
QUARTERLY MANAGEMENT REPORT

AS OF 30 JUNE 2019

in compliance with art. 100o, par. 4 of POSA and art. 33, par. 1 of Ordinance 2 on the prospectuses for public offering of securities and admission for trading on regulated securities market and for disclosure of information by the public companies and other issuers of securities

I. IMPORTANT DEVELOPMENTS DURING THE 1ST HALF OF 2019

1. Core Activity

The strategy of Speedy AD for long-term sustainable development allowed the company to keep high pace of growth during the current year and taking advantage of favorable market environment. The economic activity and consumption have continued to perform strongly, which supports the aggressive penetration of online trade. The latter is among the main driver of the market of courier services. Along with the built up logistic capacity and countrywide office network (which includes almost 60 APS), Speedy AD is well positioned to benefit from the market growth.

The acquisition of “Rapido Express and Logistics” EOOD have positive effect on the results, which strengthen the position of the company on the market and especially in e-commerce, where Rapido has a stronghold. Except the higher revenues, there is a considerable impact over the profitability of “Speedy” AD as a result of economy of scale.

Speedy is constantly developing new functionalities to its services in order to increase the added value for its customers. The service Smart Control was fully implemented in the first quarter, that offer to the client a new level of quality of the service. The recipient could find all information needed about: sender, the content of the parcel, amount due for payment on delivery and services (if there are any) and most importantly – a possibility to redirect the delivery to the nearest or another office/APS within the same township free of charge. Additional service to “SMART CONTROL”, “PREDICT”, which was implemented in January 2019, announce an exact hour of delivery, within time frame of +/- 30 minutes on the next day. In this way the recipients will not wait SPEEDY’s courier unnecessarily and if they prefer they could easily confirm the delivery on this time range through their mobile telephone or they could redirect it to the nearest or another office/APS within the same township free of charge. The implementation of the same service in Romania is still in progress.

During the last year the updated pricelist “Standard 24-hours+” offered attractive prices to customers and made the pricing more simplified and transparent for them and it was very well accepted from the clients. This led to additional extension of customer base especially among individual customers, which the Company was actively targeting the last years.

Noticeable impact on postal market had the interpretation of the National Revenue Agency (NRA) that universal postal services are VAT exempt only for “Bulgarian post” AD while private operators were supposed to include VAT. Potential decision by NRA to demand payment for prior periods would have negative significant impact on Speedy AD, without threatening its financial stability. The services from the scope of universal postal services has been offered only during last three years and account for only minor share in total revenue.

During 1st half of the year Speedy AD invested BGN 11.3 million, with over 90% channelled in vehicles. Other more significant investments are in software and technical equipment, as well as in logistic network – for maintenance and equipment. In subsidiary companies investments amounted to BGN 1.1 m, almost entirely in DPD Romania.

1.1 Revenue

Non-consolidated results

Following the ruling of NRA from April 2019, Speedy AD (as well as all other operators) included VAT on all services in the scope of universal postal services that resulted in increase of the prices of respective services with 20%. This affects the clients natural persons and not VAT registered. The price increase had no effect on the demand of company’s services. Over 80% of the sales are generated

by legal persons that are allowed to deduct VAT. In addition, implemented new services, attractive prices offered compared to the competitors and fruitful marketing strategy added over 50% to the revenue from individual clients.

The core segment of business clients also sustains high pace of growth and total sales grew by 20.45%. Significant contribution to sales is acquisition of Rapido whose local logistic were largely integrated with Speedy's. The international deliveries increased even faster with 34.5% due to excellent performing of regional service Speedy Balkan which added 56% during the period.

Revenue structure, non-consolidated

In BGN '000	H1 18	H1 19	Change	Q2 18	Q2 19	Change
Domestic market	47 283	55 857	18.1%	24 821	28 500	14.8%
<i>% of the total revenues</i>	82.2%	80.8%		82.3%	79.9%	
International market	7 769	10 451	34.5%	3 953	5 442	37.7%
<i>% of the total revenues</i>	13.5%	15.1%		13.1%	15.3%	
Others	2 489	2 806	12.7%	1 369	1 714	25.2%
<i>% of the total revenues</i>	4.3%	4.1%		4.5%	4.8%	
Number of parcels delivered	9 840	13 074	32.9%	5 121	6 734	31.5%
Total revenues	57 541	69 114	20.1%	30 143	35 656	18.3%

The number of parcels delivered during 1st half of 2019 hit 13 mln, up 33% on annual basis. Growth of parcels outpaces the growth in sales due to increasing share of individual clients.

