

# CONSOLIDATED ANNUAL MANAGEMENT REPORT



2017

## Statements about future developments

This report includes statements and forecasts for the future such as: “I believe”, “I foresee”, “I expect”, “I assess”, “I suppose”, “I am after”, “I am planning”. Etc. Such statements are contingent upon a number of risks and uncertainties that in addition to influence have also the potential to cause changes and differences between the actual achievements of the company and our present expectations and forecasts.

Please, take into consideration all risks and restrictions that could impact the results of Speedy AD, and please, do not count too much on the precision of forecasts presented herein.

We cannot commit ourselves to update this statement due to events, circumstances, changes in expectations or unforeseen phenomena occurring after the date of the above statement.



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Speedy in numbers



# # CONSOLIDATED ANNUAL MANAGEMENT REPORT

## 1. Core activity and company development over the year

### A. Business model and development

Speedy JSC is a company specialized in door-to-door deliveries. The company strategy is to stay focused on its core activity while, simultaneously, strive to constantly widen services offered and to introduced on the market new services. Doing so, we maintain the focus in the activity, where the company has developed competitive advantages, while exploiting the first mover advantage when offering new services.

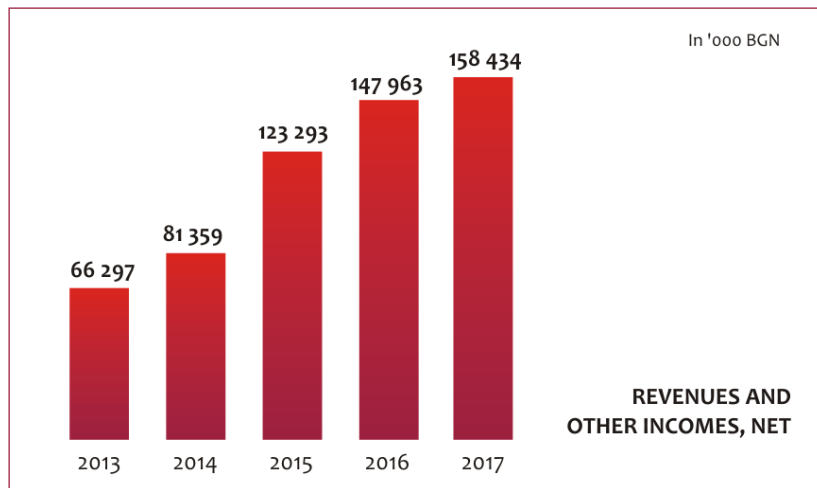
The consolidated group of Speedy consist of Speedy JSC (parent company) and three directly controlled subsidiaries:

- DPD S.A., Romania
- Speedy EOOD
- Geopost Bulgaria EOOD

The core activities of the subsidiaries are:

- DPD S.A., Romania – courier and transportation
- Speedy EOOD – facilitates the courier services of its parent company
- Geopost Bulgaria EOOD – international courier services in the DPD network

The group, mainly through its mother company, has developed competitive advantages in providing courier and logistic services to corporate customers over the years. This determines the development of considerable capacity of transportation of medium and large shipments. Small courier shipments such as letters and documents are also offered in addition to the core range of services to meet customers' demands. In line with this is already established on the market pallet service „Pallet One” that has contributed considerably to the group sales growth during the last years.



Foreseeing the invasion of e-commerce, we expanded our office network which is preferred channel by individual customers for using courier services. The growth of courier services considerably outpaces that of the economy and this opportunity is also a challenge. Speedy AD responds to the high dynamic of demand by increasing the investments in building logistic and professional capacity and by managing the risks that go along with the fast development.

The high growth potential is predetermined by both general economic activity and the ability to offer to customers the most effective logistic solution from an economic point of view as compared to available transportation alternatives. The long-term company objectives include providing quality services, flexible solutions and competitive trade-off between quality and price. For that purpose, personnel qualification



and motivation programs are implemented and work processes are being optimized. Information infrastructure is being consistently expanded and new software solutions are being developed and introduced continuously in order to improve the convenience of using our services and operating efficiency

Over the years the range of our services has expanded, thus widening of the range of potential customers. There was an intensive promotion of services targeted at individual customers and customers working with a larger volume of shipments.

Aiming to offer a better service to individual customers and with the impetuous growth of electronic commerce we launched the program called “Speedy Parcel Shop”, which allowed us in a short time and with minimum investments to triple our office network in Bulgaria. In this regard, we have started the integration of e-merchant delivery platforms, which also facilitates our customers and makes Speedy AD a preferable partner. The extensive office network has allowed to expand the client base and the portfolio of services targeting individual clients. In 2016 we launched the new service “Speedy Post” offering of the clients in Bulgaria a way to send parcels in 4 sizes up to 20 kg within the Speedy office network at attractive prices. During 2017, it realized very high growth, though from a low base.

Aside from the active work done to augment the logistic network and our capacities in Bulgaria, by the end of 2014 Speedy AD was able to implement its plans for expansion in Romania by acquiring the Romanian company DPD S.A. With this acquisition Speedy AD gained access to a significantly larger and more dynamic market of our neighbouring country. The fact that both countries are EU members and sharing a border makes possible connecting their logistic networks. The Romanian company DPD S.A. and GeoPost Bulgaria EOOD are members of DPD’s international network which gave an opportunity to Speedy AD to offer better conditions for international deliveries.

In 2015 a significant progress has been achieved in terms of integration of courier market in a regional aspect. The service “Express Balkans” offers express deliveries from and to Bulgaria, Romania and Greece, at rates applicable for express delivery of shipments within Bulgaria. This service targets business customers who wish to expand their business or who are already operating in neighbouring markets. The earlier launched service to Romania has brought a significant traffic between the two countries, as the expectation is for achievement of similar results for Greece as well. The deliveries to Greece are carried out by a local operator, with stable partnership with Speedy AD. The regional development continued in 2016 as well by registering a branch in Greece through the subsidiary Geopost Bulgaria, which contracted the franchise right of DPD network for Greece. The service was launched at the end of 2016 with opening of an office in Thessaloniki where since last year start offering international deliveries to/from Europe through DPD network, while deliveries within Greece are going to continue to be executed through the local partner.



Similarly, to the parent company, DPD Romania is focused on business segment with traditionally strong positions in B2C segment and international deliveries. Our strategy in Romania put more weight on improving our positions on local market through expanding network and range of services. International deliveries in Europe through DPD network as well as creating a regional market with the neighbouring countries – Hungary, Bulgaria, Greece and Poland. Economy of scale are important factor in courier



business and Romanian triple size compared to Bulgaria makes it even more important to expand our market share that is our key target in mid-term.

## B. Market and regulatory environment

### Bulgaria

Postal services are closely related with the overall state of economy. After 2009, the economics slow down had an effect on the overall dynamic of the local market, therefore for the period 2009-2013 the cumulative revenue growth totalled 14%. Operating in an environment of low economic growth and strong competition all business entities are trying to find ways to optimize their expenditures. More and more companies have been finding opportunities in outsourcing their logistics to courier companies and this is one of the major factors that fuelled the market growth. After 2013, with improving economic environment, the dynamic on the courier market also has returned and the revenues from postal services reached a cumulative increase of 52.3% until 2016. A new market impulse has been brought by the rapid e-commerce entrance into the Bulgarian market. In 2016 the postal services revenues totalled 393 m BGN, while in 2016 only the increase is 25%. This keeps the trend from the past years of decrease in the number of deliveries due to the utilities' migration from hybrid mail to e-mail for sending monthly statements. The increase in the share of e-commerce led to higher weight of the individual customers. The latter has also marked a significant restructuring in customer base, as the individual customers' share in NPS has climbed up from 5% in 2012 to 18% in 2016.

#### *Market of postal services in the Bulgaria*

	2013	2014	2015	2016
<b>The market of postal services, million BGN</b>	258	301	315	393
<b>NPS, million BGN</b>	200	235	240	305
<b>UPS, million BGN</b>	50	56	65	77
<b>Overall market share held by SPEEDY AD</b>	20.6%	20.2%	21.4%	19.8%
<b>Market share in NPS held by SPEEDY AD</b>	26.5%	25.9%	28.1%	25.5%
<b>Number of parcels, mln</b>	175	180	176	184

*Information source: Communication Regulatory Committee (CRC)*

The total number of registered operators is relatively high but in fact in 2016 only about 69 companies were offering NPS. The ten largest operators account for 88% of the revenues. The market leaders are Econt express EOOD and Speedy JSC with a similar market share. Speedy AD has the stronghold in international parcels, corporative customers and mixed type and large shipments, Ekont Express OOD is focused on small sized shipments and individual customers respectively as well as small to medium scale companies, it has a wider branch network, furthermore in the past few years it invested in the development of universal postal services. The expansion of Speedy AD branch network, the growing electronic commerce and launching "Speedy post" intensified the immediate competition between the two companies operating in the segment. Significantly smaller, there are other companies with strong performance in large shipments segment and are major competitors to Speedy AD, such as Interlogistica, Leo Express, Transpress, etc. In international services leaders are DHL, TNT and UPS.

Despite the requirements for registration and the operation of a special regulatory body, the NPS segment is comparatively open and with low entry barriers. The role of the regulatory body is to establish applicable standards and to guarantee a minimum service quality, which favours both the market itself and the companies which have adopted a long-term and strategic vision for their business. There were no significant changes in the regulatory framework in the past year that could impact the market environment.

### Romania

There is no official statistics about the Romanian market. According to our estimates, the total market size of postal services is significantly bigger than the Bulgarian one and exceeds 700 million euro. The largest player on this market is Romanian Posts holding about 37% of the market. During 2017 the market of courier services (NPS) in Romania is estimated on EUR 450 million based on the financial results of the operating companies, where the sales growth is around 14-15%. The leader in the segment of courier services is Fan Courier which expand its leading positions outpacing the second largest player, Cargus



Urgent, who lost market share after financial instability. At the end of 2013 DPD Romania had a market share of 4.7%. The market share increased to 5.8% during 2015 and according to the management's estimates it has reached 6% market share in 2017. A large part of courier services is comprised by international shipments, with three out of the five biggest courier companies - DHL, TNT and UPS, operate exclusively on the international market.



### C. Range of services

The activity of the Group in Bulgaria, carried out almost entirely through the mother company - Speedy JSC, in 2017 traditionally stay focused to its core – offering of courier services which form 96% of sales. In addition to them, efforts are channelled to deliveries such as office-to-office that are part of the universal post service (Speedy Post). In order to enhance its development, a number of actions were taken to expand and improve the office network with new point of sales and refurbishment and modernization of existing one. In 2017, all 125 own offices and 22 of the partners' offices were completely renovated with our new corporate design that offers a new quality level of client service.

It is important to outline that 80% of deliveries carried out by Speedy JSC are typical door-to-door deliveries. Considering our market share, Speedy JSC is the only courier company in Bulgaria that has required logistic and technical capacity that is able to guarantee and execute this type of deliveries in such volume. The competitive advantages are in the services mix, which includes a wide range of city deliveries, national express and economic shipments, transportation of large parcels and pallets with guaranteed terms of delivery 1 or 2 days. International overland deliveries to and from the European countries continue to be an integral part of Speedy's portfolio and to increase its share in the service mix generating the Company sales. In the past year, Speedy continue to work and develop its products for deliveries from/to Bulgaria to/from Romania and Greece at the same rate as the applicable rates for deliveries within Bulgaria.

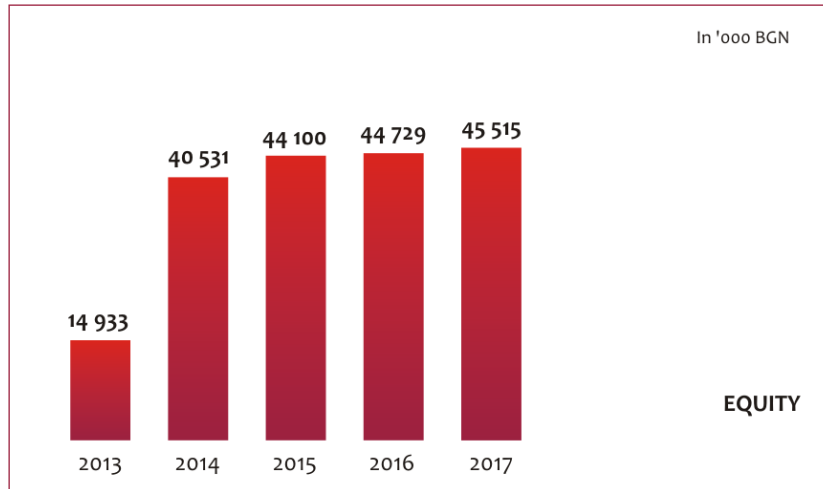
During the year the value-added services were elaborated with additional modules and features. Part of them (such as money transfers) were enhanced by offering an access to them from all clients. All couriers and offices were equipped with POS terminal make it convenient for customers and decrease costs for processing payments. These services important for the Company's customers in the segment of on-line trade and a key requirement which contributes to the development and the expansion of Speedy's presence in this sector.

