

*AUDITOR'S REPORT*

## ***INDEPENDENT AUDITOR'S REPORT***

To the shareholders of  
Agria Group Holding AD  
Varna

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

#### **Qualified audit opinion**

1. We have audited the consolidated financial statements of **Agria Group Holding AD** (the Group), which comprise the consolidated statement of financial position as at December 31, 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.
2. In our opinion, except for the possible effects from the matters described in "*Basis for qualified audit opinion*" section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2019 and its financial performance and its changes in cash flows for the year then ended in accordance with the International Accounting Standards (IASs), endorsed for application by the European Commission (EC).

#### **Basis for qualified audit opinion**

3. The Group has presented in the consolidated statement of changes in equity as at December 31, 2019 a revaluation reserve amounting to BGN 50,475 thousand. One part of this revaluation reserve, amounting to BGN 5,487 thousand as at December 31, 2019 has derived from a single revaluation during previous periods of a part of land and buildings in two subsidiaries, which are owned by the Group, to their fair value. The fair value of these assets as at the date of their valuation was determined by independent appraisers with appropriate qualifications for such assessments. In our opinion, a one-time assessment of particular land and buildings owned by the Group is not in accordance with IAS 16 *Property, Plant and Equipment*, which requires a group of non-current assets to be subsequently measured in the financial statements using the same valuation method, as well as to determine their fair value with sufficient frequency so as to present fairly the changes in the value of assets in different periods. Due to the specific way of determining the fair value of land and buildings, we are unable to estimate the value effect of such one-time valuation, amounting to BGN 5,487 thousand on their carrying value as well as on the revaluation reserve and the Group's net assets as at December 31, 2019.

4. 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 Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA Code), and the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of IFAA and IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion:

#### **Drawing attention**

5. We draw attention to what was announced in note 36. of the Notes to the consolidated financial statements, regarding the declaration of a state of emergency in the Republic of Bulgaria on the occasion of the coronavirus pandemic (Covid - 19). The effects on the country's economy as a result of the imposed anti-epidemiological measures may have a negative impact on the Group's activities. Due to the existing uncertainty in the development of the pandemic, it is not possible to make reliable measurements and assessments of such negative consequences.

Our opinion is not modified concerning this matter..

#### **Key audit matters**

6. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 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.

<b>Key audit matter</b>	<b>How this key audit matter was addressed in our audit</b>
<p><b>Valuation of goods</b></p> <p>Valuation of goods in the Group is a key audit matter as the goods available as at the year-end are a material part of the total amount of available inventories. Also, a major part of the Group's revenues is generated from sale of goods. The valuation of goods depends on market prices at which these goods are traded on the respective markets, and for this reason we have assessed this valuation as a risk.</p> <p>As disclosed in note 3.4. of the Notes to the consolidated financial statements, goods</p>	<p><b>In this area, our audit procedures comprised:</b></p> <ul style="list-style-type: none"> <li>- evaluation whether the applicable accounting policy of testing inventories, and goods in particular, for impairment is adequate and is consistently applied by the Group;</li> <li>- check of the method for calculation of obsolete inventories and for evaluation of the opportunities for their future sale in terms of dynamic markets;</li> <li>- analysis of the adequacy of market data used by the Group in the tests for impairment of inventories;</li> <li>- tests of the effectiveness and consistency of application of the control procedures implemented in the Group regarding the valuation of inventories.</li> </ul>

available as at the year-end are presented at the lower of the acquisition cost and their net realizable value, determined as the expected selling price in the ordinary course of business, less the estimated costs to sell.

***Valuation to fair value of owned agricultural land***

Note 3.1 and note 4 to the consolidated financial statements.

Effectively January 1, 2018, the Company has chosen to measure the agricultural land it owns at fair value, as determined by an independent appraiser as at the date of the financial statements. The measurement of agricultural land is an essential matter for our audit, as it requires a significant level of judgement and at the same time, agricultural land comprises a significant part of the Company's assets. We have identified the use of many assumptions in the preparation of the measurements as a significant risk.

The Company's policy is to use external independent appraisers at least once a year. The measurements of the properties contain assumptions, for example expected rental income, employment rates, information about market transactions, market assumptions, risks related to property development, etc.

***Valuation of assets with right of use, including related to them lease obligations, according to the application of IFRS 16***

Note ..... and ..... of the consolidated financial statements.

The business model of the Group includes performing agribusiness, which is associated

Based on the procedures we performed, we have not found any overvalued inventories and goods in particular, and have not identified any indications of the need for material impairment.

**Our audit procedures in this area include:**

- studies on the objectivity, independence and expertise of the external appraisers;
- we assessed the correctness of the input data contained in the appraisers' reports;
- we conducted a critical analysis of the major assumptions;
- we performed additional procedures in order to assess the adequacy of the values received;
- we inspected the completeness and adequacy of the disclosures made in the financial statements with regard to the measurement of agricultural land.