Consolidated results

Consolidated sales from courier services grew with 32.7%. The high growth pace follows the impressive performance of Romanian market, where sales jumped with 40% as a result of the investments and reorganization of processes which led to significant quality improvement of efficiency of operations and service quality. It allowed the local subsidiary to attract new clients and to retain the existing one. The strong performance of Bulgarian market and consolidation of Rapido also contribute to the growth.

Revenues generated from international deliveries increased considerably its share in total sales and nearly match those from Bulgarian market. It is result of increased weight of Romanian market as well as consolidation of Rapido that has established presence in deliveries to Greece, Romania and East Europe.

Revenue structure, consolidated

In BGN '000	H1 18	H1 19	Change	Q2 18	Q2 19	Change
Domestic market	46 095	55 857	21.2%	23 633	28 098	18.9%
<i>% of the total revenues</i>	57.0%	52.1%		56.9%	51.1%	
International market	30 724	46 045	49.9%	15 680	23 676	51.0%
<i>% of the total revenues</i>	38.0%	43.0%		37.8%	43.1%	
Others	4 109	5 255	27.9%	2 217	3 166	42.8%
<i>% of the total revenues</i>	5.1%	4.9%		5.3%	5.8%	
Number of parcels delivered	13 113	18 399	40.3%	6 802	9 522	40.0%
Total revenues	80 928	107 157	32.4%	41 530	54 940	32.3%

Higher revenues are realized also in other operating sales, which also are related with Speedy's main business and are recurring in nature. Increased sales come from rental income of vehicle in Bulgaria as well as in Romania that are BGN 1.7 m on non-consolidated and 2.8 m on consolidated basis.

1.2 Expenses

Non-consolidated results

The optimization of processes and costs cutting, together with the acquisition of Rapido and realized economies of scales have a positive effect on the financial result. The considerable increase is in "Subcontractors" expenses due to the growth in number of parcels processed and increased share of international deliveries. In order to promote the new services the advertising campaign was intensified, which affected the marketing expenses. For payments on delivery, growing number of customers use card as mean of payment which is related to additional bank charges. The labour market is described with low unemployment and high demand of skilled personnel, which affects the compensation costs. The company invests in productivity improvement of its employees, which allows for higher compensations costs to stay around or below growth of sales.

Costs structure, non-consolidated

In BGN '000	H1 18	H1 19	Change	Q2 18	Q2 19	Change
Cost of materials	3 083	3 454	12.0%	1 622	1 875	15.6%
Costs of hired services	29 749	34 506	16.0%	15 294	17 940	17.3%
Compensation costs	13 020	15 453	18.7%	6 615	7 898	19.4%
Other operating expenses	748	722	-3.5%	447	442	-1.1%
Depreciation	4 116	6 488	57.6%	2 043	3 373	65.1%
EBITDA	10 941	14 979	36.9%	6 165	7 501	21.7%
Net income	6 152	7 254	17.9%	3 743	3 585	-4.2%

All the rest expenses go up at a slower pace than the revenues or decrease, resulting in net profit increase by 18%. The new IFRS for accounting of leasings has a considerable effect on EBITDA, and the rent expenses, which were reported as costs for hired services in H1 2018, are now reported in depreciation and interests.

Consolidated results

On consolidated basis the financials include activities of DPD Romania, Rapido express and logistics, Geopost and OMG.

The trend in expenses of the Group is in line with the one on individual basis. Growing international operations and 40% jump in parcels delivered bring considerable increase of subcontracting services. Tight labor market affect labor costs, mitigated entirely by measures aiming improvement of productivity.

The remaining expense items record either decrease or slight advance that result in 47% higher EBITDA and 26.4% net income on annual basis. A heavy weight on net profit came from 70% leap up of depreciation caused by sizable increase of intangible assets and goodwill recognized after acquisition of Rapido and OMG in 2018.

Costs structure, consolidated

In BGN '000	H1 18	H1 19	Change	Q2 18	Q2 19	Change
Cost of materials	3 773	4 460	18.2%	1 990	2 321	16.6%
Costs of hired services	46 509	59 464	27.9%	22 957	30 418	32.5%
Compensation costs	16 864	22 698	34.6%	8 584	11 529	34.3%
Other operating expenses	1 083	1 863	72.0%	505	1 361	169.5%
Depreciation	5 628	9 304	65.3%	2 818	4 782	69.7%
EBITDA	12 699	18 672	47.0%	7 494	9 311	24.2%
Net income	5 872	7 421	26.4%	4 036	3 712	-8.0%

2. Corporate events

On 17.06.2019 Speedy AD hold its regular general meeting of shareholders. It was voted for dividend distribution in amount of BGN 7 528 666.60 or BGN 1.40 per share and approved a maximum amount of variable remuneration of the members of the Board of directors that could receive from the company.