In 2017 a special attention was paid to optimizing the characteristics of some of main and supplemental services. Our main purpose was to optimize the resources put in to deliver services while maintaining the really important and necessary for the customers features. We added new services which has targeted specific needs of particular business segments such as tires delivering and were improved parameters of





some supplemental services in order to respond to market demand but also to provide effectiveness in execution and to adhere the negotiated terms (announced value, heavy parcels, etc.)



The implementation of network of APS (automated post stations) has been an integral and key part in our development of the B2C and B2B segments. In mid-2017 we signed a contract with retail chain Billa for placing APSs in their locations where appropriate space is available. It allowed to speed up the expansion of the network. Currently, the number of installed machines is 40. They are located in retail chains and malls throughout the country. APSs operate with extended hours and the process dispatching and receiving parcels is easy and fast.

Speedy AD sustains its stronghold in the corporative customers segment. Nevertheless, as a result of the company's 3-year plan to intensively address individual customers, economically active end users, by offering a suitable package of basic and supplementary services to meet their growing demands for secure and quality courier services, its share in the revenues has continued rising.

The express courier service within the country continues to form the largest share in the revenue structure but pallet deliveries, international shipments and economic courier services keep on growing at a steady pace. In addition to the core activity, the company also offers a number of additional services such as cash on delivery, acknowledgement receipt and return documents, fixed delivery time, packaging, announced value, etc. as well as develops supplementary features and constantly adopts it in line with market and customers' requirements.

The use of Speedy's online services package by customers maintains a steady upward trend. Now, more than 90% of shipments are processed via Speedy's online platform on the corporative website following a completely automated process and minimum error probability. In our mutual business with online traders of growing importance are internally developed modules for online platforms as well as external modules for personalized integration. We constantly develop and implement new functions to the existing modules in the platforms for online trading.

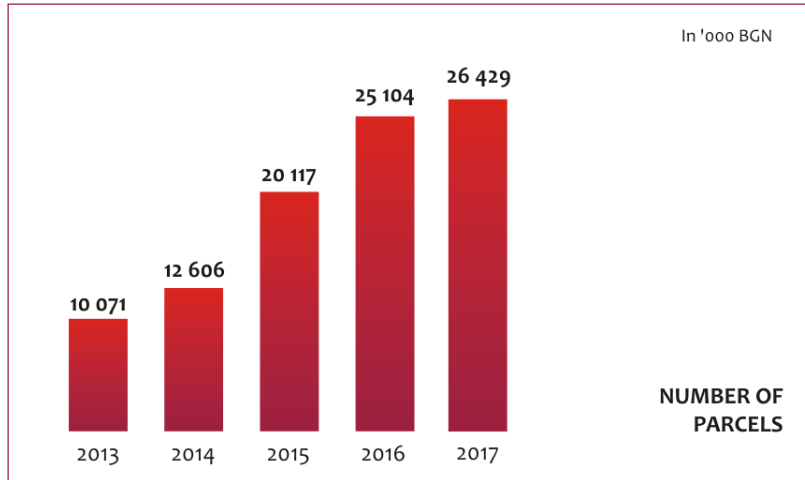
The market strategy in Romania is similar with noticeable difference that deliveries are almost entirely door-to-door that is specific for all companies in the country. It defines some modification to the services offered compared to Bulgaria. Particularly, services from within the scope of universal postal services and from/to office, that are actively marketed in Bulgaria in the last two years, are not available in Romania. The portfolio of services in Romania has been widened for the last years, aiming to synchronize the characteristics of the services in both countries.

#### D. Client base

The Group Speedy keeps its focus on providing services to the largest market segment, corporate customers, which account for 88% of the mother company revenue and 95% of DPD Romania sales. The sectors where the major part of group's customers operate can generally be divided in two groups:



- - B2C (business-to-customers) the agent service a large number or geographically scattered end customers. Such customers are the consumer goods traders, online shops, catalogue sales traders, and mobile operators.
- - B2B (business-to-business) deliveries between legal entities. In addition, we carry out the internal logistics among different company units and warehouses, plus exchange of internal correspondence.



Speedy is now servicing nearly 1.3 million customers from all sectors of the economy, as well as individuals. Out of them, 27 000 customers are regular users of the services provided by Speedy AD and DPD Romania on a contractual basis, which is an indication of stable and long-term trade relationships and diversified range of customers. Our major customers are companies in the area of trading and services such as telecommunications, online shops, insurers. The share of industrial companies is less significant. Having such a wide range of customers, Speedy AD's revenues are well diversified and is not dependent on one customer or on a group of customers. The largest customers generate about 2.5 and 3% of the company revenue.

In 2017 business-to-business services sustain its key position in our service mix, but with the surge in e-commerce in the last years the clients profile also changed. Business-to-customer segment has increased its weight in B2B and B2C mix. The weight of the end clients – economically active individuals – grew considerably in the last years and has continued in 2017 as well.

In Romania the clients base is more concentrated compared to Bulgaria, but the diversification is high enough and dependency on single client is negligible. DPD Romania sales has been generated almost entirely from corporate clients with higher weight of B2C segment. Hence, the clients with term contracts has higher share compared to Speedy JSC. Our target is to shrink the share of the large clients down to 40% of sales. For that reason, the sales department was reorganized, a transparent regional structure was defined and marketing policy was changes in order to attract more small and medium clients. As a result, the clients base has been expanded toward individual clients.

## E. International operations

The international department was founded in April 2015. Its main aims are:

- Keeping an ongoing bilateral communication with all partners in international deliveries;
- Availability of information for services, characteristics and conditions in terms of international deliveries toward interested parties;
- Customer service operations on regarding international shipments;
- Registration, processing and resolve of accepted complaints and suggestions by customers with regard to international courier or pallet services.

Currently, our International Operations team consists of 13 employees. The main achievements of International Operations department for 2017 were:

- Market share increase in international deliveries to/from European countries via DPD services



- Marketing and development of the product DPD Classic Greece – deliveries from / to Greece to / from Europe.
- Improvement of characteristics and delivery requirements of DPD Economy –deliveries from Bulgaria and Romania to rest of Europe.

In 2017 the company realized 4 digital marketing campaigns for popularizing and improve recognition of our main international product, DPD Economy, targeting predominantly individuals and end users. Since 01.09.2017 has been introduced highly attractive terms for international deliveries for parcels up to 5 kg to Germany, while since 01.10.2017 we have initiated special promotion for international deliveries for parcels up to 31.5 kg to 10 countries – Austria, Germany, Hungary, Belgium, UK, Italy, France, The Netherland, Czech Republic and Spain. The above campaigns and promotions helped us to achieve our targets.

The branch obtained a license for courier services in Greece and currently a web site, necessary as an operational and marketing tool, [www.dpd.gr](http://www.dpd.gr) was completed, as well as its price list and general conditions. In Greece, we signed partnership contracts with local courier companies for introducing and developing DPD product on local market, more particularly, through their existing point-of-sale network they provide access of potential clients on Greek market to send / receive parcels to / from Europe. In 2017 3 digital marketing campaign were carried out for popularizing and improve products recognition.

## F. Logistic network

Speedy AD has a fully built logistic network, with 9 distribution centres located in Sofia 1 and 2, Plovdiv, Stara Zagora, Burgas, Varna, Veliko Tarnovo, Ruse and Blagoevgrad which ensures 100% coverage of Bulgarian territory, as well as deliveries throughout Europe. With its daily international routes, the company offers a 24-hour delivery to Romania and Greece. In 2017 our operating department processed 17.7 m parcels on standalone bases and 26.4 m parcels on consolidated base that is increase of 9% and 5.3% on annual base, respectively.

### Expansion of warehouse facilities

After intensive investment in the logistic network in 2016 and 2017, Speedy AD kept on expanding and modernizing its storage area, though with a slower pace. The warehouse in Varna was entirely refurbished with a new semi-automated sorting line, custom-made in line with our needs. In regional hub Plovdiv we increased the space to provide for pallets processing and side loading of the trucks. In all hubs were introduces side loading of pallets which improves the utilization of the truck space and decrease damages on pallets.

In 2017 DPD Romania completed the new logistic scheme based on 8 distribution centres that tripled the parcel processing capacity, simplified commercial policy and focus on cost optimization based on economy of scale. Considerable investments were made for refurbishing and equipping the new sorting centres.

### Office network

In 2017, Speedy JSC has continued development and modernization of the office network. New 25 offices were opened – out of them 20 – furnished in line with the company's corporate standards. At year end, the company operates 343 points for servicing clients (offices and APSs). In 2017 has continued its APS network expansion where clients are able to send and received parcels during extended working hours in a fully automated manner. Additional 17 APSs were installed, located in large commercials centres throughout the country. As of December 2017 total number of APSs is 40

Bulgarian subsidiaries have no office network.

DPD Romania do not run office network (existing offices are six) that is common for courier companies in there.

### Fleet of vehicles

As a leading company, Speedy guarantees fast, reliable and high-quality deliveries of parcels and pallets throughout the country. In order to carry out its operations, Speedy AD utilize its own fleet of vehicles. Speedy fleet comprises of various lightweight and heavyweight vehicles and amortized vehicles are regularly replaced by new ones. As of December 2017, the company had more than 900 lightweight and heavyweight



vehicles for delivery of parcels and pallets. In 2017, Speedy bought 110 new vehicles, part of which have been used as replacement of old amortized vehicles.

In Romania transportation activities are almost entirely outsourced. The company owns 130 vehicles, some of them rented out to the local partners. The aim is to support capacity expansion of our subcontracted couriers.



#### Partner-couriers

During the last years, Speedy successfully has run its program “Couriers-partners”, which gives to our best performing employees opportunity to set up their own business and established a partnership with Speedy AD. In 2017 some changes were made in the way the operations are organized. A new unit “City logistic” were created with a purpose of servicing corporate clients. It implied changes in the determination of courier regions. We regrouped our couriers and established partner companies consisting of leading courier-partner and its employees and including office for servicing clients. As of December 2017, the number of leading couriers-partners was 155 and they employ 398 people.

In Romania the activities are carried out through subcontractors mostly.

#### Control systems

Speedy AD uses an ERP system which enables each employee to monitor in real time the target completion on weekly, monthly, quarterly and annual basis. In 2017, we kept on monitoring the quality of processes and the achieved financial results based on key performing indicators at all company levels. The quality we were able to achieve in the entire operational process is 98.23%, which is above the approved service quality standard.

### **G. Information systems**

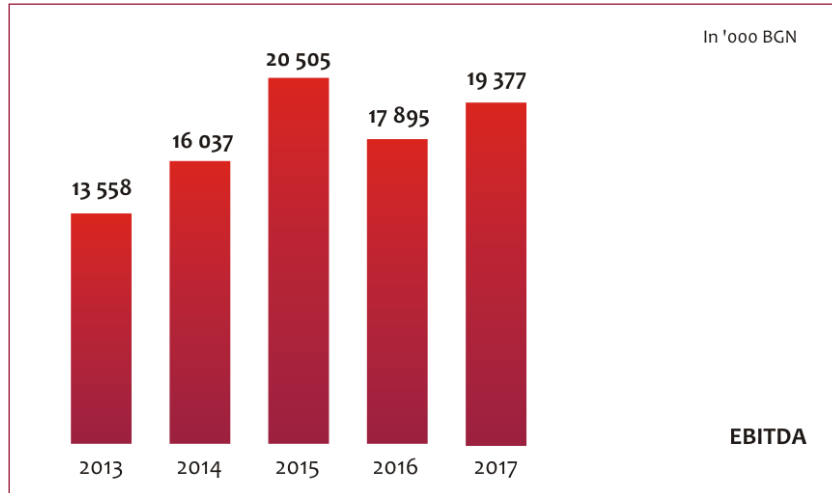
During 2017 our efforts were concentrated in creating capabilities for expansions of the portfolio of services and gaining competitive advantages based on information technologies.

The main IT projects and tasks in 2017 are the following:

- 1. The most significant project for the year were implementation in DPD Romania of the process management system, developed and utilized by Speedy JSC that was completed in the year end.**
- 2. Developing additional modules and functionalities in Speedy’s operating systems in Bulgaria and Romania:**
  - Migrating of the operating software in Romania and its localization to regulations and business particularities.
  - Adjustments of operating system related to introduction of new services and improved functionalities for existing services such as pricing processing of payments, APS integration.



- New web modules for self-service in MySpeedy and MyDPD and improvements in web platform modules for on-line shops.
- New functions in Mobile Courier App, related to new services and card payments.
- Improved functionalities for processing and tracking of parcels, processing through couriers, services returned packages, etc.