**Our audit procedures in this area include:**

- Recognizing of the process of concluding a rent contract, analysis of their terms and conditions and check of the correct classification, valuation and disclosure.;

<p>with rent of big cultivable plots of land. The number of the contracts signed is significant, as the rent contract's structure is complicated in terms of time for which they are concluded, as well as the conditions for renewal. In the current 2019, the Group has applied IFRS 16 Leases, which is effective for annual periods beginning on or after January 01, 2019.</p> <p>The complicated time structure of the rent contracts signed, as well as their conditions have been identified by us as a significant risk, related to the correct classification, valuation and disclosure of assets with right of use and the related to them obligations, in accordance with the applications of IFRS 16.</p>	<ul style="list-style-type: none"> <li>• Study and review the Group's internal rules to gain an understanding of key controls in significant business processes related to the rent of assets;</li> <li>• Procedures related to confirmation of fulfillment of the terms of the contracts;</li> <li>• Testing, through recalculation of certain calculations, used in determining the carrying amount of assets with right of use and the lease obligations, related to them.;</li> <li>• Analysis and valuation of used input data and significant estimates (discount rate, rent price, term of contract, etc.) in determining the amount of recognized assets and liabilities;</li> <li>• Reviewing the completeness and adequacy of the disclosures in the consolidated financial statements to determine whether they comply with the requirements of IFRS 16.</li> </ul>
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#### Information other than the consolidated financial statements and auditor's report thereon

7. The management is responsible for the other information. The other information comprises the annual management report and the corporate governance statement prepared by the management in accordance with Chapter Seven of the Accountancy Act, but does not include the consolidated financial statements and our auditor's report thereon, and this other information we received before the date of our audit report.

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 explicitly stated in our report and to the extent stated.

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.

As described in paragraph 3 of "*Basis for qualified audit opinion*" section above, we were unable to estimate the value effect of the valuation in previous periods of a part of the land and buildings up to their carrying value, respectively on the revaluation reserve and the Group's net assets. As a result, we are unable to conclude whether the other information contains any significant misstatements in respect of these matters.

## **Responsibilities of management for the consolidated financial statements**

8. The management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Accounting Standards, endorsed for application by the European Commission and for such internal control as the 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 consolidated financial statements, the 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 the management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for supervision of the financial reporting process in the Group.

## **Auditor's responsibilities for the audit of the consolidated financial statements**

9. 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 IFAA and 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 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the 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 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 financial statements, including the disclosures, and whether the consolidated 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 consolidated financial statements for the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless a law or a 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 matters to report in accordance with the Accountancy Act and Public Offering of Securities Act***

10. In addition to our responsibilities and reporting in accordance with ISAs described above in "Information other than the consolidated financial statements and auditor's report thereon" section with respect to the annual management report and the corporate governance statement, we have performed the procedures, in addition to those required under ISAs, in accordance with the Guidelines of the professional body of certified public accountants and registered auditors in Bulgaria – the Institute of Certified Public Accountants (ICPA). These procedures refer to checks of the existence, form and content of this other information in order to support us in forming an opinion whether the other information contains the disclosures required by Chapter Seven of the Accountancy Act and by the Public Offering of Securities Act (Art. 100m, par. 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, par. 6 of the Accountancy Act*

Based on the procedures we have performed, our opinion is that:

- a) The information included in the annual management report for the financial year presented in the consolidated financial statements corresponds to those consolidated financial statements on which we have expressed a qualified opinion in "Report on the audit of the consolidated financial statements" section above.
- b) The annual management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and Art. 100m, par 7 of the Public Offering of Securities Act.
- c) The declaration for corporate governance for the financial year presented in these consolidated financial statements, which is part of the annual management report, contains the information required by Chapter Seven of the Accountancy Act and Art. 100m, par. 8 of the Public Offering of Securities Act.

*Opinion in connection with Art. 100m, par 10 in conjunction to Art. 100m, par 8, points 3 and 4 of the Public Offering of Securities Act*

Based on the procedures performed and the knowledge and understanding obtained of the Group's activities and the environment in which it operates, in our opinion, the description of major characteristics of the Group's internal control and risk management systems relevant to the financial reporting process which is part 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 the Council of 21 April 2004 on Takeover Bids, do not contain any material misrepresentations

*Reporting in accordance with art. 10 of Regulation EC 537/2014 in connection to the requirements of art. 59 of the Independent Financial Audit Act*

According to the requirements of the Independent Financial Audit Act in connection with art. 10 of Regulation EC 537/2014 we hereby declare in addition the information set out below.

Stoyan Lyubomirov Malkochev was appointed for statutory auditor of the consolidated financial statements of Agria Group Holding AD (the Group) for the year ended December 31, 2019 by the General Meeting of the Group held on June 19, 2019, for a period of one year. The audit engagement was confirmed with an audit engagement letter dated September 01, 2019.

The audit of the consolidated financial statements of the Group for the year ended December 31, 2019 is the second full uninterrupted engagement for statutory audit of this entity we have performed.

We confirm that our audit opinion is consistent with the additional report to the Parent Company's audit committee, in accordance with the requirements of art. 60 of the Independent Financial Audit Act.

We confirm that we have not provided any of the prohibited non-audit services referred in art. 64 of the Independent Financial Audit Act.

We confirm that we have remained independent of the Group in conducting the audit.

For the period our engagement for statutory audit refers to, aside from the audit, we have not provided any services to the the Group or its controlled undertakings that have not been disclosed in the management report or the consolidated financial statements of the Group.

**Stoyan Malkochev**  
*Registered Auditor*

May 30 2020  
Varna