DESCRIPTION OF RISK FACTORS IN COMPANY OPERATIONS.

Group “SPEEDY“ aims at keeping a low-risk profile through maintaining a low level of financial and operating leverage, high level of efficiency, implementation of strict rules and procedures in operations and strict compliance, diversification of customer base and suppliers.

Macroeconomic risk

Group “SPEEDY“ covers the whole country, as well as in Romania and Greece and provides services to companies of different sectors of the economy. Hence, the activity of the company depends heavily on economic conditions and overall business environment. Potential shrinking of the economy and the consumption would affect the profit margins, while a considerable and prolonged slow-down in the business activity might lead to a negative trend in the revenues. The company mitigates the risk by maintaining a high level of financial independence and constantly invests in efficiency improvement, which allows to achieve profitability well above its competitors.

Regulatory risk

The regulatory risk is associated with adoption of regulations, which might result in additional costs or restrictions on the activity of the company. Currently, are not expected implementation of changes, which may encumber the activity or may involve additional costs.

Interest rate risk

All interests-bearing liabilities of “Speedy“ AD are with floating interest rates, EURIBOR and SOFIBOR. Respectively, the increase in the overall interest levels would have a negative effect on the company. The expansionary monetary policy of the leading central banks dampens the main interest rates and most likely these levels will be sustained in the medium term, and considerable negative change is unlikely.

Credit risk

Almost 80 % of the revenues are generated from customers under contracts and therefore the service is not paid, when rendered, but on a monthly basis. In case of deterioration of economic situation, the amount of the past-due receivables may increase considerably. The company has implemented a detailed and strict system to monitor the accounts payable and their maturity, as well as a procedure for action in case of overdue payment. Following the improvement in economic situation, the provisions for past-due payments decreased during the recent years and the company was able to collect a substantial part of its receivables, which had already been provisioned.

The cash is kept with a view to the lowest risk. The banks of the company are with the highest rating in the country.

Price risk

The price risk is related to the average inflation level of the countries where the Group carries out its activities and to the level of competition. After 2009, the inflation in Bulgaria is low and in 2014 it reached negative levels. That combined with the high competition, put pressure on the prices of the services. Thanks to investments in efficiency and improvement of the processes, “Speedy“ AD manages to maintain its competitiveness and has an opportunity to achieve high profitability despite of the price pressure.

The price risks associated with suppliers stem mainly from the cost of labor. The low level of unemployment narrowed the supply of qualified workers, and respectively, induced upward pressure on remunerations in order to attract new and to retain existing employees. Other significant expenses are for rent and fuel. Both are with limited effects on financial results, considering long term nature of

rental contracts with regulated change in the price, while changes in the fuel price is transferred to client through fuel fee with monthly adjustment.

Currency risk

The exposures of the company's currency incurred due to foreign activities and deliveries to and from abroad, whose share in the total revenues is currently low. Bulgarian lev is pegged to the euro and financial reports are presented in leva, the currency risk stems from activities in currencies outside euro. Therefore, the total effect of the change in the exchange rates is negligible. The increase in the international deliveries is one of the main sources of growth in the future, which is also expected to lead to an increase in the currency exposure in the long run. During this year, transactions were carried out in EUR, BGN and RON. If the fixed exchange rate BGN – EUR is maintained, in the medium term we do not envisage considerable effect on the financial result of the company caused by the changes in the exchange rates. After the acquisition of DPD Romania SA, transactions in RON increased substantially and, respectively, the currency risk exposure. The share in the total revenues of the operations in RON is small and do not have a considerable effect on the final result. The change in the BGN/RON exchange rate has a considerable effect on consolidation of DPD Romania SA, since the revenues constitute about 30 % of the consolidated revenues.

Liquidity risk

The liquidity risk is the risk that the company may not be able to meet its due payments. “Speedy“ AD has considerable payables related with the payment under lease agreements, investment loans and to its suppliers.

When managing its liquidity, the company tunes its payments in accordance with the expected future cash flows. In addition, cash reserves are maintained as a buffer in case of potential unfavorable market and economic circumstances and, respectively, temporary shrinking of the cash proceeds. Up to now, the company generates considerable positive cash flow, which allows to meet maturing payments timeously and maintaining solid liquidity indicators.

III. Information about transactions with own shares under art. 187e of the Commercial Act

The company has not traded in own shares.