### 3. improving the security and interruption of information systems and upgrading the office infrastructure and communications in order to improve quality and security of customer service.

- Implementation of Rights Management Services module for classifying of information
- New technological equipment and mobile devices in order to improve the security and communication between transportation system and regional centres in Bulgaria and Romania. Establishing a back-up connection in all offices.
- Doubling the internet speed.
- New equipment, technological infrastructure and VPN network in Romania.

The development and improvement of the information system is related to a number of ongoing projects, which will continue their expansion in 2018. Our objective is to constantly innovate our information service, to respond to the growing expectation of our present and prospective customers and users.

## H. Human resources management

Human resources management is a top priority for the company and its subsidiaries. Our aim is to improve personnel qualification and motivation and respectively the personnel performance by training, stimulating good practices, results-based compensation and perspectives for long-term carrier within the Group.

All new employee on operative positions, as well as our employees of courier-partners goes through mandatory training. Furthermore, in the past 2017, over 60 employees attended training for mastering different skills and competences, with most of the participants were from Operation Dept. In addition, the company trained 19 fork-lift operators and several employees participated in English courses, various level and a number of employees from our IT Dept. attended various workshops dealing with issues that directly relate to their field of work. The company is financing on a yearly basis the attendance of master degree programs and other specialized courses to improve employees' qualification.

Speedy developed an "Excellent Employees" program to strengthen the staff motivation and have every employee feeling satisfied at the work place. The motivational program in our Operations Dept. runs on a monthly basis (Courier of the month) and on yearly basis (Courier of the Year). All Speedy employees on the position of Driver-courier, who were ranked in the top ten of the Courier of the month competition took part in the competition for Courier of the Year in the relevant calendar year. As far as the Sales and Marketing Dept. (S&M) is concerned, the motivational program includes the sales attendants and all



employees holding the position of Regional Sales and Marketing Manager. Assessment is made on the basis of the employee's objective and specific performance. The assessments take place on a quarterly basis and specific targets are set out based on the company priorities and focus.

*Year average number of employees, classified in categories*

	2015	2016	2017
Managing staff	57	91	129
Expert staff	77	85	90
Technicians and applied experts	165	188	192
Supporting administrative staff	141	147	161
Machine operators and assemblers	89	248	120
Unskilled workers	657	665	790
Other	3	4	7
<b>TOTAL NUMBER OF PERSONNEL</b>	<b>1 189</b>	<b>1 428</b>	<b>1 489</b>

*Note: Employees on maternity leaves are not included*

There is a preliminary approved and prepared budget, as well as a reward fund consisting of prizes, for the winners. Employees are rewarded not only with material incentives but also by the management bestowing them diplomas and personal congratulations letters. In addition, winners are included in the publication of company bulletin with photographs and interviews. Such publicity serves as an example and spreads the principal conviction of Speedy that all good results and achievements will be met with matching recognition and reward. Yet another important focus of Speedy's motivational programs is on getting employees personally involved and internalize the company objectives so that each one of them could identify him/herself with Speedy's policy, philosophy and ideas. The programs have already become quite popular and the company is proud to say that they are producing a good stimulating effect on the individual approach of every employee to the performance of his/her daily duties. It could be noted that they are trying more and more to achieve better results and improve their performance due to the fact that they know that their results are being monitored and appreciated.

It has been several years since company commence a project for attraction and retention of young people with potential right after graduation - "Speedy's got talent". The purpose of the program is after several years of training and practicing in Speedy Jsc and developing its capabilities and competences to become part of the company management team. Despite growing challenge to attract appropriate candidates, in end 2017 we managed to accomplish successful selection and 2 candidates began work in Q1 2018 under this ambitious project.

All company employees have been divided in categories according to the functions they perform. The company activity is not influenced by seasonal factors, and respectively, no employees are contracted on a temporary basis.

The decision of the Romanian government to raise the remuneration in the public administration put pressure on private sector to payroll hike as well. Positive aspect of the local market is availability of companies providing temporary employees that allows or flexibility in HR management in peak load.

## I. Financial results

Speedy JSC has managed to maintain a high sales growth pace (although below common levels) in 2017 in an extremely dynamic and competitive environment. This growth has been realized in traditional courier services as well as by expanding customer base by offering new products and services. Along with the core services, supplementary services have been included in the pursuit for higher added value. These services have a small but increasing significance to our sales and they improve customer's satisfaction.

The past year experienced significant changes in the dynamics in each quarter with high growth of revenues during 1st half of the year and improved profitability during the 2nd half. It is a result of company focus on more thorough control of expenses. The aim is to align the expenses with delivered parcels and to improve



the profitability. A measures were taken to improve the processes and optimize expenses. The prices of some services were increased, the definition of the services and standardization of the parcels were refined. That allowed for stricter control over enforcement of the pricing rules and squeezing transportation costs. As a result, the change in revenues from courier services and number of parcels moved in line, which is exception in the trend from the last years, when the number of parcels outpaced increase in sales.

*Revenue and other sales structure*

In thousand BGN	2015	2016	Change
Domestic market	81 599	88 737	8.7%
<i>% of total income</i>	55.1%	56.0%	
International market	59 381	62 868	5.9%
<i>% of total income</i>	40.1%	39.7%	
Other income, net	6 983	6 829	-2.2%
<i>% of total income</i>	4.7%	4.3%	
Number of parcels	25 104	26 429	5.3%
<b>Total revenues and other sales</b>	<b>147 963</b>	<b>158 434</b>	<b>7.1%</b>

The steps for profitability improvement affected negatively the pace of revenue growth. The achieved increase was 9% on non-consolidated and 7.5% on consolidated basis is below previous years' level but is still high and close to our 10% target. The sales growth of parent company is in all segments with services "Pallet One" and "Speedy Balkans" being the largest contributors. Particularly lucrative results reported "Speedy Post", a service targeting individual clients. The key segment, parcels deliveries, has kept its importance and in absolute terms is the largest contributor to incremental sales.

The growth of revenues of daughter company DPD Romania is considerably below last years' level because of measures for improving profitability. During the year, were increased prices of services and termination of contracts with its largest customer because of poor financial terms. Temporary negative effect had the setup of new operating software. The new system was implemented successfully in two months but during the transition period the clients needed to integrate its applications with the new software of DPD Romania that hindered the processing of new requests and deliveries and create inconvenience for clients. It caused outflow in demand during the period.

The client base is highly diversified and no client accounts for more than 3% of the sales. It secure high sustainability of the sales generated and low dependence from a single client to a group of clients.

The company's advantages are traditionally in the door-to-door deliveries. Without neglecting its most successful segments, the efforts are to enhanced the weight of office network, where transportation costs are lower. In line with this are expansion of APS network and new service "Speedy Post", where deliveries are exclusively to the office.

Since the end of 2013, Speedy JSC has started to increase the share of couriers-subcontractors which allows for cost optimization. The released vehicles are rented out thus realizing supplemental revenues – 3.13m in 2017. DPD Romania traditionally employs subcontractors in transportation and deliveries. And in order to support capacity of its subcontractors, also purchase and rents out vehicles, generating revenues.

After the strong growth in the beginning of the year, Speedy Jsc considerably limited its expenses. For the entire year the spending on materials and hired services show minor increase while in the last three months of 2017 only we achieved significant decrease of 4.6% in spending on materials (mostly attributable to Speedy Jsc) and 12% in hired services (at the account of DPD Romania).

After the intensive investments in parent company and DPD Romania in 2016 the utilization of assets is improving. The dropping out of some operating expenses related to the investments also helped the improvement of the financial results of the Group. The effects of investments, together with the optimizations of the processes and control over operations curbed the costs increase and during the 2<sup>nd</sup> half of the year the cost of materials and hired services actually moved down. There were outpacing growth in compensation costs. The labour market's conjuncture is characterized with decrease in labour supply and



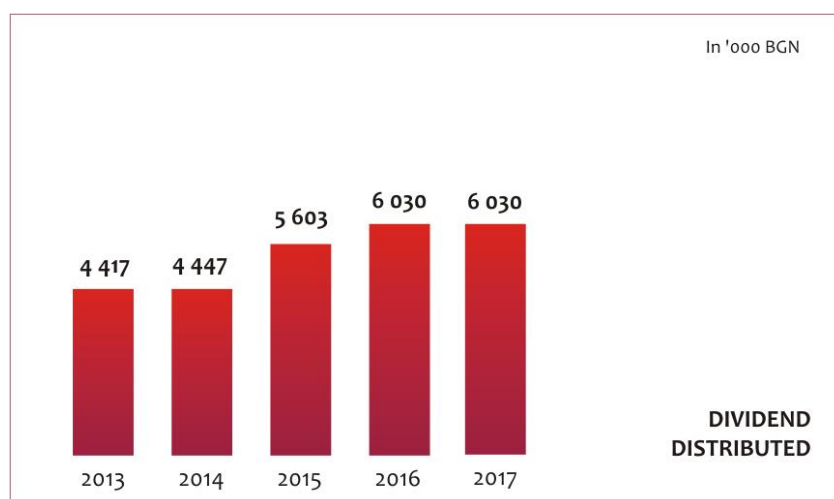
pressure for higher remunerations. In Romania, the sharp raise of remunerations in public sector also brought overall hike in compensations.

#### *Costs structure*

In thousand BGN	2016	2017	Change
Supplies and materials	7 173	7 109	-0.9%
External services	92 142	95 941	4.1%
Compensation costs	28 214	32 133	13.9%
Other operating expenses	2 539	3 874	52.6%
Depreciation	9 344	10 676	14.3%
<b>EBITDA</b>	<b>17 895</b>	<b>19 377</b>	<b>8.3%</b>
<b>Net profit for the period</b>	<b>6,951</b>	<b>7,171</b>	<b>10.9%</b>
<b>Total comprehensive income</b>	<b>6 692</b>	<b>6 774</b>	<b>1.2%</b>

DPD Romania continues its intensive development and high level of investments where utilization yet to contribute to profitability. The expenses related to the expansion, such as rentals and consultancy costs, have resulted in sizable increase on annual base. At the same time the improved logistic network and the complete reorganization of transportation already resulted in lower payments to subcontractors.

EBITDA growth outpace the sales increase – 8.3% yoy to BGN 19.4m (compared to decrease of 12.7% in 2016). More profound is the trend during 2<sup>nd</sup> half of the year with EBITDA growth of 24.6% on annual base.



As far as suppliers are concerned, there are sizable transactions with Transbalkan group AD. The related company is a key partner of Speedy in transportation of loads between hubs and for the services rendered are booked expenses in amount of BGN 10.1m. Despite the concentration, the risk is mitigated as 1/3 of the services are assigned to third parties and Transbalkan group AD is completely dependent on Speedy as we control the core of its revenues and own (through parent company) 80% of its vehicles, thus generating rental income from it.

## **J. Financial position**

After record high investments in 2016, in the past year the level was considerably lower – BGN 10.2m in long-term assets and BGN 1.3m in software. In 2017, the group acquired vehicles in amount of BGN 5.4m almost entirely in Bulgaria. The rest of the investments are predominantly in refurbishing rented assets, electronic equipment and sorting equipment. In Bulgaria investments were mainly for maintenance and renewal of existing assets, while in Romania large investments were made in logistic network – repairing premises, purchase of automatic post stations and equipment for new hubs.





A cornerstone of company strategy is sustainable growth. Taking into account significant market potential, it is important the rapid growth not to be at the expense of financial stability. Speedy JSC sustain largely stable and healthy liquidity and leverage level. In the last years, we have shrunk receivables collection period, as well as payables period as a result of improved terms and level of collections from clients.

The company policy is not to invest in real estate, therefore all its offices, logistic centres and sorting centres are rented. This allows for greater flexibility when organizing and restructuring the activities considering the dynamic company development. The low capital intensity and the good profitability enabled us to achieve a remarkably high return on equity capital without raising the financial risk.

	2016	2017
EBITDA Margin	12.1%	12.2%
Net profit margin	4.7%	4.5%
ROE	15.7%	15.9%
ROA	7.9%	7.7%
ROIC	11.5%	11.4%
Receivables collection period	49.1	45.5
Inventory processing period	1.7	1.4
Payment period of account payables	39.8	40.3
Cash conversion cycle	11.0	6.6
Interest coverage	10.06	15.13
Interest-bearing debt/Equity	0.52	0.49
Interest-bearing debt/Assets	0.26	0.24
Current ratio	1.19	1.11

Note: In calculating above ratios we use sales and other income (net), as it is presented in the table "Revenue structure" in p. 1

In the case of services "Cash on delivery" and "Postal money order" upon delivery of the shipment the courier receive the respective amount and within one business day that amount is paid back to the sender. All the sums collected from the services "Cash on delivery" and "Postal money order" appear as "Other liabilities" in the balance sheet. As of 31.12.2017 the amount of these liabilities totalled 9 m BGN while its change for the period are reported in the cash flow as "Other proceeds (payments) from operating activities".

