**

***Additional issues subject to reporting based on the Accountancy Act and the Law on Public Offering of Securities***

In addition to our responsibilities and reporting under the International Audit Standards described above under the section "Information other than the consolidated financial statements and the auditor's report thereon" in terms of the consolidated activity report and the corporate governance declaration of the Group, we have also conducted procedures added to those required under the International Audit Standards, pursuant to the Instructions of the professional organization of Certified Public Accountants and Registered Auditors in Bulgaria - Institute of Certified Public Accountants (ICPA issued on 29.11.2016 /, approved by its Management Board on 29.11.2016). These procedures concern verifications on the availability as well as verifications on the form and content of such other information with the objective to help us form our opinion on whether the other information includes disclosures and reports provided for in Chapter Seven of the Accountancy Act and the Law on Public Offering of Securities (Art. 100n, para. 10 of the Law on Public Offering of Securities in relation to Art. 100n, para. 8, item. 3 and 4 of Law on Public Offering of Securities) applicable in Bulgaria.

*Opinion in relation to art. 37, para. 6 of the Accountancy Act*

Based on the procedures performed our opinion is that:

- a) The information included in the consolidated activity report for the financial year, for which the consolidated financial statements are prepared, is consistent with the consolidated financial statements.
- b) The consolidated activity report was prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and Art. 100 (n), para. 7 of the Law on Public Offering of Securities.
- c) The corporate governance declaration of the Group for the financial year, for which the consolidated financial statements are prepared, contains the information required under art. 100 (n), para. 8 of the Law on Public Offering of securities.

*Opinion in relation to art. 100 (n), para. 10 in relation to art. 100 (n), para. 8, item 3 and 4 of the Law on Public Offering of securities*

Based on the audit procedures performed and the acquired knowledge and understanding of the Group and the environment where it operates, in our opinion, the description of the main characteristics of the internal control and risk management systems of the Group in relation to the financial reporting process, which is part of the consolidated activity report (as part of the contents of the corporate governance declaration) and the information under Article 10, Paragraph 1, Letters "c", "d", "f", "h" and "i" of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 regarding take-over offers, does not contain cases of materially incorrect reporting.

Magdalena Cvetkova

Certified auditor

Sofia

No 61 „Manastirski livadi – B“,

April 28, 2017