IV. Participation of the board members in commercial companies as unlimited liability partners, ownership of more than 25 percent of the capital of another company, as well as their participation in the management of other companies or cooperatives as procurators, managing directors or board members

No changes in the last quarter.

INSIDER INFORMATION under art. 7 from Regulation EU 596/2014

There is no other insider information, except the already disclosed one, necessary for the shareholders to take investment decision regarding the shares of the company.

ADDITIONAL INFORMATION

1. Information about the changes in the accounting policy during the reporting period

During the reporting period, there are no changes in the accounting policy of “Speedy “AD.

2. Information about business combinations in the group of “Speedy “AD

No changes in the group has occurred.

3. Information about the results from the organizational changes in “Speedy“AD /transformation, sale of companies of the economic group, in-kind contributions by the company, renting out of property, long-term investments, discontinuing of activity/

There are no organization changes, which are not disclosed in this document.

4. Management opinion regarding the expectation to achieve the announced financial forecasts for the current financial year

The Board of Directors of “Speedy“AD did not publish any forecasts for 2019 results.

5. Information about the persons, holding directly or indirectly, at least 5 percent of the voting rights as of the end of the respective quarter, and the changes in the votes that the persons hold during the period since the end of the last quarter

5.1. “Speedy Group” AD

As of 30.06.2019 Г. – 3 500 367 shares, representing 65.09 % of the voting shares.

Valery Mektupchiyan controls “Speedy Group” AD and through the shares that he holds in “Speedy Group” AD, he also controls “Speedy“AD.

5.2. Geopost SA

As of 30.06.2019, Geopost SA holds 1 333 979 shares, representing 24.81 % of the voting shares.

6. Information about the shares held by the members of the Board of Directors of the company at the end of the period and about the changes during the period since the end of the previous quarter

As of 30.06.2019:

	Acquired during the period	Sold during the period	Number of shares held directly	# of shares held through related parties	Total directly and indirectly	Share in the capital held directly and indirectly
Valery Mektupchiyan	0	0	0	3 500 367	3 500 367	65,09%
Avak Terzian			1 800	0	1 800	0,03%
Danail Danailov	0	0	2 160	0	2 160	0,04%

The members of the Board of Directors have no other special rights to acquire shares in the company.

7. Information about pending legal, administrative or arbitration proceedings, concerning obligations or receivables in amount of at least 10 percent of the equity of the issuer; if the total value of the obligations or receivables of the issuer in all instigated proceedings exceeds 10 percent of its equity, there shall be provided information separately about each of the proceedings

There are no legal or other proceedings with considerable value.

8. Information about the loans granted by the issuer or by any of its subsidiary, extended warranties or assuming of obligations, total to one person or any of its subsidiaries or including related parties, specifying the nature of the relationship between the issuer and the party, the amount of the outstanding principal, the interest rate, the maturity, the amount of the assumed obligation, conditions and term.

As of 30.06.2019 there are the following loans and guarantees extended

Name, in thousand BGN	Amount	Interest rate	Maturity	Purpose
DPD SA, Romania	9 538	3-5%	15.12.2020	Investment
TOTAL LOANS	9 132			

The loan is not collateralized.

9. Information about related parties' transactions.

During the period, there are no related parties' transactions with substantial amount and/or such that have substantially affected the financial standing or the results of the company during the reporting period. There are no related parties' transactions, which go beyond the regular business operations or considerably deviate from the market conditions.

All transactions between related parties are disclosed in the Appendix to the Financial Statement.

INFORMATION under Appendix 9 from regulation 2 of FSC

- 1. Information about change of persons exercising control over the company.**
No change.
- 2. Information about opened insolvency proceedings against the company or its subsidiary and all stages regarding to above mentioned proceedings.**
No opened insolvency procedures.
- 3. Information about significant deals. The decision for signing, terminating and breaking a contract for joined ventures.**
Not applicable.
- 4. Change of the company's auditor and reasons for it.**
No change of the auditing company.
- 5. Information about pending legal, administrative or arbitration proceedings, concerning obligations or receivables of the company or its subsidiary in amount of at least 10 percent of the company's equity.**
There are no legal or other proceedings with significant value.
- 6. Purchase, sale or pledge of shares in other companies by the issuer or by any of its subsidiary.**
Under investment loan agreement from 2014 with Unicredit Bulbank, a pledge was established to the commercial enterprises Geopost Bulgaria EOOD and DPD Romania AD
- 7. Other events which the company consider to be of importance for the investors in taking decision to acquire, sell or hold publicly offered securities.**
No other events except already announced.

Krasimir Tahchiev
Investor Relations Director

Valery Mektupchiyan
Executive Director