There are no significant events, occurred between reporting date and the date of preparation of the Report on Financial Standing, that require changes in the financial report as of 31.12.2017.

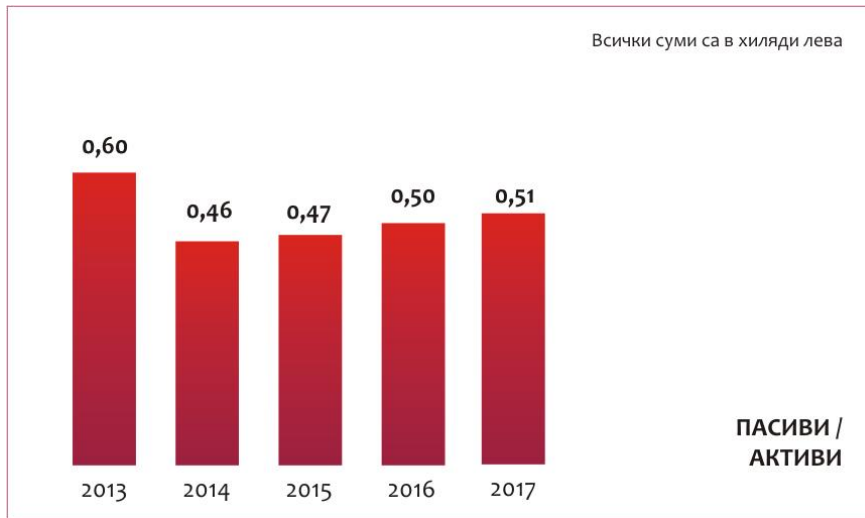
To the extent of our knowledge, there are no events and indicators with unusual nature for the Group, that could have considerable impact on its operations during the period, realized revenues and expenses incurred.

#### **K. Resources management and capacities for investment plans realization. Changes in financing structure after completion of the latter.**

Speedy Jsc devote considerable efforts for planning and control of its financial resources. Short and long-term plans are prepared with the objectives have been planned in details up to the employee level, whose performance is constantly monitored. The investment plan is financed with combination of own funds and external sources (loans and leasing). The cash flow from operating activities (excluding the effect of change of cash on delivery) is sustainably high and is around BGN 17m in 2017. It allows the company to finance its investment program and to meet its obligations in a due manner and to follow its dividend policy of distributing at least 50% of the annual profit as a dividend to its shareholders. Part of bank loans are for financing the investment program in of the subsidiary company DPD Romania. The funds are granted as intercompany loans.



Currently there are no risks for the financial standing of the company. The Group sustain low leverage and sufficient liquidity while the cash flow from operating activity exceeds multiple times the maturing obligations. It provides solid cushion that assure the financial standing even in unfavourable market environment. There are no investments planned or possible events in amount that could result in meaningful change in current capital structure.



#### L. Expected future developments.

In 2017, we are going to follow our long-term development program with focus on establishing and expanding our regional presence, notably in Romania and Greece, as well as the deliveries to Europe. The efforts for processes optimizations and control over implementation of internal standards will continue in order to improve profitability and financial performance while maintaining the quality. This year key priority will be the development of B2C segment and e-commerce with focus on customer convenience.

We do not envisage to substantial change in investment intensity from the last year. In Romania, after the restructuring of operations and capacity expansion is largely completed, lower investments in logistic network are going to be set off by more investment in point-of-sales.

The development of human resources will continue to be essential and the projects in the sphere of raising motivation, activity and entrepreneurship, attracting quality staff and retaining it. A regular assessment of positions, their responsibilities and tasks is performed.

The office network development is aiming its optimization, establishing on key locations and expansion of APS network, incl. in Romania. Significant actions are planned for digitalization of processes, better communication security and data management.

#### M. Information about substantial, unusual and off-balance transactions.

There are no other substantial transactions that could impact revenue, profit or other financial indicators under para 1, p. 8 of additional provisions of LPOS, not announced in p. 1.

#### N. Information about related party transactions.

There are no related party transactions of any significance and/or transactions that could significantly impact the company's financial situation or results of the activities during the reporting period. There are no related parties transactions outside regular line of business or substantially to diverge from market levels.



On GMS on 14.12.2016 were decided for equity increase through issuance of 41 700 new, ordinary voting shares and par value of BGN 1. The increase was under art. 112 (3) of LPOS and is entered in Commercial register on 03.07.11. On the same date, the weighted average share price was 40.997. The Members of the Board of Directors acquired totally 3600 shares. There are no other transactions under art. 240b of the Commercial law with the Members of the Board of Directors or related parties outside regular line of business or substantially to diverge from market levels

All the transactions with related parties are announced in the notes to the Financial statement

**O. Information about Speedy Jsc's participation in the equity, its main domestic or foreign investments (financial instruments, intangible assets and real estate), and investments in capital outside its economic group and the sources/ways of financing.**

There are no investments outside the Group.

No other investments were made in financial instruments and real estates. Information about intangible assets are announced in the notes to the Financial statement.

Registered branches

Speedy Jsc has no branches. The Group has two branches:

- Dynamic Parcel Distribution -Bulgaria. A branch of DPD Romania, registered 11.03.2015.
- Dynamic Parcel Distribution -Greece. A branch of Geopost Bulgaria, registered 22.06.2016

**P. Information about the loans, guarantee or obligations assumed or granted by Speedy Jsc, Speedy Group or by any of its subsidiaries. Other financial instruments**

**SPEEDY JSC**

**Loans obtained**

Type of financing	Investment	Investment
	Credit 1	Credit 2
<i>Amount of financing</i>	BGN 705 000	Tranche 1: BGN 5 000k Tranche 2: BGN 5 867k
<i>Purpose</i>	Purchase of equipment	Acquisition and investing in companies
<i>Maturity</i>	27.02.2018	Tranche 1: 15.12.2019 Tranche 2: 21.11.2020
<i>Interest rate</i>	3-month SOFIBOR+2,9%	Tranche 1: 3M SOFIBOR+2,2% Tranche 2: 3M SOFIBOR+1,85%
<i>Amount as of 31.12.17</i>	BGN 274k	BGN 5 167k

Type of financing	Investment	Investment
<i>Creditor</i>	Credit 3	Credit 4
<i>Amount of financing</i>	830 000 euro	1 280k euro
<i>Purpose</i>	Purchase of equipment	Investments in subsidiaries
<i>Maturity</i>	24.09.2021	08.06.2022
<i>Interest rate</i>	1M-EURIBOR+1,8%	3M-EURIBOR+1,95%
<i>Amount as of 31.12.17</i>	€ 788k	1 281k euro



Type of financing	Overdraft	Overdraft
<i>Creditor</i>	Overdraft 1	Overdraft 2
<i>Amount of financing</i>	300k euro	2 000k euro
<i>Purpose</i>	Liquidity needs	Liquidity needs
<i>Maturity</i>	30.10.2018	30.01.2019
<i>Interest rate</i>	1M-SOFIIBOR+2.2%	1M-SOFIIBOR+1,83%
<i>Amount as of 31.12.1</i>	0	0

Under the loan obtained from Unicredit Bulbank from 21.11.2014, Speedy pledged its subsidiaries Geopost Bulgaria and Dynamic Parcel Distribution, Romania, receivables from loan extended from parent company to Dynamic Parcel Distribution as well as all current and future receivables of Speedy, Geopost Bulgaria and Dynamic Parcel Distribution, Romania on all accounts in national and foreign currency in Unicredit Bulbank. Geopost Bulgaria and Dynamic Parcel Distribution, Romania are guarantors on investment loan 1 and 4 and overdraft 1.

Speedy Group is guarantor on investment loan 1.  
In borrowing for equipment, the collateral is the purchased equipment.  
The subsidiary companies do not use bank financing.

### Financial leases

<i>Creditor</i>	<i>Maturity up to 1 year</i>	<i>Maturity over 1 year</i>	<i>Interest rate</i>
Raiffeisen leasing	3 345 861	5 312 024	
Unicredit leasing	2 095 412	2 261 369	
Other	47 851	37 805	
<b>Total Speedy Jsc</b>	<b>5 489 124</b>	<b>7 611 198</b>	<b>2.6%</b>
Motoractive IFN	22 171	51 347	3.7% - 3.9%
Unicredit Leasing Corporation IFN	28 998	74 005	3% - 4.3%
<b>Total DPD Romania</b>	<b>51 169</b>	<b>125 353</b>	

The leasing obligations are secured by the leased assets.

As of 31 December 2017 granted a loan to DPD SA Romania, a subsidiary of Speedy JSC.

<b>Name, in thousand BGN</b>	<b>Amount</b>	<b>Interest rate %</b>	<b>Maturity</b>	<b>Purpose</b>
DPD SA, Romania	9 001	4,5%	15.12.2020	Investment

The loan is unsecured.  
No other financial instruments are used, incl. hedging.  
Speedy JSC and subsidiaries have not provided guarantees to third or related parties outside the Group.

## SPEEDY GROUP

### Loans obtained

Type of financing	Investment
<i>Creditor</i>	Unicredit Bulbank
<i>Amount of financing</i>	€ 7 866 000
<i>Purpose</i>	Investment in subsidiaries
<i>Maturity</i>	28.06.2028
<i>Interest rate</i>	1,579%
<i>Amount as of 31.12.15</i>	€7 208 000



**Loans extended, in '000 BGN**

Name	Amount	Annual interest rate	Maturity
<i>Subsidiaries</i>	2 495	3-4.5%	Up to 1 year
<i>Other related parties</i>	2 526	3-4.5%	Up to 1 year
<i>Natural persons</i>	905	3.8%	31.12.2018
<b>Total</b>	<b>5 926</b>		

The extended loans are for financing projects with common strategic purpose.

**Extended guaranties, in '000 BGN**

Name	Amount
<i>Subsidiaries</i>	23 750
<i>Other related parties</i>	26 013
<b>Total</b>	<b>49 763</b>

**Q. Information regarding share buy-back transactions.**

The company and its subsidiaries have no transactions involving own shares.

**R. Use of funds raised from new issue of securities.**

The amount raised from the new issue in 2017 were BGN 42k. The proceeds were used for regular payment.

**S. Information regarding ecology and employees**

The information is presented in the Non-financial report.

**T. Research and development**

The Group has no R&D activities.

**U. Analyses of the financial results and published forecasts.**

Speedy AD has not published forecasts.

**V. Information about changes made during the reporting period in the main management principles of the issuer and its economic group.**

No changes in the reporting period not already mentioned in this document.

**W. Main characteristics of the applied systems for internal control and risk management.**

(See Declaration for corporate management)

**X. Changes in the Board of Directors**

No changes occurred.

**Y. Remuneration paid to the members of the Board of Directors**

	Base salary (BGN)	Non-cash benefits (BGN)	Other payments (BGN)
Valeri Mektupchiyan	240 000		66 668
Danail Danailov	66 000		29 013
Georgi Glogov	66 000		29 013
Avak Terziyan	66 000		21 605
<b>Remuneration paid by Speedy EOOD</b>			
Valeri Mektupchiyan	31 584		



As of 31.12.2017 the amount of compensations due to the members of the BoD, as decided by GMS and BoD, payable within 3 years are as follows:

	Salary for 2014 (BGN)	Salary for 2015 (BGN)	Salary for 2016 (BGN)
Valeri Mektupchian	7 407	13 333	22 222
Danail Danailov	3 704	5 556	9 259
Georgi Glogov	3 704	5 556	9 259
Avak Terziyan	-	5 556	9 259

In 2017, the GMS, in compliance with art. 9 (2) of Remuneration policy of the members of the BoD, approved maximum amount of variable remuneration totalling BGN 135k that is going to be paid to the board members for their engagement in 2017 and is going to be distributed between them with a decision in 2018.

**Z. Information about the shares held by members of the Board of Directors at the end of the reporting period and changes occurring during the previous year.**

As of 31 December 2017:

	Acquir ed during the period	Sold during the period	No of directly owned shares	No of indirectly owned shares	Total No of shares owned (directly and indirectly)	% ownership
Valeri Mektupchian	-	44 000	0	3 500 367	3 500 367	65,09%
Avak Terziyan	1 800	-	1 800	-	1 800	0,03%
Danail Danailov	1 800	-	2 160	-	2 160	0,04%

The members of the Board of Directors have no options or other rights to acquire shares in the company or its subsidiaries.

The shares acquired by Avak Terziyan and Danail Danailov were from the capital increase under art. 112 (3) of LPOS with a decision of the GMS from 14.12.2016.

No fixed income securities are issued.

**AA. Information about agreements that the company knows about that could result in a change in ownership structure of equity or bond issues.**

There is an agreement between Speedy Group AD and GeoPost SA France providing the option for GeoPost SA France to increase its share from the currently 25% of the capital to a considerable majority stake in the company in 2020.

**BB. Information about any pending court, administrative or arbitration proceedings concerning jointly or separately the payables or receivables amounting to at least 10 percent of the issuer's equity.**

There are no court or other type of proceedings of any significance.

**Information about the Director of Investors Relations:**

*Krasimir Tahchiev  
 Director of Investors Relations  
 Tel. 02 8173 999  
 E-mail: k.tahchiev@speedy.bg  
 Sofia City, Abagar St., SOMAT Administrative Building*



## 2. Major risks faced by the company

SPEEDY AD endeavour to keep a low risk profile by maintaining low levels of financial and operating leverage and high level of operating efficiency, by applying strict rules and procedures for management of activities and by strictly controlling their compliance, by diversifying its customers and suppliers.

### Macroeconomic risk

SPEEDY AD operates nationwide as well as in Romania and Greece and services companies in various sectors of the economy. Accordingly, our business activity depends heavily on the overall economic growth and the general condition of business environment. A possible shrinking of economy and consumption would put pressure on profit margins, and a possible strong and continuous setback of business activity could result in negative trends in sales. The company is trying to minimize that risk by maintaining high levels of financial autonomy and by investing continuously in efficiency improvement, which enable it to operate at a much higher profitability compared to its competitors.

### Regulatory risk

The regulatory risk is related to the adoption of regulatory changes that could involve additional expenses or restrictions of company activities. Currently, no implementation of any requirements that could either burden or involve additional expenses related to company activities is expected.

### Interest rate risk

All interest debts of Speedy AD are with floating interest rates, EURIBOR and SOFIBOR. Accordingly, any general increase of interest rates would produce a negative effect on the company. The strongly expansive money policy of leading central banks lowered the base interest rates and probably they will remain at such levels, therefore medium-term negative changes are not likely to occur.

### Credit risk

Nearly 80% of the income is generated by customers served on contractual basis, and the service is accordingly paid not at the time it is delivered but rather on a monthly basis. If economic situation worsens, the amount of overdue receivables may rise significantly. The company has implemented a detailed and strict system of monitoring all due sums and the deadlines of payments, including an action plan in case of past dues. By stabilizing the economic situation, in recent years the provisions for past due receivables were lowered and the company was able to collect a large part of its receivables, which have already been provisioned.

Cash is stored in a way to minimize the risk. The servicing bank of our company have top rating in the country.



### Price risk

The price risk is linked to the general inflation rate on national level in the countries of operation and the level of competition. After 2009 the inflation is low, reaching in 2014 even negative levels. This fact in combination with the high level of competition puts service prices under pressure. Speedy AD is



maintaining its competitiveness by investing in efficiency and process improvement, which enables it to maintain high profitability despite the pressure on prices.

The risk regarding the price level of supplies is related mainly with the price of the labour. The low unemployment resulted in limited availability of qualified workers and respectively, a pressure for raise of compensations to attract new and retain existing employees. Substantial costs are also for fuel and rental of premises. In both items, the risk over the financial performance is limited. The rents are under long-term contracts with regulated change in prices and the change in the price of oil is reflected in the fuel tax that is subject to monthly update and is payable by the clients. The highest weight has cost for subcontractors but they are also related with the costs of labour and fuel.

#### Currency risk

The exposure to currency risk arise from the international activities, whose share in the income structure is currently small. The Bulgarian lev is fixed to the euro and the reporting is carried out in Bulgarian lev, the currency risk is related only to the currencies outside euro. The rising number of international deliveries is intended to become a main source of growth for the future development of the company, therefore the long-term exposure to currency risk is expected to rise, bearing in mind that this year we realized transactions in EUR, BGN and RON. If BGN/EUR exchange rate remains fixed as it is now, we do not expect that fluctuations in the exchange rates of BGN and EUR could have any significant impact on the financial result of the company in medium-term. With the acquisition of DPD Romania S.A. the number of transactions in RON increased and accordingly the exposure to currency risk will rise. The operations in RON occupy just a small segment of the total income structure and cannot cause any significant influence on the final result. The BGN/RON exchange rates make a significant influence on the consolidation of DPD Romania S.A., because its revenue comprise about 30% of the consolidated revenue.

#### Liquidity risk

Liquidity risk is when the company is unable to pay its maturing liabilities. The amount of Speedy AD current liabilities is considerable and is related to payments of leasing contracts, investment loans and suppliers.

To manage its liquidity, the company negotiates the payments schedule to match the expected dates of future cash flows. In addition, money reserves are maintained to serve as buffering in case of adverse turn in the market situation and temporary shrinkage of cash proceeds. Until now, the company has been generating a stable positive cash flow which allows us to make without any trouble all due payments on time and to maintain a stable liquidity ratio.





### 3. Insider information

**Participation by the Board of Directors Members in commercial companies as unlimited liability partners; ownership of at least 25% in the equity of another enterprise, as well as participation in managing and controlling bodies in other enterprises or corporations as procurators, control bodies or board members:**

#### VALERI HARUTYUN MEKTUPCHIYAN

„Omnicar“ EOOD	Manager	over 25%
„Omnicar BG“ EOOD	Manager	over 25%
„Omnicar S“ EOOD	Manager	over 25%
„Kiler storage“ EOOD	Manager	over 25%
„Omnicar auto“ OOD	Manager	
„Speedy group“ AD	Executive Director	over 25%
„Speedy“ EOOD	Manager	over 25%
„Lux light systems“ EOOD	Manager	
„Balkan holiday“ EOOD	Manager	
„Bulrom gas – 2006“ OOD	Manager	over 25%
„Concept invest 2011“ EAD	Executive Director	over 25%
„Plovdiv invest 2010“ EOOD	Manager	over 25%
„Brestnik“ EOOD	Manager	over 25%
„Geopost Bulgaria“ EOOD	Manager	
„DPD“ SA, Romania	Executive Director	
„Winery Estate Dragomir“ OOD		over 25%
„Transbalkan“ SRL		over 25%
„Transbalkan group“ OOD		over 25%
„M Castel“ OOD	Manager	over 25%
„Sofia city logistic park“ EOOD	Manager	
„Omnicar plus“ OOD		over 25%
„Omnicar occasion“ EOOD		over 25%
„Omnicar rent“ OOD		over 25%
„Sarbul 2014“ OOD		over 25%
„Kompresor BG“ EOOD		over 25%

#### GEORGI IVANOV GLOGOV

„Speedy group“ AD	Member of the Board of Directors	
„Speedy“ EOOD	Manager	
" Concept invest 2011" EAD	Member of the Board of Directors	
"Sandriny Flo" OOD	Manager	50% of the capital
"Transbalkan Grup" OOD	Manager	
"Transbalkan" SRL	Manager	
„Aleks – G“ EOOD	Manager	sole proprietor
„Balkan holiday“ EOOD		sole proprietor
„Lux light systems“ EOOD		sole proprietor

#### DANAIL VASILEV DANAILOV

„Bioforest“ OOD	Manager	50% of the capital
DPD SA, Romania	Member of the Board of Directors	

#### AVAK STEPAN TERZIYAN

„Star performing“ OOD	Manager	over 25% of the capital
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#### CEDRIC FAVRE - LORRAINE

„Chronopost“	Supervisory Board	
„Pickup Service“	Management Board	
„GeoPost International Management & Development Holding“		Supervisory Board
„GeoPost Espana“	Management Board	
„DPD Schweiz“ AG	Board of Directors	
„Tigers“ Ltd	Board of Directors	
„DTDC“	Board of Directors	
„DPD Laser Express Logistics“	Board of Directors	
„GeoPost Yurtici Kargo“	Board of Directors	



## 4. Key Managers – Bulgaria



**Cedric Favre-Lorraine**

Member of the Board of Directors

**Experience and qualification**

- Executive Vice-President in Geopost SA (France), responsible for Finance and Acquisition
- Joined the Geopost SA team in 2002 as a financial controller
- In 2006 promoted in the subsidiary company Expack as a CFO



**Valeri Mektupchiyan**

Executive Director

**Experience and qualification**

- Founder of Speedy
- Executive Director from the very beginning
- Operative director of Speedy from 2008 to 2011
- Serial entrepreneur, founder and owner of companies dealing with oil trading, motor vehicle trading, repair and maintenance, trading with fuels, transportation services

**Specific responsibilities**

- Overall management of Speedy's business



**Georgi Glogov**

Member of the Board of Directors

**Experience and qualification**

- Founder of Speedy
- Director Speedy international activities from 2003 to 2009
- Entrepreneur with more than 20 years of experience
- Owner of a financial and accounting house

**Specific responsibilities**

- President of the Board of Directors



**Danail Danailov**

Member of the Board of Directors

**Experience and qualification**

- Investment and business consultant with more than 18 years of experience
- Experience in the field of macroeconomics, privatization and investment intermediation, management and investments
- Managing Director of a risk investments fund from 2009 to 2011
- Chief investment expert from 2003 to 2009

**Specific responsibilities**

- Strategy and business development, acquisitions and partnerships



**Avak Terziyan**

Member of the Board of Directors

**Experience and qualification**

- Regional manager for Southern Bulgaria in DHL and FedEx
- From 2000 responsible for human resources in Unilever and implementation of unified strategy of the company in Bulgaria, Macedonia, Albania and Kosovo
- From 2005 to 2008 Operating Manager in Speedy
- From 2008 HR Manager. Successfully implementing two EU funded projects under OP "Development"



## Key Managers – Romania



**Lucian  
Aldescu**

Executive  
Director

### Experience and qualification

- Executive Director of DPD Romania since 2008
- Many years of experience in transport and logistics in Eculine& DPD Romania
- Former president of AOCR (the Association of Courier Operators of Romania) from 2009 to 2011
- Founder of Pegasus Courier in 1997
- Graduate with EMBA Program in Tiffin University

### Specific responsibilities

- Member of the Board of Directors and Executive Director



**Radu  
Stanesku**

Sales  
Manager

### Experience and qualification

- 9 years experience in trade and 7 years business development in international companies such as Mars, Puratos, Unilever and Heineken, responsible for 8 countries in CEE
- Since 2008 has worked with Speedy JSC on a project related with corporate strategy, restructuring of processes, HR and analyses of processes
- Certification programs such as Center for Creative Leadership, Psychometrics Canada, OPP London, Meire, Strategyzer Swiss, etc.

### Specific responsibilities

- Sales, marketing, customer service



**Carla  
Codrea**

Financial  
Director

### Experience and qualification

- Financial Director of DPD Romania since 2008
- Rich experience in the FMCG Unit of Carlsberg Group; held key positions in the sphere of finances, financial control and accounting
- Graduate of EMBA Program in Asebus and Kennesaw State University in Industrial and Engineering Management in Technion Israel

### Specific responsibilities

- Finances, financial control, accounting



## Management responsibilities

The consolidated financial statements for 2017 prepared by the Management of SPEEDY AD, give a true and fair view of the Group's situation at the end of the year and its accounting results. The Financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS).

The management confirms that suitable accounting policies has been applied and that during the preparation of the Financial statements at 31 December 2017 was respected the precautionary principle in the assessment of assets, liabilities, revenues and expenses.

The management also confirms that it has complied with the accounting standards and that the Financial statements have been prepared on a going concern basis.

The Management is responsible for keeping proper accounting records, for safeguarding the assets and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Director of  
Investors Relations:

Krasimir Tahchiev

Executive  
Director:

Valeri Mektupchiyan



## # Declaration for corporate governance

### I. Introduction.

This Declaration has been prepared in compliance with Art. 100m, para 8 of LPOS (Official Gazette, issue 42 of 2016), aiming to disclose regulated information of Speedy Group, with content data regarding the following:

- General characteristics of the Internal control and Risk management systems within the group regarding the financial reporting process;
- Information based on Art. 10, paragraph 1, item c, d, f, h, and i of Directive 2004/25/EC and the European Parliament and the Council of April 21<sup>st</sup>, 2004 on takeover bids;
- Composition and functioning of the administrative, management and supervisory bodies of their Committees;
- The Multicultural policy applied regarding the administrative, management and supervisory bodies in terms of aspects, such as age, sex or education and work experience, the goals of this policy of applying multicultural aspects and the results thereof as of the reporting period;
- Information regarding the observance of the Code of Good Corporate Governance by Speedy Group JSC observes (parent company);
- Justification for non-observing certain sections of Code of Good Corporate Governance;



## II. Internal Control and Risk management systems in the financial reporting process:

### 1. Controlling environment.

The controlling environment in the Speedy group companies is based on:

#### a. *Communication, applying practices of accountability and business ethics*

Speedy JSC (the parent company) has incorporated an Ethics Code that sets up a framework for personal integrity and professional ethics within the company and its subsidiaries. The Ethics Code has been communicated to all employees that agree to follow the incorporated ethic regulations and professional ethics. It has been implemented in the job descriptions of all employees including the Financial Accounting and Reporting Departments, and has been set up as a model of behaviour.

#### b. *Competence engagement;*

Speedy JSC (the parent company) has incorporated a Procedure for Recruitment and Hiring of employees under labour contracts. There are set requirements for education, work and professional experience of employees at all company and subsidiary levels.

#### c. *Engagement of persons entitled with general management;*

The Executive Director of Speedy JSC (parent company) has accepted adequate rules and procedures for the carrying out of the internal control functions. He is responsible for the financial management and control in the Group, for its compliance with the principles of lawfulness, good financial management and transparency. The Executive Director has delegated his rights to other official representatives of the Company and its subsidiaries, by definition of their respective rights and obligations, and regularly requests periodical reporting of the delegated rights. The Executive Director of Speedy JSC (parent company) has set up and maintains conditions for independent internal audit functioning that reports directly to the Audit Committee of Speed JSC.

The managing authorities that carry certain rights and responsibilities regarding the financial reporting process, and respectively other related processes thereto, are: The Board of Directors, Audit Committee, Financial Director, Chief Accountant of Speedy JSC and its subsidiaries' equivalent authorities.

The Board of Directors, and respectively each company's Manager accepts and confirms the accounting policy and its amendments for each reporting period, the prepared approximate accounting assessments as of each reporting date, incl. the applied methodology; financial statements and reports, along with other publicly disclosed documents that contain financial information.

The Audit Committee monitors in an independent manner the realization of the financial reporting processes in all group's companies and subsidiaries, the application of accounting policies and the effectiveness of the internal control system of the group's companies, including risk management, as well as the achievement of results by the internal and external audit systems.

Financial directors are responsible for the thorough organization, functioning and current control of accounting activities, as well as the financial reporting system. They are the direct leaders of the management process, and in charge of making all key decisions regarding the



financial statements and other publicly disclosed documents that contain financial information. They are also the first level approvers of the accounting policy, general reporting methodology and in charge of assessment and acceptance of the work performed by external experts (valuators, actuary, auditors, consultants, etc.) that are part of the financial reporting process. They are also in charge of, along with the Chief accountant, and the Reporting department manager, the current control of the effects and risks over the financial statements based on the assesses business risks for the group's companies. For the companies and the limited liability branches, these activities are carried out by the responsible employees in Speedy JSC or DPD Romania S.A.

Chief accountants are in charge of organization and management of the accounting and reporting function of the respective group company – they control and methodologically direct the current accounting activity, they also manage the preparing implementation of the accounting reporting methods and techniques; they are responsible for the process of month-end accounting and regular balancing, and preparation of all accountable approximate valuations, they offer and prepare accounting policies and their amendments, they follow current legislation changes in the IFRS. The accountants are the direct of the company and the relation with internal and external experts for the purposes of financial reporting.

**d. *Philosophy and Management operational method;***

The Management of Speedy JSC (parent company) prepares the consolidated financial statements in compliance with the principle to present timely, true and understandable information about the group's performance and its accounting financial results. The Financial statement has been prepared in accordance with the International Financial Reporting Standards (IFRS) and also complies with local legislation requirements.

The parent company Management has confirmed that they apply consecutively an adequate accounting policy and, that upon the preparation of the consolidated financial statements as of December, 31st the prudence principle has been applied for valuation of assets, liabilities and expenses.

The parent company Management has also confirmed that they adhere to the applicable active accounting standards, and, the consolidated financial reports have been prepared based on the principle of going concern basis.

The parent company Management is also responsible for keeping the due accounting registers and book keeping, for the expedient assets and liabilities management and taking necessary measures for evasion and detection of probable embezzlements or fraud and other irregularities.

**e. *Organizational Structure.***

In Speedy JSC (parent company) and its subsidiaries there is an established full-time personnel engagement, Regulation for Internal Work Order, employee job descriptions (as responsibilities allocation is at place), as well as hierarchical structure with certain responsibility and reporting levels. The internal audit unit operates at its own level of independence;

**f. *Human Resources Management policies and practices.***

Speedy JSC (the parent company) has incorporated a Procedure for Recruitment and Hiring of employees under labour contracts, as well as Procedure for Employees Evaluation.



**g. Employees/Personnel competence.**

The requirements for employees' competence have been incorporated in employees' job descriptions. The need for additional qualification have been described in the employees' annual assessment plans. The latter are prepared based on the annual employee evaluation in the respective company in the group.

Following the annual evaluations, based on their outcome in terms of areas for improvement of competence and abilities are to be discussed with respective department directors and annual training program is prepared. The management of the respective group company manages the organization for enhancement of necessary knowledge and abilities of the employees, by including them into the appropriate training programs.

**2. Risk Assessment policy in Speedy Group.**

Risk management is a substantial element of the thorough management process in the companies of Speedy group. It is generally accepted that any organization is dynamic and relates to certain transitions – time, budget, participation, therefore certain risk is always at place, and it needs to be managed. The targets of the risk management within the group is to: increase in a maximum degree the probability for positive impact over its activity, minimization of the probability for negative impact.

The Management of Speedy JSC (parent company) estimates risk management as a key activity which brings higher achievement of the groups' goals. For this purpose, all decisions made to manage risk identification and secure regular monitoring of the process, as all of them are being documented, and regularly updated.

The operational environment in which Management of Speedy JSC and respectively its subsidiaries, represents the framework that has to be observed and applied in the everyday risk management process. It has been built on external and internal group factors that influence its operation.

**a. External Factors** – external factors that are significant to the group are applicable legislation, public opinions, economic environment in the country, funding and financing and the availability of legislation boundaries, international activities etc., that have been disposed in the table below:

<b>External factors</b>	<b>Risks</b>
Changes in legislation	Changes in legislation and other regulations can restrict the planned activities in the group. The regulations can sometimes stipulate requirements that are inapplicable in practice.
Complexity of legislation	Lack of adequate systems and trained personnel to apply the regulations.
Technologies development	Newly developed technologies can impose contractors to cease to support currently active systems in the group
Changes in political environment	Changes in government, legislation or regulatory authorities could impact the targets set by the Speedy group. It could lead to legislation changes, it could therefore bring amendments in the requirements for carrying out certain activities.





Environmental conditions	Changes in environmental requirements could mean that certain activities or projects must be ended or modified, and prerequisites for new investments might appear.
Changes in economic environment, related to the group financing	Main financing sources of the Speedy group are banks and leasing companies, that, in cases of economic environment deterioration, could restrict or make financing possibilities more expensive.
Natural disasters	Fire, flood, or other natural disasters could bring a negative impact over the appliances necessary of carrying out a certain activity.

**b. Internal factors** – the operational activities in the Speedy group, the available resources, the applicable financial and accounting and IT systems, new activities, operations or functions, internal restructuring of activities, etc., have been stated in the table below:

<b>Internal factors</b>	<b>Risks</b>
Corporate restructuring	Any restructuring in the Speedy group and its activities could bring an unexpected negative impact.
Internal control system amendments	Any amendment in the group's structure could reflect in loosening the internal control system, leading to certain losses and breakdowns in the groups' company system.
Human Resources	Weak HR policies can lead to incapability of hiring the respective personnel or to impossibilities to support or increase administrative capacities.
New or renovated IT systems	Fast or substantial changes in IT systems can influence the internal control system risk
IT systems protection measures	A system breakdown, loss, forgery or inappropriate data management, unauthorized access to IT systems of the groups' companies, can influence negatively its activities.
New technologies	New technologies introduction into the manufacturing processes or information systems can influence the internal control risk.
Rapid growth	Significant and rapid activity expansion could limit controlling procedures and increase the defect risk in their actions.
Expanded activities abroad	Expanding activities or acquisitions abroad could bring new and often unique risks that can reflect the internal control procedures, e.g. additional or amended risks resulting from changes in currency operations.
New accounting standards and clarifications	Accepting new accounting principles or amendments in existing accounting principles could influence the risks in preparing the financial statement
Bad financial management	Improper management of the planned financial resource or exceeding planned limits, accrual of excessive liabilities.
Weak control over inventories and assets	Stealth of inventories, misuse of long term assets.



### **3. Information system**

Speedy JSC and its group subsidiaries have implemented and utilize multilateral software product, that represents an IT system, comprising the thorough financial reporting system and communication. Elements of the thorough information system are:

- Operational software – serves for presenting financial operations and transaction in carrying out of all services carried out in the direct company activity – courier services, postal services, postal money transfer transactions, logistic services, etc.;
- Financial and accounting software – serves for accounting of all cash flow operations of bank accounts and their allocation in the respective items;
- Software product for Labour and Remuneration – serves for automatized formation of employees' remuneration and automatization of the obligatory contributions of individual accounts;
- Vehicle management software – serves for keeping track of the manufacturer set technical for tracking the expense on fuel and its budget planning;
- Expense controlling software – serves for second level approval of each expense;
- Company resources planning software – serves to integrate budgets of all departments and activities within the group, operating in one single integrated information system, that serves the needs of all business units;

Overall, the Information System comprises all methods and documentation that:

- Identify and evidence all valid trades and operations;
- Describe in a timely manner trades and operations with sufficient detail, which enables their proper classification for the purposes of financial reporting;
- Evaluate the trades and operations value in a way that allows their fair value entry in the financial statement;
- Define the due time period in which the trades and operations have been executed, in order to enable their due balancing in the respective accounting period;
- Represent the trades and operations in an appropriate manner, along with the related disclosures in the financial statement thereto.

The quality of information that has been generated by the system can impact the ability of the company and the group's management to make expedient decisions in the management and activities control, as well as in preparing trustful financial statements.

The communication that includes availability and understanding individual roles over the financial reporting is carried out by electronically means of communication or by the management's activity.

### **4. Controlling activities, policies and procedures.**

The controlling activities can be categorized, as follows:

#### **a. Review of the performance and performance results of the Group;**

They include:



- Reviews and analyses of the actual results towards budgets, prognoses and results from previous periods;
- Relations of different data groups – operational or financial – along with analyses of interrelations and analysing and corrective measures;
- Comparison of internal data with external information sources;
- Reviews of activity results separated by functional units or activities;

**b. Information processing;**

Both common categories of the controlling activities in the IT systems are the controls of applied IT programs and the common IT controls, which represent policies and procedures related to multiple applicable programs that support the effective functioning of controls over the applicable programs that enable guarantees of continuous adequate functioning of IT systems. Examples of control over the applicable programs include:

- Verification of the mathematical correctness of records;
- Maintenance and review of accounts and turnover registers;
- Automatized controls, such as verification of incoming data and checks for consistency of numeration and non-automatic checks of reports for exceptions.
- Examples of common IT controls can consist of:
  - Control over the program settings changing;
  - Controls that restrict access to certain programs or data;
  - Controls over the implementation of new releases of software applicable programs;
  - Controls over the system software, restricting accesses or current monitoring over the system application usage that could change financial data or records with no audit trace.

**c. Physical Controls;**

These activities comprise:

- The physical security of assets, including adequate measures for preserving, such as safety appliances and security access to assets and documentation;
- Access approval to computer programs and data containing files;
- Regular counting and comparison of cash availabilities, reported in the controlling documents (such as, comparison of counting of cash availabilities with the results from inventory with accounting documents).

The degree to which controlling parties aim to prevent asset frauds, is related to the trustfulness of preparing financial statements and therefore auditing, depends on certain circumstances, such as cases when assets are extremely susceptible to fraud.

**d. Responsibilities allocation.**

Allocation of responsibilities for approval of trades and operations, their due recording and maintenance of responsibility for assets by different employees. Responsibilities allocation is envisaged to prevent possibilities for allowing any employee to be in a position to perform, or cover mistakes or fraud cases in the regular employee task and duties/responsibilities.



### **5. Current observation of controlling functions.**

The controlling functions in Speedy JSC (parent company) and its subsidiaries is an ongoing process, carried out by its management, administration and employees within the group. The current controlling functions are carried out via:

- The implemented in 2005 Quality Control System;
- Internal Control and Internal Audit unit;
- Financial control unit;
- Vehicle controlling unit;
- 24/7 monitoring center;

The process of current control aims to achieve a reasonable confidence in the goals achievement, allocated in the following categories:

- Performance and optimization of operations;
- Trustfulness of the financial and accounting information;
- Compliance with legislation and active legal regulations.

Current control observation by the management includes an assessment of the controlling process if it works as envisaged and if it is modified in the appropriate way, in order to reflect the changes in environment. Current control observation, includes:

- Reviews by the Management – referring to the major organization goals, including those related to the performance, profitability and resources preservation.
- Assessment by the internal auditors for following the group's policy of quality – includes preparing trustful financial statements – interim results and disclosed results statements.
- Supervision of the following of ethics code or the business practice policy within the group's companies and its subsidiaries – that comprises the compliance with laws and regulations that designate the organizations' activity.

Current controls are carried out to guarantee that controlling procedures are continuous and act effectively over time.

Goals of all controlling units in the Speedy group is to support and assist the Management, by means of identifying and assessing risks and the adequacy of financial management and control systems, regarding:

- Identifying, assessment and risk management performed by the Management.
- Compliance with applicable legislation, internal acts and active contracts.
- Trustworthiness and comprehensiveness of financial and operational information;
- Effectiveness, efficacy and economically of activities;
- Assets and information protection;
- Tasks performance and goals achievement;

By achieving this purpose every auditing and controlling unit contributes to the improvement of the activity of the Speedy group and ensures assistance in achieving current and future company goals.

### **III. Information based on Directive 2004/25/EC on takeover bids;**

Currently there is no offer for acquisition, proposed to the group.



#### ***IV. Composition and functioning of the administrative, management and supervisory bodies of their Committees;***

##### ***Board of directors, Speedy JSC (parent company)***

Speedy JSC is managed by its Board of Directors (Board) that consists of 5 (five) members, electing one Executive Director. The Corporate Board work is managed by its Chairman. Shareholders that hold at least 15,5% of stocks can vote for one of the Board members, and shareholders that hold at least 60% of stocks can appoint one of its members.

The Board of Directors operates on the grounds of a company Statute, by making decisions that make a substantial importance for the company's activity, unless they fall into the explicit competence of the General Shareholders Meeting.

The Board meetings are held not less than once in three months. Each member has the right to authorize another member to present them before the Board. One present member can only represent one absent one. The invites, with the enclosed agenda and the materials, should be sent out, at best possibility, at least 7 days before the session date, unless the date and place have been appointed at the previous shareholders meeting. In cases of urgency, the meeting can be held by oral invitation without observation of the 7-day term requirement. The sessions are considered regular, in case at least 1/2 of its members are present – in person or via an authorization.

Decisions shall be made via natural majority, unless in cases with related parties over €50k, that are made unanimously by all members. It is only allowed to vote with only "For" and "Against".

The members of the Board of Directors have the right to get informed on the company's performance and activities and take part in the board's functions by voting on the proposals, and have the right to summon Board's meetings, to approach authorities via certain statements, documents to Boards' requirements, to propose new points in the agenda and propose decisions, the Board Members can attend General Shareholders Meetings without voting rights, as they are obliged to respond to questions of the shareholders concerning the economic, financial or commercial activity of the parent company.

In carrying out their functions, the Board Members are obliged to act exclusively in favour of the Group, act and inquire the Board in cases of circumstances that substantially matter for the group, and aiming to make decisions to protect its interests.

##### ***Audit Committee of the parent company***

An Audit Committee has been established to function in assistance to the Board of Directors, that is composed by three (3 persons), appointed by the General Shareholders Meeting. The members of the Committee must comply with the requirements under the Law on Independent Financial Audit and carry out their functions following the principles of lawfulness, objectivism, professionalism, independence, loyalty and accountability. The decisions are made via general majority at meetings hosted by a Chairman, held at least 4 times per annum.

The Audit Committee shall follow the processes for financial reporting, internal control functions, risk management procedures and the independent financial audit. In the



carrying out of their work, its members can address the Management, all employees and can access all necessary information needed to perform their work. In its activities, the Audit Committee shall:

- Hold sessions with the Managers of units responsible for managing operational and financial risk, with legal advisors in service of the parent company, with the ethical matters responsible employee, or any other Management member, that they consider appropriate, in order for the due carrying out of their obligations.
- Can receive, consider and discuss with external and internal auditors, as well as with the parent company's Management the respective audit reports (including the letter to the Management regarding assertions and recommendations), as well as any hindrances, that have occurred in the audit work, including substantial disagreements with the Management;
- Can receive, consider and discuss with the respective manager all reports concerning important matters that have been identified at parent company level with regards to the financial or operational risk, compliance with applicable legislation, regulations and codes of conduct, and/or specific reports on substantial cases of incompliance.

#### Management authorities, Dynamic Parcel Distribution S.A. (subsidiary)

The subsidiary is managed by a Board of Directors consisting of 5 persons. The Board of Directors (Board of Directors) and its Chairman are elected at the General Shareholders Meeting. The majority of Directors shall not be executive members.

The meetings of the Board of Directors are called by the Chairmen under his initiative or by the initiative of any member or shareholders, non-lesser than once per quarter. For the holding of meetings written invites shall be sent out at least 5 days before. This invite can be sent out 48 hours before the meeting provided that the subsidiary's interests are at risk. The Members of the Board of Directors are entitled to get informed on the company's performance and manage the Board of Directors activities by voting on proposed decisions.

The meetings are considered regular in case that 2/3 of its members are present by attendance or by representation via authorization. The decisions shall be made via a majority of 2/3.

The subsidiary is managed by an Executive director, elected by the Board of Directors members. The Executive Director is entitled to manage operational activities of the company and make decisions on its development, excluding the activities that are within the scope of the General Shareholders Meeting or the Board of Directors.

#### Management authorities, Geopost Bulgaria Ltd. (subsidiary)

The subsidiary is managed and represented by one or more managers, appointed by the sole propriety owner. The Manager organizes and runs the subsidiary's activities in compliance with the applicable legislation and the decisions of the sole propriety owner, and reports to him.



### Management authorities, speedy Ltd. (subsidiary)

The subsidiary is managed and represented by one or more managers, appointed by the sole propriety owner. The Manager organizes and runs the subsidiary's activities in compliance with the applicable legislation and the decisions of the sole propriety owner, and reports to him.

#### **V. Policy applied regarding the administrative, management and supervisory bodies**

Speedy JSC and its subsidiaries do not apply any specific multicultural policy with regard to aspects like age, sex, education, professional experience or other characteristics. Speedy JSC and the companies in the Group provide equal opportunity of appointment and follow the whole range of regulations related to fair practices in the working environment and prevention of discrimination. The recruitment is based solely on the qualities and qualifications necessary for the due caring out of the respective functions with regard to the achievement of optimal results.

The discrimination regardless of race, sex, perception or expression of gender affiliation, skin colour, beliefs, religion, origin, nationality, citizenship, age, disability, generic information, marital status (including cohabitation without marriage or civil union, defined and recognized by the current legislation), sexual orientation, culture, ancestry, veteran status, socio-economic position or other protected by the law personal characteristics are unacceptable and fully incompatible with the traditions of the Group for providing of honourable, professional and worthily workplace. The repressive measures against persons raising complaints for discrimination are also forbidden.

The main goals that the Group sets regarding the multicultural policy are:

- Attracting, hiring and retaining people with wide range of professional skills. The diversified abilities of the managers and the employees open up new possibilities for innovative and creative decisions, increase the creativity and the innovations. This would lead to more effective adaptation to the impact of the globalization and the technological changes. The diverse work force could increase the effectiveness of the Company in reaching its goals. It could motivate the employees, to provide access to new market segments and to improve the productivity.
- Encouragement of working atmosphere that adopt the ethno-cultural diversity and where the differences between people are appreciated and respected.
- Solving of one of the most important problems for the employer - the one related to the scarcity of working force as well as the problems concerning hiring and retaining highly qualified employees.
- Improving the reputation and the overall performance of the Group in front of external interested parties and the society.
- Create opportunity for the groups of disadvantage people and build up the unity of the society.



## # Report for compliance with the code for corporate governance

### ***Code for good corporate governance that the company observes***

Speedy JSC observes where appropriate and apply The National code for corporate governance carried by the National Commission for Corporate Governance and approved by the Deputy Chairman of the Financial Supervisory Commission. The Company is included in the list of public companies that has declared to follow the principals of the National Code for Corporate governance published on the site of BSE.

In November 2012, Speedy JSC has listed its stocks for trading on the Bulgarian Stock Exchange – Sofia. The Company has accepted to follow the National Code for Corporate governance since 2013.

The National Code for Corporate Governance was passed in 2007, and additionally amended by the National Committee for Corporate Governance in April 2016.

The present report contains information that is requested under the provisions of the National Code for Corporate Governance by Speedy JSC.

All activities carried out by the Management and employees of Speedy JSC, have been based on setting principles for best corporate governance, increasing the trust of shareholders, investors and respective interested parties in the management and activities of Speedy JSC, and shall encourage the successful economic activities.

This Code observance is reported based on the principle “comply or explain”, which means that all regulations are generally followed, and then there are cases of deviation or incompliance, the Company’s Management shall explain the reasons.

**Speedy JSC has one-tier management system. Accordingly, all regulations concerning two-tier management systems in the Code are not applicable for the company.**

### **ONE-TIER SYSTEM**

#### **1. Functions and Tasks**

##### **Corporate board of Speedy JSC:**

- 1.1. The Board of Directors governs the company in a responsible and independent manner and sets the vision, goals and strategies of the company in the best interests of all shareholders.
- 1.2. The Board of Directors determines the strategic direction of the company and monitors its implementation. If necessary, the Board of Directors can initiate changes in the activity management.
- 1.3. The Board of Directors should treat all shareholders in an equal way, acts in their interests and with a good business care.





- 1.4. The Board of Directors acts in a professional and diligent manner and conducts themselves according to the commonly accepted principles of integrity and duty of care. The Board of Directors has accepted a written Ethics Code of the company
- 1.5. The Board of Directors has established corporate risk management policy as well as controls and ensures the proper functioning of the company's internal audit and risk management systems.
- 1.6. The Board of Directors is responsible for the elaboration and the proper functioning of the financial and information systems of the company.
- 1.7. The Board of Directors provides directions, approves and controls the implementation of the business plan of the Company and its subsidiaries; extraordinary material transactions; and all other operations and actions required by the company's by-laws.
- 1.8. The Board of Directors reports its activity to the General Meeting of Shareholders.

## **2. Election and Removal of Members of the Board of Directors**

- 2.1. The General Shareholders Meeting must elect and remove members of the Board of Directors in compliance with the law and the parent company's by-laws, while respecting the principles of continuity and ensuring the stability of the Board of Directors' work.

One of the Board of Directors' members is elected based on the proposal of Shareholders holding 15,5% of the stock. Four of the Board of Directors' members are elected based on the proposal of Shareholders holding 60% of the stock.

2.2. Upon proposals for election of new Board of Directors' member, the principles for compliance with the candidates' competence with the nature of activity of the company, shall be followed.

2.3. The responsibilities, tasks, duty of care and duty of loyalty of Board members to the company as well as the criteria and level of remuneration and the conditions for removal from the Board are stipulated by management contracts.

## **3. Structure and Competence**

3.1. The number of members and the structure of the Board of Directors should be determined by the parent company by-laws.

3.2. The composition of the Board of Directors elected by the General Shareholder Meeting ensures the professionalism, independence and impartiality of its resolutions related to the management of the company.

3.3. The Board of Directors ensures that the tasks and obligations of its members are properly distributed. The basic function of independent directors is to supervise and control the functions carried out by executive management and to contribute effectively to the company's performance in the best interest of all shareholders and in respect of their rights. The Chairman of the Board of Directors is Georgi Glogov, a person that indirectly holds shareholding rights in Speedy capital.

3.4. The required skills, rights and responsibilities of the members of the Board of Directors must comply with the law and the company's by-laws, and follow good professional standards and practice.



3.5. The members of the Board of Directors should have the knowledge and experience required for the position they take. After their election, the new members of the Board of Directors have to be familiarized with the basic legal and financial issues related to their task and the company's activities and performance. Continued professional training of members of the Board of Directors should be encouraged.

3.6. The members of the Board of Directors should dispose of sufficient time to carry out their tasks and duties. The parent company's by-laws do not limit the number of directorships a Board member can hold, but the Board of Directors Members devote their time with priority to perform duties in Speedy JSC including its subsidiaries.

3.7. The election of members of the Board of Directors of the parent company must be done through a transparent procedure which should ensure timely and complete information regarding the personal and professional qualities of the candidates.

#### **4. Remuneration**

4.1. The Board of Directors has developed clearly defined and specific remuneration policy regarding the Board of Directors' members which was subject to GSM's approval in 2013. The amount of and criteria for the remuneration must be approved by the General Shareholders Meeting.

4.2. The amount and criteria for the remuneration should, in accordance with the law and good corporate governance practices, follow criteria such as:

4.2.1. Responsibilities and contribution of the member of the Board of Directors to the parent company's and its subsidiaries performance and results;

4.2.2. The availability and ability to select and retain qualified and loyal members of the Board of Directors;

4.2.3. The need to have the interests of the members of the Board of Directors aligned with the long-term interests of the parent company and its subsidiaries.

4.3. The remuneration of executive members of the Board of Directors should consist of basic salary and variable incentives.

4.3.1. The variable incentives should be specifically defined or definable and should be linked with clear and specific criteria and indicators with respect to the company's performance and/or the meeting of targets set by the Board of Directors.

4.3.2. In addition to a fixed compensation, as variable incentives the Company has made a decision at a General Shareholders Meeting in December 2016 to present to executive Board members shares (only to the non-executive members that are remunerated).

4.4. The remuneration of independent directors should be their basic salary only and depends on their individual participation in meetings, their performance level in regard with their assigned tasks, their ability to oversee and control the operations of executive management and their effective contribution to the Group's performance.

4.5. The General Meeting of Shareholders has voted to appropriate to the members of the Board of Directors additional remunerations as bonuses depending on the financial performance of the parent company.

4.6. The remuneration of the members of the Board of Directors is disclosed in accordance with the law and the parent company's by-laws.



4.6.1. Shareholders have easy access to the adopted company policy concerning the determination of remunerations and bonuses of the board members as well as to information about the annual remunerations and variable incentives received by such members.

## **5. Conflicts of interest**

5.1. The members of the Board of Directors should prevent any real or potential conflict of interests.

5.2. The procedures for preventing and disclosing conflicts of interests are not provided for in the company's by-laws. Currently internal rules and procedures for prevention of conflicts of interest are adopted and applied.

5.3. The members of the Board of Directors should immediately disclose any conflicts of interests and provide shareholders with access to information about transactions concluded between the company, respectively the Group and members of the board or any related party.

5.4 The Board of Directors has adopted a system for prevention of conflicts of interest in cases of trades with related parties and the respective methods of their disclosure.

## **6. Committees**

6.1. The work of the Board of Directors should be assisted by committees. The Board of Directors should determine the need for setting up committees in accordance with the specific operations of the company.

6.2. Depending on the requirements of the existing legislation and based on the criteria defined therein, the Board of Directors proposes to the General Meeting of Shareholders of the company to elect an Audit Committee whose composition should comply with the legal requirements and the specific needs of the parent company.

6.3. The committees should be set up according to pre-established and adopted written terms of reference which should include the scope, tasks, modalities and reporting procedures of the committee.

## **AUDIT AND INTERNAL CONTROL**

1. Board of Directors, assisted by the audit committee and in accordance with the established professional standards and requirements, present in writing at the General Shareholder Meeting a motivated proposal for the selection of an external auditor.

2. Board of Directors secure the compliance with applicable legislation in terms of independent financial audit.

3. Speedy JSC follows the principle of rotation in selecting and appointing an external auditor. At a General Shareholders Meeting, as of 10/02/2015 a new auditor was selected – Board of Directors. At a General Shareholders Meeting, as of 14/12/2016 a new external auditor of the company was selected - AFA.



4. The audit committee and in accordance with the established professional standards and requirements, follows the entire relations with the external auditor, including the nature of non-audit related services, rendered to the company's auditor.
5. The company has developed and implemented an internal control system which also ensures the early identification of any material risks the Group may face and to effectively manage those risks.

## **PROTECTION OF SHAREHOLDERS' RIGHTS**

### ***1. Protection of Shareholders' Rights***

1. The Board of Directors ensures the equitable treatment of all shareholders, including minority and foreign shareholders, and should be responsible for the protection of their rights and enable their exercising within the limits of acceptable according to applicable legislation and according to company's by-laws. The Corporate board has secured information to all shareholders regarding their rights.

### ***2. General Shareholder Meeting***

2.1. All shareholders have been informed regarding the circumstances under which General Shareholder Meetings are held, including voting procedures. The Board of Directors announces sufficient and timely announced information regarding the time and place of the GSM holding, as well as the complete information about the meeting's agenda and decisions to be made.

2.2. The Board of Directors provides conditions under which, during the GSM holding, can secure that all shareholders can express their opinion, as well as asking questions.

2.2.1. Shareholders who have the right to vote have the opportunity to exercise their voting rights in person or through the use of a proxy. Currently company's by-laws do not stipulate that it is possible via electronic communications and/or electronic means. This practice shall be applied upon the availability of trustful technical possibility.

2.2.2. Board of Directors should exercise effective oversight and ensure that necessary arrangements are made for the voting by authorized representatives (proxies) in accordance with the instructions of the shareholders and in accordance with the law.

2.2.3. Board of Directors establish rules for the organization and conduct of regular and extraordinary General Shareholder Meetings. These rules must guarantee the equitable treatment of all shareholders and the right of each shareholder to express his/her opinion about the items on the agenda of the General Shareholder Meeting.

2.2.4. Board of Directors establish the rules and procedures for the conduct of the General Shareholder Meeting in a manner which does not make voting procedure unnecessarily difficult or expensive.

2.2.5. Board of Directors take action to encourage the participation of all shareholders at the General Meeting. Currently, there is no technical possibility for those who cannot make it physically by allowing the use of information technology (Internet). This practice shall be applied upon the availability of trustful technical possibility.

2.3. All members of the Board of Directors, as a rule, attend the General Shareholders Meeting.



## 2.4. Written materials for the General Shareholders Meeting

2.4.1. Documentation and reference materials related to the agenda of the General Shareholder Meeting are clear, accurate and to the point in order not to mislead the shareholders. All proposals concerning the major corporate events should be presented as separate items on the agenda of the General Shareholders Meeting, including the proposal for the distribution of dividends.

2.4.2. The parent company is currently in a process of development of a special web site section regarding the shareholders' rights to participate in the General Shareholders Meeting.

2.4.3. Board of Directors ensures court-authorized shareholders can place additional items on the agenda of the General Shareholder Meeting.

2.5. Board of Directors guarantees the right of all shareholders to be informed on a timely basis about the decisions that have been made at the General Shareholders Meeting. All minutes following the General Shareholders Meeting holding are publicly disclosed and accessible, including at the corporate website of Speedy JSC.

## **3. Equal treatment of one class shareholders**

3.1. All one class shareholders are treated in an equal way.

3.2. All shares within a certain class give equal rights to the shareholders belonging to the same stock class.

3.3. The Board of Directors guarantees the availability of sufficient information to the shareholders regarding the rights that all stock classes provide after their acquiring.

## **4. Consultations between shareholders regarding general shareholder rights**

4.1. Within the limits made acceptable by the active legislation and in compliance with the parent company by-laws, the Board of Directors does not hinder shareholders, including institutional investors, to consult among each other regarding matters concerning their general shareholder rights, in a way that doesn't allow misuses of this information.

## **5. Trades of controlling rights shareholders and embezzlements**

5.1. The Board of Directors does not allow trades with controlling right shareholders that are in breach of rights and/or legal interests of other shareholders, including under the conditions of contracting the self.

## **DISCLOSURE OF INFORMATION**

1. Board of Directors establish the company's information disclosure policy in compliance with legal requirements and the company's by-laws.

2. In accordance with the established policies under item 1, Board of Directors oversee the implantation and ensure proper support for an effective system for disclosure of information.

3. The system for disclosure of information should guarantee equal access to information to shareholders, investors, and other stakeholders and should not allow for any abuse of internal information or insider trading.



4. Board of Directors should guarantee that the system for information disclosure provide for comprehensive, timely, true and understandable information to allow for objective and well-informed decision-making and assessments.

5. Board of Directors should establish and oversee the implementation of internal rules for the production of mid-term and annual reports and should oversee the proper disclosure of the information in a way that guarantees compliance with item 3 of this chapter.

6. Within the scope of active legislation and in compliance with the parent company by-laws the Board of Directors guarantees that rules and procedures, according to which acquisitions of corporate control, as well as extraordinary deals, such as mergers or takeovers of substantial company's stakes, are disclosed in a timely and publicly accessible manner.

7. The Board of Directors implements and controls the conforming to internal rules for preparing annual and interim statements, as well as the order for information disclosure.

8. The Board of Directors applies internal rules that guarantee the timely and appropriate periodical or casual change regarding the Group, its management, corporate boards, operational activity, shareholders structure.

9. As a part of a well-functioning system for the disclosure of information, the Company has set up and maintains a company website. This website should be operated in accordance with approved policies on the content, scope and regularity of information disclosure. The official information posted on the website should include:

- basic commercial and corporate information identifying the company
- up-to-date information about the joint-stock structure;
- company's by-laws and the adopted policies pertaining to the operations and functioning of the company;
- information about the structure and composition of the managing and supervisory bodies of the parent company as well as basic information about their members, including information about any committees;
- financial reports of the parent company (consolidated and non-consolidated) for each year since its registration in the Register of the public companies;
- materials for upcoming General Shareholders Meeting as well as any additional materials which have been submitted in compliance with the law. information about the resolutions of the General Shareholder Meetings of the last 4 years, including information about the dividends distributed by the company within that period;
- information about external auditors;
- information about up-coming corporate events;
- information about the shares issued and other financial instruments
- any information that is material to the Group's activities;
- information about shareholders' rights, including sufficient information on the shareholders' right to request the inclusion of matters and to propose resolutions on matters already included in the agenda of the general meeting under the provisions of Art. 223 (a) of the Commerce Act;
- contact details of company's Investor Relations Director.



9.1. The Company also maintains an English version of their corporate website with identical content.

Effective since 2014 The Parent Company has started to disclose information regarding shareholders in English language as well, regarding financial statement (consolidated and non-consolidated), General Shareholders Meetings invites, meeting minutes from GSM, etc.

10. The company regularly discloses information about its corporate governance. The disclosure of corporate governance information is effected in compliance with the "comply or explain" principle. This principle requires companies to explain the reasons for not complying with individual provisions of the Code.

11. The Board of Directors applies procedures that guarantee the timely and appropriate periodical or casual change regarding the Group, its management, corporate boards, operational activity, shareholders structure, that allow timely and accessible way for disclosure to the information users.

## STAKEHOLDERS

1. Corporate governance ensures effective interaction with the company's stakeholders. In this category fall certain interested parties and groups of individuals who are directly influenced by the Group and who are in a position to influence the Group, including for example: suppliers, employees, creditors, civil society groups, and others. The Group should identify the stakeholders who are interested in its activities, based on their scale and sphere of influence and impact, as well as their role and relationship to company's sustainable development.

2. In its stakeholder policy, corporate boards must comply with existing laws. A good corporate governance practices requires taking into consideration the interests of stakeholders in accordance with the principles of transparency, accountability and business ethics.

3. Board of Directors should establish specific rules for addressing the interests of stakeholders. These rules should ensure appropriate stakeholder engagement when decisions requiring their input are made.

These rules should ensure the balance between the development of the company and the development of the economic, social and ecological environment in which the company operates.

4. It is recommendable that in accordance with this policy, the Board of Directors implements specific rules for accountancy of interests of shareholders that shall guarantee their involvement in cases of solving specific matters that require their statements. These rules should guarantee the balance between Group's expansion and the economic, social and environmental development of the sphere it operates in.

In the carrying out of its activity, Speedy Group has not accounted for any substantial conflicts with involved parties, and therefore no certain necessity has been found to prepare and implement such rules. Speedy Group is aware of its social responsibility and is involved in programs for social and corporate responsibility in the area of organization and assistance in educational, sports and other events, and since 2014 it has started using electro mobiles in central parts of larger cities and the usage of ecologically sustainable packages.

5. Board of Directors maintain effective relations with the stakeholders. The company should, once per year together with the annual financial statement of the company and in compliance with the legal provisions and the good international practices for disclosure of information of non-financial nature, disclose information about economic, social and environmental



issues of concern to stakeholders, for example: anti-corruption policies; labour policies, policies regulating supplier and client relations; the company's corporate social responsibility policies; environmental protections and nature preservation policies.

The Board of Directors guarantees the right of due and timely access to reliable and trustworthy information regarding the Group, in cases when shareholders participate in the corporate governance process.

## **INSTITUTIONAL INVESTORS, MARKETS OF FINANCIAL INSTRUMENTS AND OTHER INTERMEDIARIES**

1. The Corporate Board maintains the effective interaction of the company with its shareholders – institutional investors, as well as with regulated markets of financial instruments and these markets' investment intermediaries.
2. The Board of Directors uses the services of investment intermediaries, whose advises, recommendations or activities have been based on market information and market principles. The same is valid for market operators where financial instruments issued by the company are traded.
3. The company encourages the engagement of its investment intermediaries and institutional investors in definition of the policy and practices for corporate governance.
4. The parent company and its subsidiaries requests disclosure and minimization of conflicts of interest cases, as well as their disclosure by its authorized advisors, analysts, brokers, rating agencies, and other parties, that offer analyses and consultations. This requirement is applied provided that these conflicts of interest can jeopardize the integrity and objectiveness of the analysis or advice they provide, or may serve as a basis for decision making on behalf of the investors.

Date: 26.04.2017

Signature:

