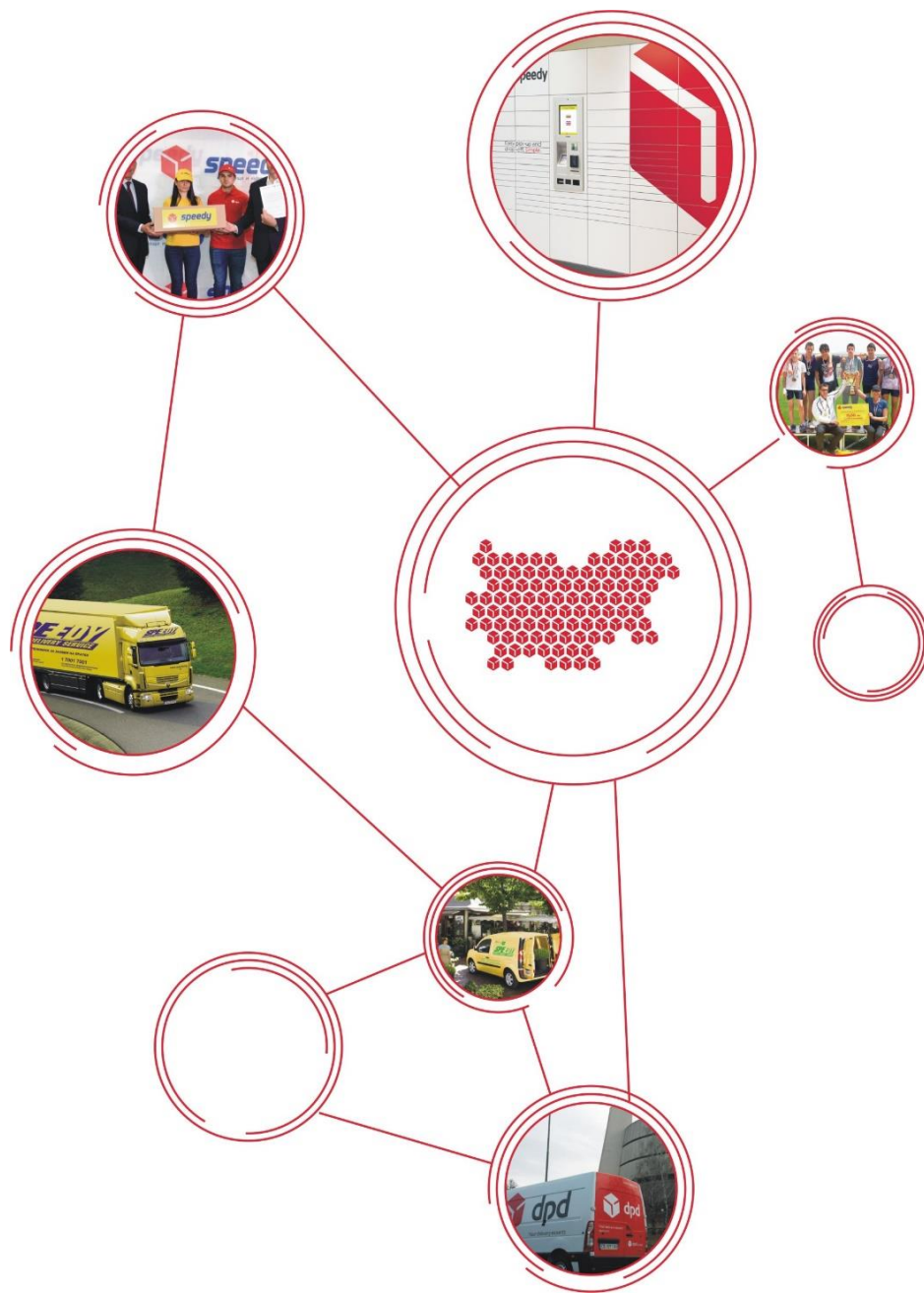


# CONSOLIDATED ANNUAL FINANCIAL STATEMENT



# 2016

## 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

Speedy Group consist of:

- Speedy AD (mother company)
- DPD S.A., Romania
- Speedy EOOD
- Geopost Bulgaria EOOD.

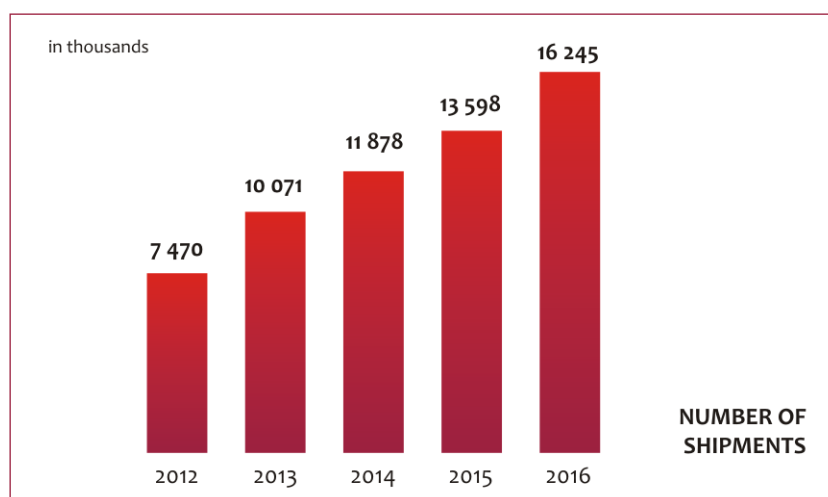
## 1. Core activity and company development over the year

### A. Business model and strategy

The mother company has developed competitive advantages in providing flexible 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. Foreseeing the invasion of e-commerce we expanded our office network which is preferred by the individual customers channel 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.

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.



In the fall of 2013 we launched our new service „Pallet One“, which has been welcomed by our customers and has a significant contribution for the company growth in the next two years. 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 this regard, we have started the integration of e-merchant delivery platforms, which also facilitates our customers and makes Speedy AD a preferable partner.

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 neighboring 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. The market of courier services in Romania is comparable to the one in Bulgaria in terms of services offered. The difference is in the bigger share of international deliveries and the lack of office networks of the operators – the courier companies have not developed this kind of services and the latter are offered exclusively as a postal service by the incumbent post company.

With the acquisition of DPD S.A., Romania, Speedy AD commenced development of the regional market, widening the range of services offered and increase of capacity.

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 neighboring 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. The company plans to offer international deliveries to/from Europe through DPD network, while deliveries within Greece are going to continue to be executed through the local partner.

## **B. Market and regulatory environment**

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 fueled the market growth. After 2013 the pace of growth speed up again and the revenues from postal services gained another 22%. A new market impulse has been brought by the rapid e-commerce entrance into the Bulgarian market. In 2015 the postal services revenues totaled 315 m BGN, while only in 2014 the increase is 17% which exceed the cumulative growth for the previous 5 years. 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 customers base, as the individual customers' share in NPS has climbed up from 5% in 2012 to 18% in 2015.

The total number of registered operators is relatively high but in fact in 2014 only about 56 companies were offering NPS. The five largest operators account for 67% of the revenues. A leader among them is Speedy JSC with a market share of 34% in terms of NPS, and 26% of the overall postal market. The company's advantage is to operate in the largest and most rapidly growing segment and the revenues growth is ahead of the overall market, thus continuously gaining market share. Ekont Express OOD is our major competitor, although the two companies are pursuing different development strategies: whereas Speedy AD has the stronghold in 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 and the growing electronic commerce 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.

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

	2012	2013	2014	2015
<b>The market of postal services, million BGN</b>	245	258	301	315
<b>NPS, million BGN</b>	196	200	235	240
<b>UPS, million BGN</b>	49	50	56	65
<b>Overall market share held by SPEEDY AD</b>	21%	24%	24%	26%
<b>Market share in NPS held by SPEEDY AD</b>	27%	31%	31%	34%
<b>Number of parcels, million</b>	182	175	180	176

*Information source: Communication Regulatory Committee (CRC)*

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 favors 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.

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 600 million euro. The largest player on this market is Romanian Posts holding about 37% of the market. At the end of 2015 the market of courier services (NPS) in Romania is estimated on EUR 358 million based on the financial results of the operating companies, while sustaining growth of revenues of 10%-12% during the past 3 years. The leader in the segment of courier services is Fan Courier which is holding more than 50% of the market together with the second market participant, Cargus Urgent. 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 will reach 6.5% in 2016. 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.

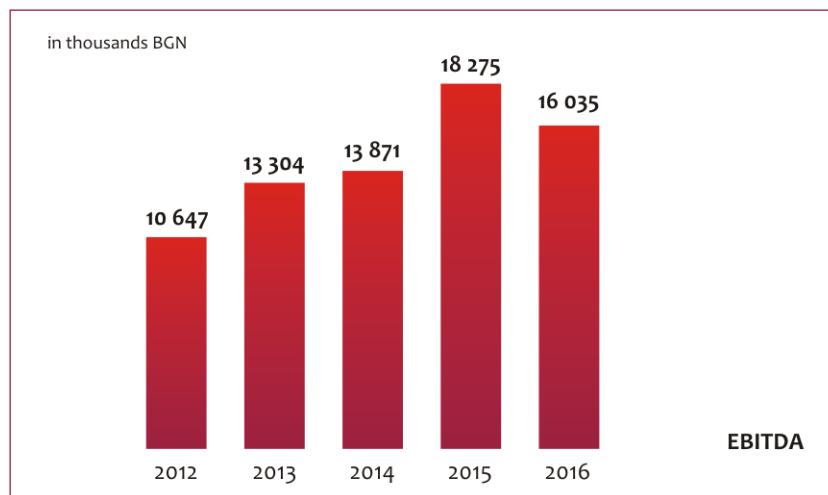
Over the last two years Romanian economy has been growing at one of the fastest paces in Europe, therefore we expect the market of courier services also to grow at a pace above average for the EU countries.

### **C. Range of services**

Speedy AD continues to be focused on its core activity – the delivering courier services, which accounts for about 96% of the 2016 revenues. 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 on its project for integrated Balkan market and to develop the existing courier services from/to Bulgaria to/from Romania and Greece at the same rate as the applicable rates for deliveries within Bulgaria.

In 2016 Speedy AD reported an 13.2% share of the international services in the nonconsolidated revenue and 40% in consolidated revenues. During the year the value-added services were elaborated with additional modules and features. They are of a big importance for the Company's customers in the segment of on-line trade and a mandatory condition which contributes to the development and the expansion of Speedy's presence in this sector.



\* The charts in the present Report are with purpose to demonstrate the long-term trend of Group's development. In 2015 and 2016 a reclassification of the data has been done and they are not completely comparable with the past years' data.

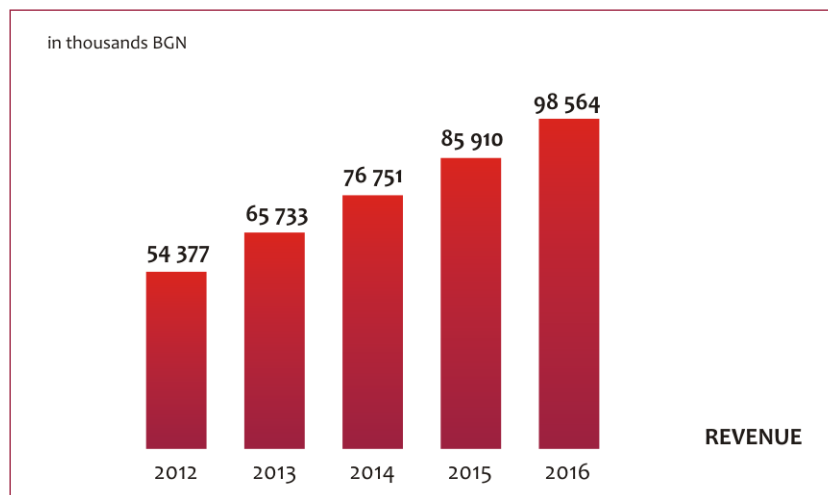
In 2016 a strong momentum and development gained the service SPEEDY POST, which is part of the portfolio of services under the license for universal post services. It targets mainly small and medium online traders and end consumers – commercially active natural persons. It provides convenience and speed at competitive prices. The implementation of network of APS (automated post stations) is an integral and key part in our development in the B2C and B2B segments. Currently, the number of installed machines is 31 (23 as of end 2016). They are located in retail chains and malls throughout the country. APSs operate with extended hours and the process of dispatching and receiving parcels is easy and fast.

Speedy AD's stronghold continues to be the corporative customers. 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 constantly rising. The first steps in this direction were taken in 2013 by launching one of the most important Speedy projects aimed at expanding the network of company offices and providing new services with features aiming to satisfy end users' expectations. By the end of 2016, the office network reached 350 points, where the constantly growing demand for and offers of postal services meets the demand of end users and small businesses for convenience, speed, quality and optimal price levels. Unlike Bulgaria, in Romania courier companies do not build their own office network and DPD Romania is not an exception and we have only 3 offices.

The express courier service within the country continues to play a significant role in the revenue structure but pallet deliveries, international shipments and economic courier services keep on growing at a steady pace thus making a significant contribution to the sales growth in 2016. 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 adopts it in line with market and customers' requirements.

In 2016 with priority were introduced card payments in our network and all offices and couriers were equipped with POS terminals.





\* „Revenues” include “other income/(loss) from operations, net”

The use of Speedy and DPD Romania 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.

#### D. Client base

Speedy AD keeps its focus on providing services to the largest market segment, corporate customers, which account for 88% of the company revenue. The sectors where the major part of company customers operate can generally be divided in two groups:

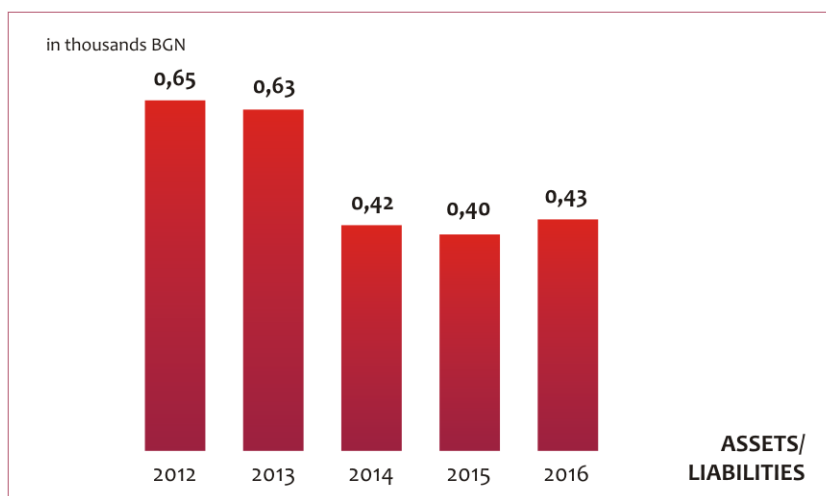
- - B2C (business-to-customers) the agent service a large number or geographically scattered end customers. Such customers are the consumer goods traders, online shops, catalogue sales traders, and mobile operators.
- - B2B (business-to-business) deliveries between legal entities. In addition, we carry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

In 2016 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 and in 2016 contribute 39% to the core sales. The weight of the end clients – economically active individuals – grew considerably in the last years and continued in 2016 as well.

Speedy is now servicing nearly 1.3 million customers from all sectors of the economy, as well as individuals. Out of them, 24 000 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 Romania the clients base is more concentrated compared to Bulgaria, but the diversification is high enough and dependency on single client in negligible. Our target is to shrink the share of the large clients down to 40% of sales and to widen the clients base above current 5000 corporate clients. 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.



### 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 12 employees. The main achievements of International Operations department for 2016 were:

1. Market share increase in international deliveries to/from European countries via DPD services
2. Improvement of characteristics and delivery requirements of EXPRESS BALKANS – express deliveries within the Balkan countries at flat rates
3. Introduction of new product, DPD Classic Greece – deliveries from / to Greece to / from Europe.

in 2016 some optimizations regarding international air deliveries to 220 countries all over the world and cargos from Bulgaria to Macedonia. The program for 2016 were successfully implementer and helped Speedy Jsc to achieve its goal to increase its share in international deliveries. As far as our new product, DPD Classic Greece, is registered DPD Greece as a branch of Geopost Bulgaria, and an office in Thessaloniki is opened and functioning. 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) is under construction.

The share of international parcels is 3.12% from total number of parcels delivered by Speedy Jsc in 2016 while the share of the international sales in total sales is 13.83%. On consolidated basis, the deliveries outside Bulgaria are 36.6% of total parcels and 40% of sales. Unlike Speedy Jsc, in DPD Romania’s sales traditionally international deliveries have significant share. Respectively, our efforts there are aiming expanding local presence and in 2016 sales soared notably.

### F. Logistic network

Speedy AD has a fully built logistic network, with 9 regional distribution centers located in Sofia, Plovdiv, Stara Zagora, Burgas, Varna, Veliko Tarnovo, Ruse Blagoevgrad and Vratza 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.

DPD Romania actively develops its presence on local market by widening the range of services offered and this year has begun completely new transportation scheme that shall improve the logistic efficiency and have laid a ground for the further growth. In 2016 a central point was the launch of two new key logistic

hubs in Bucharest and Sibiu as well as the preparation of the migration to a scheme with 8 distribution centers at the beginning of 2017.

In 2016 our operating unit processed 16,2 million shipments on nonconsolidated base and 25.1 million on consolidated one, realizing 19.5% and 25% growth, respectively, as compared to the previous year.



#### Expansion of warehouse facilities

In 2015 Speedy AD kept on expanding and modernizing its storage area, in order to handle the growing number of parcels. The warehouse in Sofia was entirely refurbished with a new semi-automated sorting line, custom-made in line with our needs. In order to increase the capacity of the trucks traveling between distribution hubs, the company migrated to bulk loading of parcels. For that purpose, all hubs in the country were equipped with special extendable machines. To improve further the protection of the pallets the distribution centers were furnished with packaging machines.

In 2016 DPD Romania completed the new logistic scheme based on 8 distribution centers that tripled the parcel processing capacity, simplified commercial policy and focus on cost optimization based on economy of scale.

#### Office network

Another key point in 2016 was the development in modernization of the office network. One hundred of the offices were completely refurbished in line with the new branding image of the company. During the year 36 new offices were opened under Speedy Parcel Shop program. As of December 2016, the company operates 318 offices servicing clients. In mid 2016 the first APSs were installed where clients are able to send and received parcels during extended working hours in a fully automated manner. By the end of 2016 23 APSs operated located in large commercial centers throughout the country. SPS Romania do not run office network 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 2016, the company had more than 950 lightweight and heavyweight vehicles for delivery of parcels and pallets in Bulgaria and Romania. In 2016 for its operations in Bulgaria, Speedy bought 73 new vehicles, 20 of which have been used as replacement of old amortized vehicles.



### Partner-couriers

In 2016 Speedy continue its program “Couriers-partners”, which give to the ambitious and professional employees opportunity to set up their own business and established a partnership with Speedy AD. The partners with which we already have established cooperation, were encouraged to expand their business by hiring new employees and adding more services. As of December 2016, the number of couriers-partners is 348 and they employ 177 people directly engaged in partnership with Speedy Jsc.

In Romania, we also worked for increasing the capacity of the couriers-subcontractors. In efforts to support them we purchased 40 vehicles (vans and small trucks) and rented them out to subcontractors.

### 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 2015, 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 98.6%, which is above the approved service quality standard.

## **G. Information systems**

During 2016 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 2016 are the following:

### **1. Developing additional modules and functionalities in Speedy’s operating systems:**

- Process for creating and processing of return documents with verification;
- Supplemental service “Carrying up floor”;
- Vouchers for parcels return;
- Adding phone number to the client’s record;
- Opening a working place in the warehouse and centralized management of their operations;
- Improved security of the access to clients’ prices and turnover database. Levels of access to the customers’ passwords;
- Change of the schemes of office discounts;
- Audit of the Cash-on-delivery process;
- Registration and support of the clients’ records, natural persons and legal persons without contract;
- Change of the scheme for managing the packaging

### **2. Development and implementation of satellite modules and applications**

- Migrating the mobile courier application from Windows to Android to improve the software capabilities;
- Update of the modules of the different online shops' platforms. Support of international deliveries, open-before-payment and test-before payment, price upload from file, Speedy Post, return vouchers, One-page check-out;
- Mobile POS terminals;
- Implementation of business intelligent software for easing management decision making process – QlikView;
- Clients mobile application and new module for self-service;
- Purchase and implementation of software for predicting the time of delivery.

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

- Implementation of devices for network load balance and protection
- Implementation of application for easy internal file sharing
- KPIs for evaluation of effectiveness of the first level IT database support employees from Help Desk and IT Hotline systems;
- Complete redesign of IT systems for online and offline support (Help Desk and IT Hotline) to include other departments. Each department with own SLA targets, priorities and rules;
- Back-up connection between our servers and internet;
- Integrating 780 mobile POS terminals for couriers;
- Installation and reserving active/passive mode (base/backup web-site) for servers supporting transportation software Auto manager and new server for our subsidiary in Romania.
- Implementation of record and audit system of changes in servers and active directories;
- Settings of Western Union services and trail implementation in some offices.

The development and improvement of the information system is related to a number of ongoing projects, which will continue their expansion in 2017. 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 company.

All new employee on operative positions goes through mandatory training. Furthermore, in the past year 2016, 50 employees attended training for mastering different skills and competences, with most of the participants were from Operation Dept. We offered 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.

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.

The new logistic scheme in Romania add 25% to the payroll that is comparable to the sales growth. The new appointments are mainly in operating department, involved in processing and delivering parcels.

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. We have increasing difficulties to attract such participants and in 2016 the company were not able to find appropriate candidates to participate in our ambitious project. In 2017, we intend to continue with the initiative as a way to accommodate our future middle management needs.

All company employees have been divided in categories according to the functions they perform. Speedy AD employs all personnel, after the transferring of the operating staff from Speedy Ltd.

*Year average number of employees, classified in categories*

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

*Note: Employees on maternity leaves are not included*

The company activity is not influenced by seasonal factors, and respectively, no employees are contracted on a temporary basis.

## **I. Report on the social and corporate responsibility**

Speedy AD views corporate stability as a contemporary business approach that builds long term strategies in social, ecological and economical dimensions and creates benefits for customers, employees and users by delivering products and services with a responsible care for people, resources and environment.

### **Environment protection**

#### *1. Electric cars without harmful emissions*

We operate 18 electric cars of Speedy, which are used for parcel delivery within cities, save 11.5 tons per year of harmful emissions and gave its small contribution to the improvement of urban environments in the towns of Sofia, Varna, Plovdiv, Burgas and Stara Zagora.





### *2. Biodegradable envelops for packing the shipments*

The envelops for packing the shipments are made of polyethylene with a special additive for faster degradation, no substances or colorants containing toxic heavy metals were used in the manufacturing process.

### *3. Recycled paper and Paperless solutions*

It has already been two years since the monthly bulletin called Speedy Press is being printed on 100% recycled paper. Paperless solutions have been applied and effectively realized in the departments in Speedy JSC, where the work is related to large volumes printed documentation.

## **Social responsibility and support**

### *1. Speedy, Teresa and friends*

We continue our support for the 7<sup>th</sup> edition of the athletic competition for children “Teresa and friends” organized by Olympic champion Teresa Marinova where 3500 children participate.

### *2. Social and eco campaign “Caps in action”*

Speedy responded to the request from United kids garden, Kardjali to transport free of charge 380 kg plastic caps to Plovdiv. The initiative is part of the campaign “Caps in action”, organized by endowment fund “Idea in action” that supply electric appliances for orphanage in Bulgaria.

### *3. “Delivery of knowledge” for schools in Bulgaria and France*

We continue our long-term campaign “Speedy deliver knowledge” and the initiative “Together in business, together in the society”, where Speedy and Geopost (DPD Group) donate packages of Bulgarian and French literature for Bulgarian schools in France and French language schools in Bulgaria. For a 2<sup>nd</sup> consecutive year, the campaign is under the patronage of French ambassador His Excellency Xavier Lapeyre de Cabanes. The published Helikon provided 400 books, selected to conform the age of the students and the profile of the schools. The books will be delivered by Speedy to the schools in Bulgaria and France.



**4. Speedy – general sponsor of the finals of the school athletic games.**

For a 4<sup>th</sup> consecutive year Speedy provided the prizes for the winner in the children athletic finals. The event traditionally is carried out in Hadji Dimitar stadium in Sliven and is organized by the Ministry of sports and Association “Sport for students”. The prize will be used for purchase of sport equipment.



**5. Volleyball Academy CPVK, Sofia again supported by Speedy**

The CPVK women team were supported by Speedy for the final in Varna of the national volleyball championship for up to 13 years-old.





## 6. Care for the eyesight

Speedy took part in the KWIAT campaign – Bulgarian glasses brand, with an objective to promote the benefits of the prophylactic of eyesight check-ups for children. It gives opportunity to the young people at an age between 6 and 18 to pass a free screening of its eyes all over the country

## J. Financial results

Speedy JSC has managed to maintain a high sales growth pace 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.

### Revenue and other sales structure

In thousand BGN	2015	2016	Change
Domestic market	71 757	81 599	13.7%
<i>% of total income</i>	<i>58.20%</i>	<i>55.15%</i>	
International market	46 222	59 381	28.5%
<i>% of total income</i>	<i>37.49%</i>	<i>40.13%</i>	
Other	5 314	6 983	31.4%
<i>% of total income</i>	<i>4.31%</i>	<i>4.72%</i>	
Number of parcels	20 117	25 104	24.8%
<b>Total revenues and other sales</b>	<b>123 293</b>	<b>147 963</b>	<b>20.0%</b>

The investments in a capacity and new services helped to speed up the sales growth of courier services in 2016 to 19.5% and total sales to 20%, but surged the operating expenses such as rents, compensations, marketing and subcontractors. Initial low workload on the new capacity had a negative impact on profitability and on an annual basis EBITDA squeezed with 13.7%. In the last quarter, incremental revenues improved utilization and combined with cost optimization actions resulted in recovering of profitability. 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 main growth factor continue to come from international deliveries while sales on local market from parcels and pallets also stick to a healthy pace of 14%. In Romania, where international deliveries account for high share in total sales, the efforts are on surging local deliveries. The latter are the main contributor for the 30% sales growth.

Other revenues are also linked to the main company activity and comprise of rents, sales of assets and supplementary services. By the end of year 2013 Speedy AD undertook restructuring of its activities with the purpose to optimize expenditure by transferring a portion of its transportation activity to subcontractors. The vacant vehicles were rented out to subcontractors, realizing revenues reaching BGN 4.7m in 2016. In 2016, DPD Romania also start supporting its couriers-subcontractors by supplying them vans, thus pushing other revenues up.

In the last years, Speedy considerably increased its volume and the company invests efforts in funds to maintain its pace through expansion of its logistic network and introduction of new services in Bulgaria and Romania as well as in other neighboring countries. Speedy intensified its efforts this year and as a result added BGN 24.67m to the sales, an all-time high increase. It is especially strong in international services, where the sales are up 28.5% on an annual basis. The pallet services also outpace the average, but sizable improvement is recorded in the core segment – parcels from corporate clients. The latter continue to be the biggest contributor to the incremental revenues. During the last year, regional market hold its priority place with Speedy Balkans services that stays behind high international growth, especially to / from Romania.

### Costs structure

In thousand BGN	2015	2016	Change
Supplies and materials	7 181	7 173	-0.1%
Compensation costs	70 550	92 142	30.6%
External services	23 089	28 214	22.2%
Other operating expenses	1 968	2 539	29.0%
Depreciation	9 468	9 344	-1.3%
<b>EBITDA</b>	<b>20 505</b>	<b>17 895</b>	<b>-12.7%</b>
<b>Net profit for the period</b>	<b>9 160</b>	<b>6 692</b>	<b>-26.9%</b>

*\*EBITDA for 2015 is recalculated following the reclassification in the financial report. "Net FX loss from revaluation of payables, receivables and current accounts" is reclassified from "Financial expenses" to "Other operating gain / loss, net"*

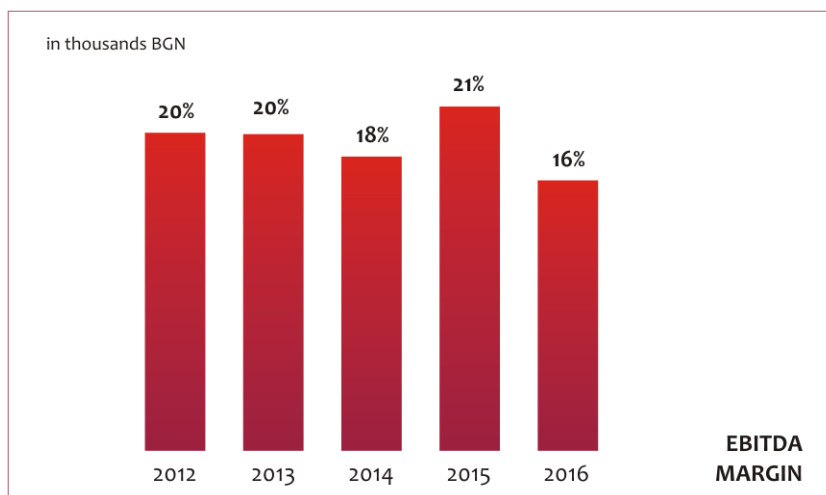
The company's advantages are traditionally in the door-to-door deliveries. Without neglecting the segments where we are the most successful, our efforts in Bulgaria are channeled towards increasing the weight of the office network, where transportation costs are lower and often being a preferred option for individual customers. In the same direction are introduced during the 2<sup>nd</sup> quarter APSs and the new service – Speedy Post that offers to the clients the opportunity to send packets in 4 sizes up to 20 kg in the office network. In order to extend of its portfolio of services were establish a partnership with Western Union for international money transfers through our network. DPD Romania do not have office network and, respectively, these services are not offered there.

In 2015, a new plan for expanding capacity and network for the new services while DPD Romania developed completely new logistic network, largely completed in 2016. The execution of the plan involved additional operating costs for compensations and hired services that had negative impact on profitability. The new capacity and services initially outpace the increase in number of parcels and until utilization improves, the efficiency will lag behind that of other activities.

The operating expenses with highest growth are for subcontractors and rents, as well as adding to the payroll, hence the compensation costs outpaced the revenues. In order to motivate the subcontractors its remuneration was increased. Opening new transport lines, where Speedy foresee potential, still work below its breakeven that added to the payments to subcontractors in excess to the incremental sales. Intensive marketing of services, along with introduction of the new one, pushed up the marketing expenses that grew with 40% to BGN 940k. Lower fuel prices explain the lower costs for it while the rest of the expenses are largely unchanged or their growth is below the sales growth.

Due to higher expenses EBITDA shrunk with 12.7% and net profit with 25.1% on consolidated basis. EBITDA Margin also is down but stays at healthy for the industry level of 17% on non-consolidated and 12% on consolidated basis.

DPD Romania achieve its goals and operating profit exceed EUR 800k and outperform our projection for operating loss following the building of operating capacity for processing and transporting parcels.



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 husband for the services rendered are booked expenses in amount of BGN 9.4m Despite the concentration, the risk is mitigated as 1/3 of the services are assigned to third parties and Transbalkan group AD in completely depend on Speedy as we control the core of its revenues and own 80% of its vehicles, thus generating rental income from it.

## K. Financial position

The intensive expansion was supported by record high investment program, reaching BGN 19,7m in 2016. In Bulgaria, commonly, large chunk of the money is for vehicles (BGN 6m). Last year, the largest share of investments, BGN 8.2m, were channeled in logistic hubs and office network, incl. BGN 1.2m for refurbishment of newly rented logistic premises. More than 100 offices have been refurbished in line with the company's new vision that gives to customers better services experience. The sorting centers were equipped with forklifts and processing lines. In the main hub in Sofia were implemented a new sorting line that nearly tripled the processing capacity of the hub. It also allows introduction of bulk loading of parcels, which improve the utilization of vehicles. Additional BGN 3.6m were invested in other long-term assets, mainly APSs. The IT infrastructure stays a key priority with BGN 2m investments in software and technology equipment.

The company policy is not to invest in real estate, therefore all its offices, logistic centers and sorting centers are rented. This allows better flexibility when organizing and restructuring the activities in consideration of 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. The large investments in the last years increased the size of the balance sheet considerable and together with lower profit resulted in notable decrease in profitability. Growing sales, especially in Romania, are key point in our strategy to achieve sufficient size that will allow it to benefit from the economy of scale that, together with better capacity utilization and costs optimizations, will help for recovery of the profitability.

	2015	2016
EBITDA Margin	16.6%	12.1%
Net profit margin	7.5%	4.7%
ROE	21.9%	15.7%
ROA	11.3%	7.9%
ROIC	15.9%	11.5%
Receivables collection period	64.7	56.1
Inventory processing period	1.9	1.7
Payment period of account payables	50.1	40.5
Cash conversion cycle	16.5	17.2
Interest coverage	13,3	10.06
Interest-bearing debt/Equity	0.48	0.52
Interest-bearing debt/Assets	0.25	0.26
Current ratio	1.40	1.21

The generated cash flow from operation activity of BGN 18m allows the company to finance its investment program in a steady way. Even after high level of investments in 2016, the interest-bearing debt increased with BGN 2.1m for financing its subsidiary DPD Romania. Speedy follows conservative policy by maintaining high level of liquidity and leverage. It allows the company to stay financially stable even in case of unfavorable market conditions. The leverage is stable through the years with 1/4 of the assets financed with own funds. Current ratio has stuck around 1.4x and the slight decrease in 2016 is a result of better collection of receivables.

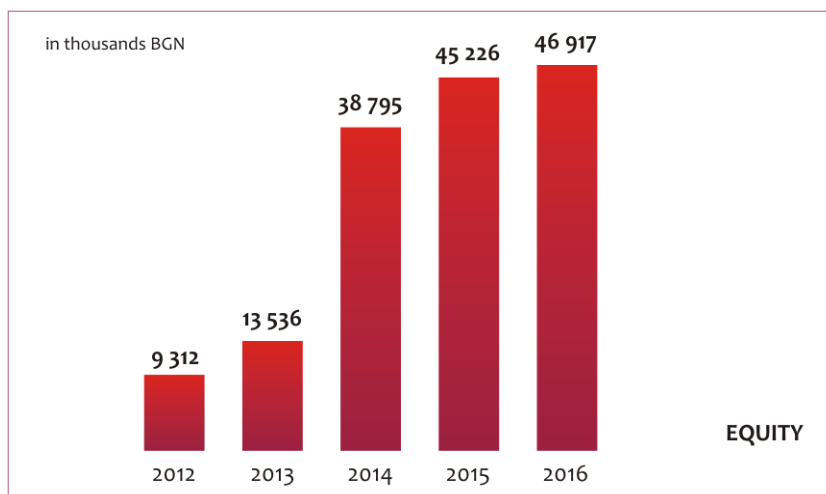
The operating ratios also are stable with receivables collection period shrunk together with payment period of account payables.

In the case of services “Cash on delivery” and “Postal money order” upon delivery of the shipment the courier will receive the respective amount and within one business day that sum will be paid back to the sender. All the sums collected from the services “Cash on delivery” and “Postal money order” appear as liabilities in the balance sheet. As of 31.12.2015 the amount of these liabilities totaled 5.3 m BGN while its change for the period are reported in the cash flow from operating activities.

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

Speedy Jsc invests considerable resources 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 generated cash flow is sufficient 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.

Currently there are no risks for the financial standing of the company. The Group sustain low leverage and high liquidity while the cash flow from operating activity exceeds several times the maturing obligations. It provides solid cushion that assure the financial standing even in unfavorable market environment.



#### **M. 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. Particular steps are undertaken toward improvement of profitability and financial performance.

The high intensity of investment is going to sustain, though with volumes below 2016 level. More weight is going to be put on investments in Romania compared to previous year.

The projects for development of human resources will continue to expand in the sphere of raising the motivation, activity and entrepreneurship. A regular assessment of positions, their responsibilities and tasks is performed.

It is planned to continue the modernization the office network in order to improve the operations and the quality of the customer service.

#### **N. Research and development.**

The company does not perform activities in the sphere of research or development.

## O. Share buy-back transactions

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

## P. 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

## Q. 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
Creditor	Bulbank	Bulbank
Amount of financing	BGN 705 000	BGN 10 867 490
Purpose	Purchase of equipment	Acquisition and investing in companies
Maturity	27.02.2018	21.11.2020
Interest rate	3-month SOFIBOR+2,9%	3-month SOFIBOR+2,6%
Amount as of 31.12.15	BGN 274k	BGN 7 060k

Type of financing	Investment
Creditor	DSK
Amount of financing	830 000 euro
Purpose	Purchase of equipment
Maturity	24.09.2021
Interest rate	1M-EURIBOR+1,8%
Amount as of 31.12.15	€ 788k

Under the loan obtained from Unicredit Bulbank from 21.11.2014, Speedy pledged its subsidiaries Geopost Bulgaria and Dynamic Parcel Distribution, Romania 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.

#### Financial leases, in BGN '000

Creditor	Maturity up to 1 year	Maturity over 1 year	Interest rate
BM Leasing	12	0	6,25%
Socgelease	37	0	3,5%
Raiffeisen leasing	3 135	5 171	1,8%
Unicredit leasing	2 448	3 588	1,8%
<b>Total Speedy Jsc</b>	<b>5 632</b>	<b>8 759</b>	
Motoractive IFN	26	76	4,2% - 6,3%
UniCredit Leasing Corporation IFN	6	4	4,3%
<b>Total DPD Romania</b>	<b>32</b>	<b>80</b>	
<b>TOTAL</b>	<b>5 664</b>	<b>8 839</b>	

The leasing obligations are secured by the leased assets.

As of 31 December 2016 granted a loan to DPD SA Romania, a subsidiary of Speedy JSC.

Name, in thousand BGN	Amount	Interest rate %	Maturity	Purpose
DPD SA, Romania	4 232	4,5%	15.12.2020	Investment

The loan is unsecured.

No other financial instruments are used, incl. hedging

## SPEEDY GROUP

### Loans obtained

Type of financing	Investment
Creditor	Bulbank
Amount of financing	€ 7 866 000
Purpose	Investment
Maturity	28.06.2028
Interest rate	1,579%
Amount as of 31.12.15	€7 866 000

### Loans extended, in BGN '000

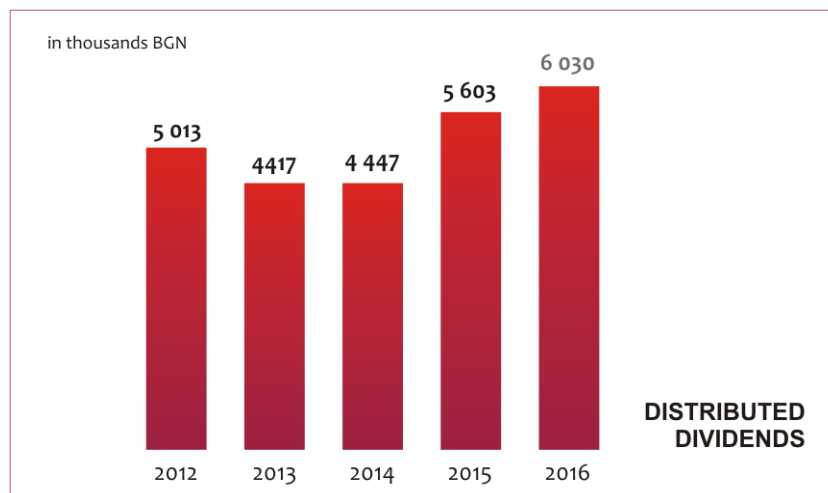
Name	Amount	Annual interest rate
Subsidiaries	2 070	3%
Related parties	3 085	3%
Natural persons	1 009	3%
<b>Total</b>	<b>6 164</b>	

Name	Amount	Annual interest rate
Subsidiaries	38 448	-
Related parties	19 964	-
<b>Total</b>	<b>58 412</b>	

## R. Corporate events

On 14.06.2016 was held the General Meeting of Shareholders of Speedy Jsc, where were taken decision for dividend distribution in amount of BGN 6 029 588.47 or BGN 1,13 per share. Pricewaterhouse Coopers were chosen as an auditor for 2016 and 2017. Were approved maximum amount of variable remuneration for the members of BoD that have contracts with Speedy Jsc.

On 14.12.2016 an extraordinary General Meeting of Shareholders of Speedy Jsc was held, where was voted decision for capital increase as per art. 112 (3) of LPOS with 42 900 shares. „Afa“ OOD was chosen as an auditor for 2016 and 2017 due to significant increase of the initially offered price by Pricewaterhouse Coopers.





## 2. Major risks faced by the company

SPEEDY AD endeavor 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 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 considerably 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 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 labor. 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 labor and fuel.

#### Currency risk

The exposure to currency risk could result from the international deliveries, whose share in the income structure is currently small. The best part of currency exchange operations are in EURO, therefore the overall effect from fluctuations in currency exchange rates is negligible. 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 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

#### **Information regarding share buy-back transactions**

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

#### **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%
„Omnicar invest“ 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	
<b>GEORGI IVANOV GLOGOV</b>		
„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
"Трансбалкан Груп" ООД	Manager	
„Aleks – G” EOOD	Manager	sole proprietor
„Balkan holiday” EOOD		sole proprietor
„Lux light systems” EOOD		sole proprietor
<b>DANAIL VASILEV DANAILOV</b>		
„Bioforest“ OOD	Manager	25% of the capital
DPD SA, Romania	Member of the Board of Directors	
<b>AVAK STEPAN TERZIYAN</b>		
“Star performing” OOD	Manager	over 25% of the capital
<b>CEDRIC FAVRE - LORRAINE</b>		
„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. Additional information

##### 1. Information about transactions of major significance.

There are no such transactions, not announced in this report.

##### 2. Information about related party transactions.

There are no related party transactions in 2016 of any significance and/or transactions that could significantly impact the companies financial situation or results of the activities over the reporting period.

There are no related party transactions that could go beyond the scope of usual business activity of the company or deviate to a significant extent from the market conditions including similar transactions with the Members of the Board of Directors in compliance with art. 240b of the Commercial law.

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

**3. Information about extraordinary events and their impact on the results.**

No such events occurred during the year.

**4. Information about organizational changes in Speedy's Group**

No such changes occurred during the period

**5. Information about off-balance transactions.**

There are no such transactions.

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

Speedy AD holds 100% of the capital of Speedy OOD, Dynamic Parcel Distribution S.A. (Romania) and GeoPost Bulgaria OOD.

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

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

There are no new issues for the reporting period.

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

Speedy AD has not published forecasts.

**9. 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.

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

(See Declaration for corporate management)

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

No changes occurred.

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

As of 31 December 2016:

	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 Mektupchiyan	0	0	0	3 544 367	3 544 367	66,42%
Danail Danailov	0	0	360	0	360	0,01%

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

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

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**2016**

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	<b>Base salary (BGN)</b>	<b>Non-cash benefits (BGN)</b>	<b>Other payments (BGN)</b>
Valeri Mektupchiyan	240 000		59 259
Danail Danailov	66 000		25 926
Georgi Glogov	66 000		25 926
Avak Terziyan	66 000		18 519

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**Remuneration paid by Speedy EOOD**

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Valeri Mektupchiyan	31 429
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There is no pension liabilities and indemnifications due.

**14. Information about agreements that the company knows about (including after the end of financial year) that could result change in stakeholders in any future period in the held shares or bonds from current shareholders or bondholders.**

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.

**15. 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.

**16. Events after the end of the reporting period**

After the date of preparation of the report there are no events that could have considerable effect on the consolidated financial statement of the Group as of 31 December 2016

***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*

26.04.2017.  
Sofia

Executive Director:  
Valeri Mektupchiyan

## 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



**Razvan  
Tudor**

Sales  
Manager

### Experience and qualification

- Sales Manager of DPD Romania since 2016
- Many years of experience in sales, marketing and management as well as previous key positions in companies like Heineken and Coca-Cola
- Graduate with Polytechnic University of Bucharest

### 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 financial statements for 2016 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 2016 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

## 5. DECLARATION FOR CORPORATE GOVERNANCE

1. **Introduction.**
2. **Controlling environment:**
  - a. *Communication, applying practices of accountability and business ethics;*
  - b. *Competence engagement;*
  - c. *Engagement of persons entitled with general management;*
  - d. *Philosophy and Management operational method;*
  - e. *Organizational structure;*
  - f. *Human Resources Management policies and practices;*
  - g. *Employees/Personnel competence.*
3. **Risk assessment policy in Speedy group:**
  - a. *External factors;*
  - b. *Internal factors.*
4. **Information system.**
5. **Controlling activities, policy and procedures.**
  - a. *Review of fulfilment and performance results;*
  - b. *Information management;*
  - c. *Physical controlling;*
  - d. *Responsibilities allocation.*
6. **Current observation of controlling functions.**

## **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:

### III. 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 behavior.

b. **Competence engagement;**

Speedy JSC (the parent company) has incorporated a Procedure for Recruitment and Hiring of employees under labor 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 company under his management, 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.

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 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 labor 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.

**1. 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.

**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.

**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.

### **1. 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 cashflow operations of bank accounts and their allocation in the respective items;
- Software product for Labor 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 electronic means of communication or by the management's activity.

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

The controlling activities that refer to the audit can be categorized, as follows:

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

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 examinative 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-automatized 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.

### **3. 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 – 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 auditing and 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 economical 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.

Assessment of the current controls monitoring in Speedy group and its subsidiaries is assigned in rotation to external audit companies, that are assigned to confirm the right functioning of internal control and audit units, or in order to provide feedback and recommendation for their improvement.

***2. 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 21st, 2004 on takeover bids;***

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

***3. 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 favor of the company, 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.

#### **4. Multicultural policy applied regarding the administrative, management and supervisory bodies**

Speedy JSC and its subsidiaries do not apply any specific multicultural policy. Appointment of the organizational structure and the recruitment of employees for the respective functions is carried out without consideration of age, sex or other characteristics. 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.

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

In November 2012, Speedy JSC (parent company) has listed its stocks for trading on the Bulgarian Stock Exchange – Sofia. The parent 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 parent company’s Management shall explain the reasons.

## ***6. Report for observance of the Code for good corporate governance***

### **Chapter one**

#### **CORPORATE BOARDS**

**Speedy JSC (Parent company) 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 (Parent company):**

- 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 not accepted a written Ethics Code, but the company has implemented ethical principles that reflect and balance the interests of all interested parties.
- 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 company's business plan; 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.

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

- 1.9. The General Shareholders Meeting must elect and remove members of the Board of Directors in compliance with the law and the 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 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 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.

3.7. The election of members of the Board of Directors must be done through a transparent procedure which should ensure timely and complete information regarding the personal and professional qualities of the candidates. According to the company's Articles of Association, there is no limitation regarding the number of consecutive terms of the members of the Board of Directors that provide for the company's efficient functioning and compliance with legal requirements.

#### **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 company's 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 company.

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 company'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 company.

4.6. The remuneration of the members of the Board of Directors is disclosed in accordance with the law and the 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 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 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.

## **Chapter II**

### **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 company may face and to effectively manage those risks.

## **Chapter III**

### **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 possible as it is, 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 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 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.

## **Chapter Four**

### **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 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 with 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 company, 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 of the company;
- information about the structure and composition of the managing and supervisory bodies of the company as well as basic information about their members, including information about any committees;
- financial reports covering at least the previous 3 years;
- 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 company'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 Company has started to disclose information regarding shareholders in English language as well, regarding financial statement, 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 company, its management, corporate boards, operational activity, shareholders structure, that allow timely and accessible way for disclosure to the information users.

## **Chapter Five**

### **CORPORATE GOVERNANCE AND 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 company and who are in a position to influence the company, including for example: suppliers, employees, creditors, civil society groups, and others. The company 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.

2. 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.

3. 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 company expansion and the economic, social and environmental development of the sphere it operates in.

4. In the carrying out of its activity, Speedy JSC 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 JSC 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, from time to time 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; labor policies, policies regulating supplier and client relations; the company's corporate social responsibility policies; environmental protections and nature preservation policies.

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

## **Chapter six**

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

7. 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.
8. 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.
9. The company encourages the engagement of its investment intermediaries and institutional investors in definition of the policy and practices for corporate governance.

The company 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:



## INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS  
SPEEDY AD

### Report on the Audit of the Consolidated Financial Statements

#### Qualified Opinion

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

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

#### Basis for Qualified Opinion

As at 31 December 2016, in the consolidated statement of financial position are reported goodwill and intangible assets, acquired in a business combination that occurred in a prior year (2014), with a total carrying amount of BGN 18,902 thousand (31 December 2015: BGN 19,734 thousand). We were not provided with sufficient documents, prepared usually in such type of transactions, and/or with other evidence confirming the completeness and adequacy of the performed actions, procedures and calculations in relation to compliance with the requirements of IFRS 3 "Business Combinations" and IFRS 13 "Fair Value Measurement" (Note 4) regarding the proper accounting of the these assets as a

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result of the business combination. Therefore, we were unable to satisfy ourselves by alternative audit procedures as to the proper identification and valuation of the recognised goodwill and intangible assets, acquired in the business combination occurred in a prior year, and accordingly to determine whether any adjustments, and at what amount, would be necessary in respect of the presented closing balances of these assets and the related thereto deferred taxes, and respectively, on the retained earnings in the consolidated statement of financial position as at 31 December 2016, and respectively as at 31 December 2015, as well as on the amortisation expenses and impairment of intangible assets, stated for 2016 and 2015, deferred taxes and the financial results for both reporting periods, reported in the consolidated statement of comprehensive income for 2016.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the consolidated financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

#### **Information Other than the Consolidated Financial Statements and Auditor's Report Thereon**

Management of the Group is responsible for the other information. The other information, which we have obtained prior the date of our auditor's report, comprises the consolidated management report and the corporate governance statement of the Group, prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless and to the extent explicitly specified in our report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

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As described in the *Basis for Qualified Opinion* section above, we were unable to obtain sufficient appropriate audit evidence about the carrying amount of stated by the Group goodwill and intangible assets, recognised as a result of a business combination occurred in a prior year and the related thereto deferred taxes, as at 31 December 2016. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

### Key Audit Matters

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

<i>Key audit matter</i>	<i>How this key audit matter was addressed in our audit</i>
<p><i>Valuation and capitalisation of intangible assets</i></p> <p>As disclosed in Note 4, the intangible assets of the Group as at 31 December 2016 include software with a carrying amount of BGN 3,545 thousand (31 December 2015: BGN 3,535 thousand). The main part of that represents the platform on which the activities of the parent company (the Parent) and the subsidiary in Romania (in process of implementation) are actually organised and performed.</p> <p>The Parent operates in a strongly competitive environment and dynamic markets, continuously developing technology where and through which the offering of new services is constantly needed. In addition, it pursues an active investment policy related to fast expansion. These circumstances lead to the necessity in current development of new modules and changes in the existing modules and functionalities of the Parent's information system. The upgrade process itself involves the execution of specific tasks by IT experts. In its turn, the accounting judgment about which and to what extent the expenditure under the work performed on the information system satisfy the conditions for</p>	<p><i>In this area, our audit procedures comprised:</i></p> <ul style="list-style-type: none"> <li>• Inquiries regarding the process related to the development of new modules and the maintenance of existing modules in the information system of the Parent;</li> <li>• Consideration and assessment of the policy, approach and model, including the criteria applied, for identification of IT works and the related expenditure, subject to capitalisation, and respectively, that to be recognised in the current expenses;</li> <li>• Consideration and assessment of the analyses, performed by the Parent, on the completed work and the capitalised amounts by month based on the future use of the new functionality – for the current and the prior year;</li> <li>• Analyses and assessment of the completed work and the related expenditure, included in the current expenses for 2015 and 2016;</li> <li>• Inspection of documents regarding facts and circumstances associated with the completed IT work on development and/or</li> </ul>

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<i>Key audit matter</i>	<i>How this key audit matter was addressed in our audit</i>
<p>"development phase" and should be capitalised and which is rather "maintenance" in substance and should be recognised as current expense when it is incurred, is a complex process and is based on expert judgements. It involves both IT and accounting experts. Together they periodically evaluate the IT work performed in terms of type, scope, content, objectives, time horizon for use, benefits of the result and other similar. These evaluations are based on expert analyses of information on the man-hours used and the nature of work, the assumptions for their allocation to separate type of activities and modules. There is certain level of subjectivity and inherent uncertainty in these judgments and evaluations regarding the expenditure capitalised in the intangible assets.</p> <p>Due to the circumstances that: (a) the identification and calculation process of the IT expenditure for capitalisation referring to the development of intangible assets, including by modules and periods of use, assumes substantial expert judgements; and (b) the significance of the reporting item itself, as noted above, we have determined this matter as a key audit matter.</p>	<p>maintenance of modules of the information system – contracts, protocols and other supporting documents;</p> <ul style="list-style-type: none"> <li>• Examination and testing of the calculations on the capitalised expenditure related to IT work on the information system – by month, as well as its amortisation;</li> <li>• Analyses and assessment of the appropriateness of the key judgments and assumptions, used by the management of the Parent, with the assistance of our internal IT expert;</li> <li>• Assessment and testing the completeness, appropriateness and adequacy of the disclosures in the consolidated financial statements of the parent company with regard to the valuation and capitalisation of intangible assets.</li> </ul>

#### **Other Matters**

The consolidated financial statements of SPEEDY AD for the year ended 31 December 2015 have been audited by another auditor who has issued an auditor's report with unmodified opinion on those consolidated statements, dated 19 April 2016.

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### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management of the Group is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease its operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- Conclude on the appropriateness of Group management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure of information about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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## Report on Other Legal and Regulatory Requirements

### *Additional Matters to be Reported under the Accountancy Act and the Public Offering of Securities Act*

In addition to our responsibilities and reporting in accordance with ISAs, described above in the *Information Other than the Consolidated Financial Statements and Auditor's Report Thereon* section, in relation to the consolidated management report and the corporate governance statement of the Group, we have also performed the procedures added to those required under ISAs in accordance with the Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA), issued and approved by its Management Board on 29 November 2016. These procedures refer to testing the existence as well as the form and content of this other information to assist us in forming opinions about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act (Art. 100m, paragraph 10 of the POSA in conjunction with Art. 100m, paragraph 8(3) and (4) of the POSA) applicable in Bulgaria.


### *Opinion in connection with Art. 37, paragraph 6 of the Accountancy Act*

Based on the procedures performed, our opinion is that:

- a) The information included in the consolidated management report of the Group referring to the financial year for which the consolidated financial statements have been prepared is consistent with the consolidated financial statements on which we have expressed a qualified opinion in the *Report on the Audit of the Consolidated Financial Statements* above.
- b) The consolidated management report of the Group has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100(m), paragraph 7 of the Public Offering of Securities Act.
- c) The corporate governance statement of the Group referring to the financial year for which the consolidated financial statements have been prepared presents the information required under Chapter Seven of the Accountancy Act and Art. 100 (m), paragraph 8 of the Public Offering of Securities Act.

### *Opinion in connection with Art. 100(m), paragraph 10 in conjunction with Art. 100(m), paragraph 8(3) and (4) of the Public Offering of Securities Act*

Based on the procedures performed and the knowledge and understanding obtained about Group's activities and the environment in which it operates, in our opinion, the description of the main characteristics of Group's internal control and risk management systems relevant to the financial reporting

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process, which is part of the consolidated management report (as a component of the corporate governance statement of the Group) and the information under Art. 10 paragraph 1(c), (d), (f), (h) and (i) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on Takeover Bids, do not contain any material misrepresentations.

**AFA OOD**

*Audit Firm*

**Renny Georgieva Iordanova**

*General Manager*

**Valia Iordanova Iordanova**

*Registered Auditor in Charge of the Audit*

**26 April 2017**

**38, Oborishte Street**

**1504-Sofia, Bulgaria**

*This is a translation from Bulgarian of the Independent Auditor's Report on the Consolidated Financial Statements of Speedy AD for the year ended 31 December 2016.*

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**07.06.2017.**



**SPEEDY AD**

**SOFIA**

**CONSOLIDATED FINANCIAL STATEMENT**

**FOR THE YEAR ENDING ON**

**31 DECEMBER 2016**

**CONTENT**

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**SPEEDY JSC****CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

as of 31 December 2016

	<i>Notes</i>	<u>31.12.2016</u> <b>BGN'000</b>	<u>31.12.2015</u> <b>BGN'000</b>	*
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	3	33,629	26,024	*
Goodwill and other intangible assets	4	22,437	23,283	**
Deferred tax assets	12	201	192	
Other long-term receivables		208	44	*
		<u>56,475</u>	<u>49,543</u>	
<b>Current assets</b>				
Inventories	5	613	567	
Trade receivables	6	20,519	20,764	*
Receivables from related parties	28	398	2,868	*
Other receivables and prepayments	7	2,484	2,282	*
Cash and cash equivalents	8	11,067	9,092	
		<u>35,081</u>	<u>35,573</u>	
<b>TOTAL ASSETS</b>		<u><b>91,556</b></u>	<u><b>85,116</b></u>	

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*\*reclassified**\*\*restated*

**SPEEDY JSC****CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

as of 31 December 2016

*Continued***EQUITY AND LIABILITIES****EQUITY****Equity attributable to equity holders of the parent**

Share capital	9.1	5,336	5,336	
Reserves	9.2	19,738	19,995	*
Retained earnings	9.3	19,655	18,769	*
		<u>44,729</u>	<u>44,100</u>	

**Non-controlling interests****TOTAL EQUITY**

	-	-
	<u>44,729</u>	<u>44,100</u>

**LIABILITIES****Non-current liabilities**

Finance lease liabilities	10	8,838	9,423	
Long-term bank loans	11	6,985	3,662	
Deferred tax liabilities	12	1,060	1,244	**
Government grants	13	671	981	*
Long-term retirement benefit obligations	14	56	-	
		<u>17,610</u>	<u>15,310</u>	

**Current liabilities**

Finance lease liabilities	10	5,665	4,658	*
Current portion of long-term bank loans	11	1,898	3,532	
Trade payables	15	15,109	12,888	*
Payables to related parties	28	994	601	*
Tax payables	16	1,365	521	*
Government grants	13	305	313	*
Other current liabilities	17	3,881	3,193	*
		<u>29,217</u>	<u>25,706</u>	

**TOTAL EQUITY AND LIABILITIES**

	<u>91,556</u>	<u>85,116</u>
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*The accompanying notes on pages 8 to 63 form an integral part of these consolidated financial statements.*

*The consolidated financial statements on pages 1 to 63 were approved for issue by the Board of Directors and signed on 26 April 2017 by:*

**Executive Director:****Valeri Mektupchyan****Chief Accountant (preparer):****Stefka Levidjova**

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\*reclassified

\*\*restated

**SPEEDY JSC****CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

for the year ended 31 December 2016

		<u>2016</u>	<u>2015</u>	
	<i>Notes</i>	<b>BGN'000</b>	<b>BGN'000</b>	
Revenue	18	140,980	117,979	**
Other operating income/(losses), net	19	6,983	5,314	*
Materials and consumables used	20	(7,173)	(7,181)	
Hired services expense	21	(92,142)	(70,550)	**
Employee benefits expense	22	(28,214)	(23,089)	*
Depreciation and amortisation expense	3, 4	(9,344)	(9,468)	
Other operating expenses	23	(2,539)	(1,968)	*
<b>Profit from operations</b>		<b><u>8,551</u></b>	<b><u>11,037</u></b>	
Finance income	24	2	200	*
Finance costs	25	(850)	(830)	*
<b>Finance income / (costs), net</b>		<b><u>(848)</u></b>	<b><u>(630)</u></b>	
<b>Profit before income tax</b>		<b><u>7,703</u></b>	<b><u>10,407</u></b>	
Income tax expense	26	(752)	(1,132)	
<b>Net profit for the year</b>		<b><u>6,951</u></b>	<b><u>9,275</u></b>	
<b>Other comprehensive income:</b>				
<i>Items that will not be reclassified to profit or loss:</i>				
Premeasurements of defined benefit pension plans		(13)	-	
Income tax relating to items of other comprehensive income that will not be reclassified		-	-	
		<u>(13)</u>	<u>-</u>	
<i>Items that may be reclassified to profit or loss:</i>				
Exchange differences on translating foreign operations		(246)	(115)	
		<b><u>(246)</u></b>	<b><u>(115)</u></b>	
<b>Other comprehensive income for the year, net of tax</b>		<b><u>(259)</u></b>	<b><u>(115)</u></b>	
<b>Total comprehensive income for the year</b>		<b><u>6,692</u></b>	<b><u>9,160</u></b>	
<b>Net profit for the year, attributable to:</b>				
Equity holders of the parent		6,951	9,275	
Non-controlling interests		-	-	
<b>Total comprehensive income, attributable to:</b>				
Equity holders of the parent		6,692	9,160	
Non-controlling interests		-	-	
<b>Earnings per share</b>	BGN	27	<b>1.30</b>	<b>1.74</b>

The accompanying notes on pages 8 to 63 form an integral part of these consolidated financial statements.

*Executive Director:*

*Valeri Mektupchiyan*

*Chief Accountant (preparer):*

*Stefka Levidjova*

\*reclassification

\*\*restated



**SPEEDY JSC****CONSOLIDATED STATEMENT OF CASH FLOWS**

for the year ended 31 December 2016

	<i>Notes</i>	<u>2016</u>	<u>2015</u>	
		<b>BGN'000</b>	<b>BGN'000</b>	
<b>Cash flows from operating activities</b>				
Cash receipts from customers		175,931	154,230	*
Cash paid to suppliers				
		(118,859)	(105,232)	
Cash paid to employees and for social security		(26,957)	(22,932)	
Taxes paid (except income taxes)		(8,425)	(8,249)	*
Income taxes paid		(870)	(1,397)	*
Other proceeds /(payments), net		692	691	*
<b>Net cash flows from operating activities</b>		<u><b>21,512</b></u>	<u><b>17,111</b></u>	
<b>Cash flows from investing activities</b>				
Purchases of property, plant and equipment		(10,246)	(9,446)	*
Proceeds from sale of property, plant and equipment		681	269	
Other proceeds		-	1,742	
<b>Net cash flows used in investing activities</b>		<u><b>(9,565)</b></u>	<u><b>(7,435)</b></u>	
<b>Cash flows from financing activities</b>				
Payments of finance lease liabilities		(5,110)	(5,391)	
Proceeds from long-term bank loans		4,366	1,662	*
Repayment of long-term bank loans		(1,583)	(3,184)	*
Interest and charges paid under bank loans		(408)	(217)	*
Dividends paid			(5,594)	
		(6,019)		
<b>Net cash flows used in financing activities</b>		<u><b>(8,754)</b></u>	<u><b>(12,724)</b></u>	
<b>Net increase / (decrease) in cash and cash equivalents</b>		<u><b>3,193</b></u>	<u><b>(3,048)</b></u>	
Net effect of changes in foreign exchange rates		(102)	(22)	*
Cash and cash equivalents at 1 January		7,976	11,046	
<b>Cash and cash equivalents at 31 December</b>	8	<u><b>11,067</b></u>	<u><b>7,976</b></u>	

*The accompanying notes on pages 8 to 63 form an integral part of these consolidated financial statements.*

**Executive Director:**

**Valeri Mektupchyan**

**Chief Accountant (preparer):**

**Stefka Levidjova**

*\*reclassification*

**SPEEDY JSC****CONSOLIDATED STATEMENT OF CASH FLOWS**

for the year ended 31 December 2016

**Attributable to equity holders of the parent**

	Share capital	Statutory reserves	Premium reserves	Translation of foreign operations reserve	Retained earnings	Total equity
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
<b>Balance at 1 January 2015</b>	<b>5 336</b>	<b>448</b>	<b>19 565</b>	<b>-</b>	<b>15 182</b>	<b>40 531</b>
<i>Changes in equity for 2015:</i>						
Distribution of profit for:	-	86	-	-	(5 688)	<b>(5 602)</b>
<i>Dividends</i>	-	-	-	-	(5 602)	<b>(5 602)</b>
<i>Reserves</i>	-	86	-	-	(86)	-
Total comprehensive income for the year, including:	-	-	-	(115)	9 275	<b>9 160</b>
<i>Net profit for the year</i>	-	-	-	-	9 275	<b>9 275</b>
<i>Other comprehensive income, net of taxes</i>	-	-	-	(115)	-	<b>(115)</b>
Other changes	-	11	-	-	-	<b>11</b>
<b>Balance at 31 December 2015</b>	<b>5 336</b>	<b>545</b>	<b>19 565</b>	<b>(115)</b>	<b>18 769</b>	<b>44 100</b>
<i>Changes in equity for 2016:</i>						
Distribution of profit for:	-	-	-	-	(6 029)	<b>(6 029)</b>
<i>Dividends</i>	-	-	-	-	(6 029)	<b>(6 029)</b>
Total comprehensive income for the year, including:	-	-	-	(246)	6 938	<b>6 692</b>
<i>Net profit for the year</i>	-	-	-	-	6 951	<b>6 951</b>
<i>Other comprehensive income, net of taxes</i>	-	-	-	(246)	(13)	<b>(259)</b>
Other changes	-	(11)	-	-	(23)	<b>(34)</b>
<b>Balance at 31 December 2016</b>	<b>5 336</b>	<b>534</b>	<b>19 565</b>	<b>(361)</b>	<b>19 655</b>	<b>44 729</b>

*The accompanying notes on pages 8 to 63 form an integral part of these consolidated financial statements.*

**Executive Director:**

**Valeri Mektupchiyan**

**Chief Accountant (preparer):**

**Stefka Levidjova**

## 1. Corporate information for the Group

Speedy Group include Speedy AD (the Parent Company) and its three (31.12.2015: three) subsidiaries.

### *The Parent Company*

SPEEDY AD (the "Parent Company") is a joint stock company registered under file № 1455/2005 with the Sofia City Court in accordance with the Commercial Act of the Republic of Bulgaria with UIC 131371780.

The seat and registered office of the Parent Company is in Sofia, 2L Samokovsko Shosse Str., Trade Center Boila.

### *Subsidiaries*

As of 31.12.2016 the Group subsidiaries are:

- SPEEDY EOOD – a company registered in Bulgaria, with UIC 115260535, and with seat and registered office in Bulgaria, Plovdiv Region, Maritsa Municipality, village of Trud, 42, Karlovo Shosse Str.
- Geopost Bulgaria EOOD – a company registered in Bulgaria, with UIC 131330260, and with seat and registered office in Bulgaria, Sofia Region, Metropolitan Municipality, Sofia, 2L Samokovsko Shosse Str., Trade Center Boila.

Dynamic Parcel Distribution S.A. , Romania – a company registered in Romania with unified registration code (URC) 9566918 and with seat and registered office in Romania, Ilfov County, Buftea, 20, Tamas Str., halls 4A and 4B.

#### *1.1. Ownership and management of the Parent Company*

The Parent Company was listed on the Bulgarian Stock Exchange on 11.12.2012.

The shareholders structure of the company's registered capital is announced in Note 9.1.

The ultimate owner /44.59 %/ of the Parent Company is Valery Harutyun Mektouptchiyan.

The Parent Company is managed by a one-tier management system - Board of Directors.

As of 31.12. 2016, members of the Board of Directors are:

1. Valery Harutyun Mektouptchiyan
2. George Ivanov Glogov
3. Danail Vasilev Danailov
4. Avak Stepan Terziyan
5. Cedric Favre-Lorraine

As of 31.12.2015, members of the Board of Directors are

1. Valery Harutyun Mektouptchiyan
2. George Ivanov Glogov
3. Danail Vasilev Danailov
4. Nedelcho Asparuhov Bonev
5. Cedric Favre-Lorraine

The Parent Company is represented by the CEO Valery Harutyun Mektouptchian.

The audit committee support the Board of Directors and has responsibilities as general management that monitors and supervises the internal control system, risk management and financial reporting.

The members of the audit committee are:

1. Emil Vasilev
2. Hristo Grozdanov
3. Teodora Kantutis

As of 31.12.2016 the total payroll of the Group is 1,428 employees (31.12.2015: 1,189).

## **1.2. Structure of the Group and scope of activity**

*1.2.1. The structure of the Group* include Speedy AD as a Parent Company and the following subsidiaries:

<i>Subsidiaries</i>	<b>31.12.2016</b>	<b>31.12.2015</b>	<i>Date</i>
	<i>Share</i>	<i>Share</i>	<i>of</i>
	%	%	<i>acquisition</i>
<i>Subsidiaries in Bulgaria</i>			
Speedy EOOD	100	100	13.06.2011
Geopost Bulgaria EOOD	100	100	21.11.2014
<i>Subsidiaries in foreign countries</i>			
DPD S.A., Romania	100	100	21.11.2014

Speedy EOOD is a direct subsidiary since inception.

Geopost Bulgaria EOOD and DPD S.A., Romania are direct subsidiaries since their acquisition in business combination.

The Group has two branches: in 2016 Geopost Bulgaria EOOD opens a branch in Greece and in 2015 DPD S.A., Romania opens one in Varna, Bulgaria

### *1.2.2. Scope of activity*

The core activity of the Companies in the Group are as follows:

#### *The Parent Company*

- Speedy AD - the scope of activity of the Parent Company consists mainly in providing courier services, for which the Communications Regulation Commission has issued Certificate № 0062/03.11.2009, as well as shipping, handling, storage and distribution of documents and goods, domestic and international transportation and any other activities not prohibited by law.

#### *Subsidiaries*

- Speedy EOOD - import-export, forwarding services, production and marketing of all kinds of goods in Bulgaria and abroad, mediation, distribution of all kinds of goods and any other activity not prohibited by law.
- Geopost Bulgaria EOOD - providing courier services, forwarding services, handling, storage and distribution of documents and goods, domestic and international transport, import and export of goods, commercial representation and agency of Bulgarian and foreign natural and legal persons, acting as insurance agent and any other activity not prohibited by law.
- DPD S.A., Romania - forwarding and courier services.

The subsidiaries have no changes in the core activity after their acquisition.

The companies perform their activity on the territory of Bulgaria, Romania and Greece.

### 1.3. Main economic indicators.

The main economic indicators, which influence the activity of the Group for the period 2013 – 2016 are provided in the table below

Indicator	2014	2015	2016
GDP BGN mln	83,634	88,571	91,873*
GDP growth	1.3%	3.6%	3.4%*
Inflation at the end of the year	-2.0%	-0.9%	-0.5%
USD/BGN average for the year/period	1.47	1.76	1.77
USD/BGN at the end of the year/period	1.59	1.80	1.86
10 RON/BGN average for the year/period	4.40	4.40	4.36
10 RON/BGN at the end of the year/period	4.36	4.32	4.31
Base interest rate at the end of the year	0.02	0.01	0.00
Unemployment (at the end of the year)	10.7%	10.0%	8.0%

\*Estimate of BNB for 2016, source: BNB.

## 2. Main accounting policies of the group

### 2.1. Basis for the preparation of the consolidated financial statements

The consolidated financial statements of Speedy JSC have been prepared in accordance with all International Financial Reporting Standards (IFRS), which comprise Financial Reporting Standards and the International Financial Reporting Interpretations Committee (IFRIC) interpretations, approved by the International Accounting Standards Board (IASB), as well as the International Accounting Standards (IAS) and the Standing Interpretations Committee (SIC) interpretations, approved by the International Accounting Standards Committee (IASC), which are effectively in force on 1 January 2016 and have been accepted by the Commission of the European Union.

IFRSs adopted by the EU is the commonly accepted name of the general purpose framework – the basis of accounting equivalent to the framework definition introduced by § 1, p. 8 of the Additional Provisions of the Accountancy Act "International Accounting Standards" (IASs).

For the current financial year the Group has adopted all new and/or revised standards and interpretations, issued by the International Accounting Standards Board (IASB) and respectively, by the International Financial Reporting Interpretations Committee (IFRIC), which are relevant to its activities. The adoption of these standards and/or interpretations, effective for annual periods beginning on 1 January 2016, has not caused changes in the accounting policies, except for some new disclosures and the expansion of those already adopted, however, not resulting in other changes in the classification or valuation of individual reporting items and transactions.

The new and/or amended standards and interpretations include:

- *IAS 1 (amended) "Presentation of Financial Statements" – regarding disclosure initiative (in force for annual periods beginning on or after 1 January 2016 – endorsed by EC)*; This amendment is an important clarification of the standard itself with a focus on preparers of financial statements when they need to exercise judgment for the materiality of particular information and its presentation in the preparation of financial statements, i.e. the including or not of specific information, presentation approach for the statement of financial position and the statement of comprehensive income – aggregation or separate presentation, approach in the arrangement of notes as well as the presentation of some particular items in the financial statements;
- *IAS 16 (amended) "Property, Plant and Equipment" and IAS 41 (amended) "Agriculture" – regarding bearer plants (in force for annual periods beginning on or after 1 January 2016 – endorsed by EC)*. This amendment introduces a measurement and accounting approach for fruit-bearing plants (bearer plants) that applies the principle for property, plant and equipment (PPE) used in IAS 16 rather than the approach prescribed by IAS 41 (i.e. applying the cost model with an option to choose the revaluation model after reaching maturity) because their involvement in agricultural produce is similar to that of PPE in the industrial production process;
- *IAS 16 (amended) "Property, Plant and Equipment" and IAS 38 (amended) "Intangible Assets" – regarding the acceptable methods of depreciation and amortisation (in force for annual periods beginning on or after 1 January 2016 – endorsed by EC)*. This clarification specifies that the method for calculating the depreciation or amortisation of an asset, based on a ratio to expected revenue, in the generation of which it is involved, is not regarded an appropriate method for measuring the economic benefits consumed as a result of the use of this asset (allowed only in very rare cases as an exception);
- *IAS 19 (as revised in 2011) "Employee Benefits" (in force for annual periods beginning on or after 1 July 2014 – endorsed by EC for annual periods as of 1 February 2015)*. This amendment relates to clarification regarding the treatment of contributions from employees or third parties to defined benefit plans in accordance with the formal terms of the respective plan. The amendment clarifies that these contributions should be treated as a reduction in the service cost by being allocated to the period of service, when they are linked to the number of employee's years of service, and should be deducted from the service cost in the period in which the related services are rendered, when the contributions are independent of the number of years of service;
- *IAS 27 (amended) "Separate Financial Statements" – regarding the equity method in separate financial statements (in force for annual periods beginning on or after 1 January 2016 – endorsed by EC)*. This amendment restores the option of IAS 27 that allows entities to use the equity method to account for and measure the investments in subsidiaries, associates and joint ventures in their separate financial statements;
- *IFRS 10 (amended) "Consolidated Financial Statements", IFRS 12 (amended) "Disclosure of Interests in Other Entities" and IAS 28 (amended) "Investments in Associates and Joint"*

*Ventures" – regarding exemptions from consolidation for investment entities (in force for annual periods beginning on or after 1 January 2016 – endorsed by EC). This amendment addresses issues that have arisen in the context of applying the consolidation exception for companies with status of parents, namely: (1) whether and how an investment entity should account for a subsidiary at fair value if the subsidiary provides investment services to third parties or supporting services to the investment entity itself; (2) the interaction between amendments for investment entities and the exemption from consolidation under IFRS 10; (3) whether a non-investment entity should apply the fair value accounting of its joint ventures or associates that are investment entities;*

- *IFRS 11 (amended) "Joint Arrangements" – regarding acquisitions of interests in joint operations (in force for annual periods beginning on or after 1 January 2016 – endorsed by EC). This amendment clarifies mainly that when an investor acquires interest in a joint operation, which in substance constitutes a business, this requires the application of the requirements and rules of IFRS 3 for business combinations;*
- *IFRS 14 "Regulatory Deferral Accounts" (in force for annual periods beginning on or after 1 January 2016 – EC has postponed the endorsement process for this interim standard until the issue of the final standard). This is a new standard with status of an interim standard, applicable only for entities, which will adopt IFRS for the first time as a reporting framework, and it is effective until the completion of the project for a new comprehensive standard intended to address such type of rate-regulated activities. It is not applied by entities that already apply IFRS;*
- *Annual Improvements to IFRSs 2010-2012 Cycle (December 2013) – improvements to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, IAS 38 (in force for annual periods beginning on or after 1 July 2014 – endorsed by EC for annual periods as of 1 February 2015). These improvements introduce partial amendments to and editions of the respective standards primarily with a view to remove the existing inconsistency or ambiguities in the application rules and requirements of individual standards as well as to set out more precise terminology. These amendments are basically focused on the following items or transactions: (a) change in the definition of 'vesting period' and 'market conditions' and add of separate definitions for 'performance condition' and 'service condition' (IFRS 2); (b) clarification on the accounting for a contingent consideration in a business combination that meets the definition for 'financial instrument' (as a financial liability or equity instrument) and its measurement at fair value at the end of each reporting period, including the effects of that in the statement of comprehensive income (IFRS 3, IFRS 9, IAS 39 and IAS 37); (c) requirement for disclosure on the judgments and criteria applied in the aggregation of operating segments for segment reporting purposes (IFRS 8); (d) additional clarification on the adjustment technique regarding the gross carrying amount and accumulated depreciation in cases of revalued assets whereas setting a requirement for consistency with the revaluation approach of the carrying amount of the respective asset (IAS 16, IAS 38); (e) clarification that an entity providing key management personnel services to another entity it is also a related party thereto (IAS 24);*
- *Annual Improvements to IFRSs 2012-2014 Cycle (September 2014) – improvements to IFRS 5, IFRS 7, IAS 19, IAS 34 (in force for annual periods beginning on or after 1 January 2016 – endorsed by EC). These improvements introduce partial amendments to and editions of the respective standards primarily with a view to remove the existing inconsistency or ambiguities in the application rules and requirements of individual standards as well as to set out more precise terminology. These amendments are basically focused on the following items or transactions: (1) additional clarifications that an entity may reclassify an asset from 'held for sale' to 'held for distribution to owners' (and vice versa) and this is not treated as a change in the original plan of disposal as well as in the*

date of classification as per IFRS 5; (2) additional guidance to clarify whether a servicing contract for a fully derecognised transferred financial asset constitutes in substance a continuing involvement in a transfer for the purposes of determining the scope of the disclosures required, as well as clarification on the applicability of the disclosure requirements regarding the offsetting of financial assets and financial liabilities in condensed interim financial statements (IFRS 7); (3) clarification regarding the requirement of the standard that high quality corporate bonds, used to estimate the discount rate for post-employment benefits, should be issued in the same currency as the benefits to be paid to the respective employees, i.e. the depth of the market should be assessed at currency level (IAS 19); and (4) clarification on the disclosure requirement 'elsewhere in the interim report', i.e. that this means the presentation of information in any place in the interim financial statements but also presentation elsewhere in the greater interim report, including interim report of the management, provided that a cross-reference exists between the interim financial statement and wherever the disclosures are included (IAS 34).

At the issue date of these financial statements, there are several new standards and interpretations as well as amended standards and interpretations, issued but not yet in force for annual periods beginning on or after 1 January 2016, which have not been adopted for early application. The management of the Group has concluded that out of them the following are likely to have a potential impact in the future for changes in the accounting policies and the classification and values of reporting items in the financial statements of the Group for subsequent periods, namely:

- *IAS 7 (amended) "Statement of Cash Flows" – regarding disclosure initiative (in force for annual periods beginning on or after 1 January 2017 – not endorsed by EC).* This amendment is an important clarification of the standard itself with a focus on the information provided to the users of financial statements in order to improve their understanding of the liquidity and the financing activities of the entity. The amendment requires that additional disclosures and clarifications be prepared in regards to the changes of liabilities of the entity from: (a) changes arising from financing activities as a result of transactions leading to changes in cash flows; or (b) changes resulting from non-cash transactions such as acquisitions and disposals, interest accrual, foreign currency exchange gains and losses, changes in fair values and other similar. Changes in the financial assets should be included in this disclosure if the resulting cash flows are presented under financing activities (e.g. in certain hedge transactions). It is allowable to include also changes in other items as part of the disclosure if they are presented separately;
- *IFRS 7 (amended) "Financial Instruments: Disclosures" – regarding the relief from the requirement to restate comparatives and the related thereto disclosures when applying IFRS 9 (in force for annual periods beginning on or after 1 January 2018 – not endorsed by EC).* The amendment is related to a relief from the requirement to restate the comparative financial statements and the option to present modified disclosures on the transition from IAS 39 to IFRS 9 (when this happens) depending on the date of the standard application by the company and whether it chooses the option to restate prior periods.  
– *IFRS 9 "Financial Instruments" (in force for annual periods beginning on or after 1 January 2018 - endorsed by EC).* This is a new standard for financial instruments. It is ultimately intended to replace IAS 39 in its entirety. The replacement project has passed through three phases: Phase 1: Classification and measurement of financial assets and financial liabilities; Phase 2: Hedge accounting; and Phase 3: Impairment methodology. At present, IFRS 9 has been issued four times: in November 2009, October 2010, November 2013 and finally in July 2014. Phase 1: Classification and measurement of financial assets and financial liabilities – by the first issues it replaces those parts of IAS 39 that refer to the classification and measurement of financial instruments. It sets out new principles, rules and criteria for classification, measurement and derecognition of financial assets and liabilities, including hybrid contracts. IFRS 9 introduces a requirement that financial assets are to be classified based on entity's business model for their management and



on the contractual cash flow characteristics of the respective assets. It establishes two primary measurement categories for financial assets: amortised cost and fair value. The new rules will lead to changes mainly in the accounting for financial assets as debt instruments and financial liabilities designated at fair value through current profit or loss (for credit risk). A specific feature of the classification and measurement model for financial assets at fair value is the addition of a new category – fair value through other comprehensive income (for certain debt and capital instruments). Phase 2: Hedge accounting – a new chapter to IFRS 9 has been added for this purpose whereby a new hedge accounting model is introduced that permits consistent and complete reflection of all financial and non-financial risk exposures, subject to hedge transactions, and also, better presentation of risk management activities in the financial statements and especially, their relation to hedge transactions, and the scope and type of documentation to be used. In addition, the requirements to the structure, contents and presentation approach for hedge disclosures have been improved. Furthermore, an option is introduced fair value changes of own debts, measured at fair value through profit or loss, in the part thereof due to changes in the company's own credit quality, to be presented in other comprehensive income rather than in profit or loss. The entities that apply IAS 39 will be able to apply this option but they will also be able to continue applying the requirements for fair value hedge accounting of an interest rate exposure under IAS 39 even when IFRS 9 becomes effective. Phase 3: Impairment methodology – the amendment introduces the application of the 'expected loss' model. Under this model all expected credit losses of an amortisable financial instrument (asset) shall be recognised in three stages, depending on its credit quality change, and not only if a trigger event has occurred as per the current model under IAS 39. The three stages are: upon the initial recognition of the financial asset – impairment for the 12- month period or for the full lifetime of the asset; and respectively – upon the occurrence of the actual impairment. They also set out how to measure impairment losses and respectively the application of the effective interest rate;

- *IFRS 15 "Revenue from Contracts with Customers"* (in force for annual periods beginning on or after 1 January 2018 – endorsed by EC). This is an entirely new standard. It introduces a single complex of principles, rules and approaches for recognition, accounting for and disclosure of information about the nature, amount, timing and uncertainties related to revenue and cash flows arising from contracts with customers. It will supersede all current standards related to revenue recognition, mainly IAS 18 and IAS 11. The main principle of the new standard is to provide a stepwise model whereby revenue amount and timing reflect the obligation characteristics and performance of each of the parties to the transaction. The key components include: (a) contracts with customers that are commercial in their substance and assessment of the probability for collecting contractual amounts by the entity in line with the terms and conditions of the particular contract; (b) identification of the separate performance obligations under the contract for providing of a good or service, that is distinct from the other assumed contractual commitments/promises, from which the customer would obtain benefits; (c) transaction price determination – the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer – special attention is paid to the variable component of price, the financing component, as well as the non-cash consideration; (d) allocation of the transaction price to separate performance obligations under the contract – usually on a stand-alone sale price of each component; and (e) the point of time or the period of revenue recognition – when an entity satisfies a performance obligation by transferring control of a promised good or service to the customer, which could occur at a point in time or over time. . The expectation is that the introduction of this standard may lead to the following changes: (a) in complex contracts with bundled sales of goods and services a clear distinction will be required between the goods and services of each

component and provision of the contract; (b) probability for a change in the time of sale recognition; (c) expanding of disclosures; and (d) introduction of additional rules for recognising the revenue from a particular type of contracts – licences; consignment; one-time collection of preliminary fees; guarantees and other similar. The standard allows a full retrospective approach or a modified retrospective approach from the beginning of the current reporting period with particular disclosures for prior periods.

- *IFRS 15 "Revenue from Contracts with Customers" – clarifications (in force for annual periods beginning on or after 1 January 2018 – not endorsed by EC)*. These clarifications refer to (a) identifying performance obligations on the basis of distinct promises to transfer goods or services; (b) identifying whether an entity is a principal or an agent in the transfer of goods or services (principal versus agent considerations); and (c) licences transfer. In addition, this amendment also provides some relief in the transition to the new standard;
- *IFRS 16 "Leases" (in force for annual periods beginning on or after 1 January 2019 – not endorsed by EC)*. This standard has an entirely new concept. It establishes new principles for the recognition, measurement and presentation of a lease by introducing a new model with the objective to ensure a more faithful and adequate representation of such transactions both for lessee and lessor. The standard will supersede the effective so far standard related to leases – IAS 17. (a) The main principle of the new standard is the introduction of a single lessee accounting model – an asset will be recognised for all contracts with duration of more than 12 months in the form of a 'right-of-use', which will be subsequently depreciated over the duration of the contract, and respectively, a financial liability will be stated for the lease liability under the contracts. This is the significant change in the current accounting practice. The standard allows an exception and retaining the old practice for leases of low-value assets and short-term leases; (b) There would not be any significant changes with the lessors and they would continue to account for leases as per the old standard IAS 17 – operating and finance. As far as the new standard introduces a more thorough concept, a more detailed analysis of contractual terms should be carried out on their part as well and it is possible that grounds for reclassification of particular lease transactions may occur for them (lessors), too. The new standard requires more extensive disclosures. Company's management is in a process of research on the possible effects and the cases of rental and lease contracts with customers where changes will be required in the accounting policies applied so far;
- *IFRIC 22 (amended) "Foreign Currency Transactions and Advance Consideration" (in force for annual periods beginning on or after 1 January 2018 – not endorsed by EC)*. This Interpretation applies to the accounting for a foreign currency transaction or part of it on the receipt of advance consideration before the entity recognises the related asset, expense or income. In these cases the entities shall recognise an asset for the advance consideration (advance consideration paid on supply of assets or services) or a liability for deferred income (advance consideration received from clients on sales) and they are treated as non-monetary. Upon receipt of such advance consideration in a foreign currency, the transaction date shall be used to determine the exchange rate while in case of multiple payments the entity shall determine a date of the transaction for each individual payment.  
In addition, with regard to the stated below amended/revised standards, issued but not yet in force for annual periods beginning on 1 January 2016, the management has concluded that they are unlikely to have a potential impact for changes in the accounting policies, and in the classification and value of reporting items in Company's financial statements, namely:
- *IAS 12 (amended) "Income Taxes" (in force for annual periods beginning on or after 1 January 2017 – not endorsed by EC) – recognition of deferred tax assets for unrealised losses*. This amendment clarifies deferred tax assets in cases where an asset is measured at fair value and that fair value is below the tax base. The amendment clarifies that: (a) temporary differences arise regardless of whether the carrying amount of the asset is less

than its tax base; (b) the respective entity should assess, when estimating its future taxable profits, whether it could deduct an amount higher than the carrying amount of the asset or not; (c) if, according to the tax legislation, there are restrictions for the use of taxable profits against which particular deferred tax assets can be recovered, the review and assessment of deferred tax assets recoverability should be made in combination with the remaining deferred tax assets of the same type; and (d) the deductions for tax purposes resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets;

- *IAS 40 (amended) "Investment Property" – regarding transfers of investment property (in force for annual periods beginning on or after 1 July 2018 – not endorsed by EC).* The amendment refers to an additional clarification regarding the terms and criteria that allow transfers of property to, or from, the category 'investment property'. More specifically, when the subject of transfer represents buildings under construction with a change in their use. Such transfers are possible and allowable only when the property meets, or respectively, ceases to meet, the criteria and definition of investment property – then it is deemed that evidence exists for a change in its use. A change in the intents and plans of the management are not regarded as evidence for a change in use;
- *IFRS 10 (amended) "Consolidated Financial Statements" and IAS 28 (amended) "Investments in Associates and Joint Ventures" – regarding the sale or contribution of assets between an investor and its associate or joint venture (in force for annual periods beginning on or after 1 January 2016 the EC endorsement procedure has been postponed for an indefinite period).* This amendment arises as a result of the existing inconsistency between the requirements and rules of IFRS 10 and IAS 28 (as revised in 2011) regarding transactions between an investor and its associate or joint venture. It basically clarifies that in transactions, representing in substance a sale or contribution of an aggregate of assets but not constituting a business, gains or losses are recognised partially to the extent attributable to other equity holders, while in transactions, representing in substance a sale or contribution of assets but constituting a business within the meaning of IFRS 3 – gains or losses are recognised in full;
- *IFRS 2 (amended) "Payments based on shares" – clarifications (in force for annual periods beginning on or after 1 January 2018 – not endorsed by EC).* The clarification interpret the following: (a) regulate the conditions related with acquiring unconditional rights in the course of evaluation and accounting for transactions with payment based on shares, settled with cash equivalents; (b) approach for classification of agreements for payment based on shares that involve settlement on net basis for purpose of withholding a personal income tax for persons from the company itself (through equity instruments) – introducing of exemptions from the general rule in order to facilitate the classification of these transactions as they would have been accounted without the option for settlement on a net basis; and (c) new rule for accounting for modifications of transaction terms for payment based on shares, settled with cash equivalents to shares, settled through issuance of equity instruments.
- *IFRS 4 (amended) "Insurance Contracts" (in force for annual periods beginning on or after 1 January 2018 – not endorsed by EC).* This amendment is related to the need to synchronise the reporting of companies that issue insurance contracts, which fall within the scope of IFRS 9, by providing two approaches to account for revenues or expenses arising from particular financial assets – the accrual approach and the deferral approach.
- *Annual Improvements to IFRSs 2014-2016 Cycle (December 2016) – improvements to IFRS 12 (in force for annual periods beginning on or after 1 January 2017 – not endorsed by EC), IFRS 1 and IAS 28 (in force for annual periods beginning on or after 1 January 2018 – not endorsed by EC).* These improvements introduce partial amendments to and editions of the respective standards primarily with a view to remove the existing inconsistency or ambiguities in the application of the rules and requirements of individual standards as well as to set out more precise terminology. These amendments are basically focused on the

following items or transactions: (a) the scope and requirements to the disclosures in IFRS 12 shall apply also to entities that are classified under IFRS as held for sale, as held for distribution or as discontinued operations; (b) removal of certain exemptions in the application of IFRS 1; and (c) the choice of venture capital funds or other similar entities to measure their investments in associates or joint ventures at fair value through profit or loss and this choice is available on an investment-by-investment basis, upon initial recognition (IAS 28);

#### *Base for evaluation*

The consolidated financial statements have been prepared on a historical cost basis.

#### *Functional currency and reporting currency*

The mother company and its Bulgarian subsidiaries keep their accounting records in Bulgarian Lev (BGN), which is adopted as their functional and reporting currency. The Bulgarian Lev is pegged to the euro under the Law on BNB at a rate BGN 1.95583 to EUR 1. The foreign subsidiary organise their bookkeeping and reporting in compliance with the requirements of the Romanian legislation. The functional currency of the Romanian subsidiary (DPD SA) is Romania Lei.

The reporting currency of the Group is Bulgarian lev. The data in the consolidated financial statements and the notes thereto are presented in thousand Bulgarian Levs (BGN'000), unless explicitly stated otherwise. The financial statements of the foreign subsidiary are translated from the local currency (RON) to Bulgarian Levs for the purposes of the consolidated financial statements according to the policy of the Company.

#### *Utilizing estimations*

The presentation of the consolidated financial statements in accordance with IFRS requires the management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities and the disclosure of contingent receivables and payables as of the date of the financial statements, and respectively, on the reported amounts of revenues and expenses for the reporting year. These estimates, accruals and assumptions are based on the information, which is available at the date of the consolidated financial statements, and therefore, the future actual results might be different from them (whereas in a situation of financial crisis the uncertainties are much more significant). The items presuming a higher level of subjective assessment or complexity or where the assumptions and accounting estimates are material for the consolidated financial statements, are disclosed in Note 2.25.

## **2.2 Definitions**

### ***Parent company***

This is a company that has control over one or more other companies, in which it has invested. Having control means that the investor is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee.

The parent company is Speedy JSC, Bulgaria (Note 1).

### ***Subsidiary company***

A subsidiary is a company, or another entity, that is controlled directly or indirectly by the parent company.

The subsidiary companies are presented in Note 1.2.

## 2.3 Consolidation principles

The consolidated financial statements include the financial statements of the parent company and the subsidiaries prepared as at 31 December, which is the end date of the Group's financial year. The 'economic entity' assumption has been applied in the consolidation whereas for the measurement of non-controlling interest in business combinations and other forms of acquisition of subsidiaries for which the 'proportionate share of net assets' method has been chosen.

### *Minority interest*

It represents the share of the owners – third parties, outside the share of the parent company. They are reported separately in the consolidated statement of financial standing, consolidated statement of comprehensive income and consolidated statement of change in equity.

In the group there is no minority interest, as far as it owns 100% of its subsidiaries. Therefore, it does not report compiled financial information about its subsidiaries with non-controlling interest.

For the purposes of consolidation, the financial statements of the subsidiaries have been prepared for the same reporting period as the parent company using uniform accounting policies.

### 2.3.1 Consolidation of subsidiaries

The subsidiaries are consolidated as of the date at which the Group gained the control effectively and the consolidation is seized as of the date when it is considered that the control is lost and transferred outside the Group (ultimate beneficent ownership is not in the parent company). The applied method is the full consolidation.

In the consolidated financial statements, the financial statements of the included subsidiaries are consolidated under the 'full consolidation' method, line-by-line, by applying accounting policies that are uniform with regard to the significant reporting items. The investments of the parent company are eliminated against its share in the equity of the subsidiaries at the date of acquisition. Intra-group transactions and balances, including unrealised intra-group gains and losses, are eliminated in full. The effect of deferred taxes has been taken into account in these eliminating consolidation entries.

### 2.3.2 Acquisition of subsidiaries

The acquisition (purchase) method of accounting is used on the acquisition of a subsidiary (entity) by the Group in business combinations. The consideration transferred includes the fair value at the date of exchange of the assets transferred, the incurred or assumed liabilities and the equity instruments issued by the acquirer in exchange for the control over the acquiree. It includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related direct costs are recognised as current expenses when incurred except for the issue costs of debt or equity instruments, which are recognised as equity components.

All identifiable assets acquired, liabilities and contingent (crystallised) liabilities assumed in the business combination are measured initially at their fair values at the date of exchange. Any excess of acquisition price of subsidiary over the share of acquirer in the fair value of net identifiable assets (including recognized in the business combination intangible assets), liabilities and contingent (crystallised) liabilities is considered and recognised as goodwill. If acquirer's share in the fair value of acquired net identifiable assets exceeds the cost of acquisition in the business combination, this excess is recognised immediately in the consolidated statement of comprehensive income of the Group in the item 'gains/ (losses) on acquisition/ (disposal) of subsidiaries'. Any non-controlling interest in a business combination is measured based on the method of the 'proportionate share in the net assets' of the acquiree.

When a business combination for the acquisition of a subsidiary is achieved in stages, all previous investments held by the acquirer at the acquisition date are revalued to fair value and the effects of this

revaluation are recognised in the current profit or loss of the Group, respectively in 'finance income' and 'finance costs' and all previously recorded effects in other comprehensive income are recycled.

### 2.3.3 Disposal of subsidiaries

On sale or other form of loss (transfer) of control over a subsidiary:

- The carrying amounts of the assets and liabilities (including any attributable goodwill) of the subsidiary are derecognised at the date when control is lost;
- The non-controlling interest in the subsidiary is derecognised at carrying amount in the consolidated statement of financial position at the loss of control date, including all components of other comprehensive income related thereto;
- The fair value of the consideration received from the transaction, event or operation that resulted in the loss of control is recognised;
- All components of equity, representing unrealised gains or losses in accordance with the respective IFRS under the provisions of which these components fall, are reclassified to 'profit or loss for the year' or are transferred directly to retained earnings;
- Any resulting difference as a 'gain or loss from a disposal (sale) of a subsidiary' attributable to the parent is recognised in the consolidated statement of comprehensive income.
- The remaining shares held that form investments in associates, joint ventures or available-for-sale investments are initially measured at fair value at the date of sale and subsequently – following the accounting policy adopted by the Group.

### 2.4 Comparable data

In these consolidated financial statements, the Group presents comparative information for one prior year. Where necessary, comparative data is reclassified (and restated) in order to achieve comparability in view of the current year presentation changes.

In 2016 the management of the parent company made changes in the form and some of the compiled items in the consolidated financial statement in order to achieve better representation of some indicators and its specifics. Hence, comparative data for 2015 are reclassified (where necessary restated) in line with the new presentation with the main reclassification are listed below. Additionally, two restatements are made in 2015 indicators following the revealed discrepancies in the applied reporting methodology.

The reclassifications and restatements in comparable data in 2015 include:

*In the consolidate report of comprehensive income:*

- reporting the gain from sale of materials as “other gain (loss) from operations” instead of “other sales” and “other expenses” (reclassification)
- reporting the sale of services as “other gain (loss) from operations” instead of “other sales” (reclassification)
- reporting the effects of FX changes, related to settlement of transactions in foreign currencies, or accounting for commercial transactions in foreign currencies at exchange rates deferring from the rates at the time of the initial recognition, as “other gain (loss) from operations” (operating income) instead of “financial income and expenses” (reclassification)
- operating income and cost of external services are increased after incorrect elimination of internal transactions without effects over the annual net income (restatement)

*In the consolidated report of financial standing*

- individual reporting of related parties balances because of their considerable size (reclassification)
- presenting the consulting services for software implementation as “intangible assets” instead of “property, plants and equipment” (reclassification)
- recognizing, because of inaccurate methodology, deferred tax liabilities over temporary differences following the revaluation of intangible assets from business combinations to their fair value. The latter result in increase in the book value of the goodwill (restatement)

*In the consolidated cash flow statement*

- individual reporting of proceeds and repayment of investment bank loans (reclassification)

**2.5 Functional currency and recognition of exchange differences**

The functional currency of the Group companies in Bulgaria being also presentation currency for the Group is the Bulgarian Lev. The Bulgarian Lev is fixed to the Euro, under the BNB Act, at the ratio BGN 1.95583: EUR 1.

Upon its initial recognition, each foreign currency transaction is recorded in the functional currency (BGN) whereas the exchange rate to BGN at the date of the transaction or operation is applied to the foreign currency amount. Cash, cash equivalents, receivables and payables, as monetary reporting items, denominated in a foreign currency, are recorded in the functional currency by applying the exchange rate as quoted by the Bulgarian National Bank (BNB) for the last working day of the respective month. At 31 December, these amounts are presented in BGN at the closing exchange rate of BNB.

The non-monetary items of the foreign activities in the consolidated statement of financial position, which are initially denominated in a foreign currency, are accounted for in the functional currency by applying the historical exchange rate at the date of the transaction and are not subsequently re-valued at the closing exchange rate. Foreign exchange gains or losses arising on the settlement or recording of foreign currency commercial transactions at rates different from those at which they were converted on initial recognition, are recognised in the consolidated statement of comprehensive income (in annual profit or loss) in the period in which they arise and are presented net under 'other operating income/ (losses)' (in annual profit or loss).

For the purposes of the consolidated financial statements, the financial statements of the subsidiaries abroad are restated from the functional currency of the respective subsidiary to the presentation currency (BGN) accepted for the consolidated financial statements, whereas:

- a. all assets and liabilities are restated to the currency of the Group by applying the closing exchange rate of the local currency thereto at 31 December;
- b. all income and expenses are restated to the currency of the Group at average rate of the local currency thereto for the reporting period;
- c. all exchange differences resulting from the restatements are recognised and presented as a separate component of equity in the consolidated statement of financial position – ‘foreign translation reserve’, and
- d. the exchange differences resulting from the restatement of the net investment in the companies abroad together with the loans and other currency instruments, accepted as hedge of these investments, are presented directly in equity.

On disposal (sale) of a foreign operation (company), the cumulative amount of exchange differences that have been directly stated as a separate component of equity, are recognised as part of the profit or loss in

the consolidated statement of comprehensive income on the line 'gains/(losses) on acquisition and disposal of subsidiaries, net', obtained on disposal (sale).

Goodwill and adjustments to fair value arising on acquisition of a company abroad are treated analogously to the assets and liabilities of this company and are restated to the presentation currency at closing exchange rate.

## **2.6. Property, plant and equipment**

The fixed tangible assets are initially accounted for at their acquisition cost, which includes the purchase price, including customs duties and irrecoverable taxes, as well as all direct costs that are necessary for the rendering of the asset to its current state and location.

After their initial recognition, the FTA are accounted for at the acquisition cost, reduced by the accrued amortization and the potential impairment losses.

The Group has set a value threshold of BGN 700, below which the acquired assets, regardless of having the features of fixed assets, are treated as current expense at the time of their acquisition.

### *Subsequent costs*

Repair and maintenance costs are recognised as current expenses as incurred. Subsequent costs incurred in relation to long-term assets having the nature of replacement of certain components, significant parts and aggregates or improvements and restructuring, are capitalised in the carrying amount of the respective asset whereas the residual useful life is reviewed at the capitalisation date. At the same time, the non-depreciated part of the replaced components is derecognised from the carrying amount of the assets and is recognised in the current expenses for the period of restructure.

Depreciation of an asset begins when it is available for use. The amortization of the assets accrues by the straight-line method with a view to distribute the difference between the book value and the residual value over the useful life of the assets. The useful life of the groups of assets is dependent on their physical wear and tear, the characteristics of the equipment, the future intentions for use and the expected obsolescence, as follows:

- machinery and equipment – 5-10 years;
- computers and mobile devices – 3-5 years;
- vehicles – 5-7 years;
- furniture and fixtures – 6, 7 years.

The useful life, set for any tangible fixed asset, is reviewed by the management of each company within the Group at the end of each reporting period and in case of any material deviation from the future expectations of their period of use, the latter is adjusted prospectively.

### *Impairment of assets*

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount might permanently differ from their recoverable amount. If any indications exist that the estimated recoverable amount of an asset is lower than its carrying amount, the latter is adjusted to the recoverable amount of the asset. The recoverable amount of long-term assets is the higher of fair value less costs to sell or the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market conditions and assessments of the time value of money and the risks, specific to the particular asset. Impairment losses are recognised in the consolidated statement of comprehensive income (within profit or loss for the year).



### *Gains and losses on disposal (sale)*

Tangible fixed assets are derecognised from the consolidated statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of long-term assets group are determined as the difference between the consideration received and the carrying amount of the asset at the date of sale. They are stated net under 'other operating income/ (losses), net' on the face of the consolidated statement of comprehensive income (within profit or loss for the year).

## **2.7. Intangible assets**

### ***Goodwill***

Goodwill represents, residual value, the excess of the cost of an acquisition (the consideration given) over the fair value of Group's share in the net identifiable assets (incl. recognized intangible assets from business combination) of the acquired company at the date of acquisition (the business combination). Goodwill is initially measured in the consolidated financial statements at acquisition cost (cost) and subsequently – at cost less accumulated impairment losses. Goodwill is not amortised.

Goodwill arising on the acquisition of a subsidiary is presented in the consolidated statement of financial position in the group of 'intangible assets'.

The individually recognised goodwill on the acquisition of subsidiaries (entities) is mandatory tested for impairment at least once in a year. Impairment losses on goodwill are not subsequently reversed. Gains or losses on the sale (disposal) of a particular subsidiary (entity) of the Group include the carrying amount of the goodwill relating to the entity sold (disposed of).

On the realisation of a particular business combination, each recognised goodwill is allocated to a particular cash generating unit (subsidiary) and this unit is used for impairment testing. The allocation is made to those cash generating units that are expected to benefit from the business combination in which the goodwill arose.

Impairment losses on goodwill are presented in the consolidated statement of comprehensive income (within profit or loss for the year) in the item “depreciation costs”.

### ***Other intangible assets***

Intangible assets are stated in the consolidated financial statements at acquisition cost (historical value) less accumulated amortisation and any impairment losses in value. They are depreciated under straight-line method for a period between 5-16 years. The intangible assets include directly acquired and acquired through business combinations from acquisition of subsidiaries.

The carrying amount of the intangible assets is subject to review for impairment when events or changes in the circumstances indicate that the carrying amount might exceed their recoverable amount. Then impairment is recognised as an expense in the consolidated statement of comprehensive income (within profit or loss for the year).

Intangible assets are derecognised from the consolidated statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of intangible assets are determined as the difference between the consideration received and the carrying amount of the asset at the date of sale. They are stated net under 'other operating income/ (losses), net' on the face of the consolidated statement of comprehensive income (in profit or loss for the year).

## 2.8. Inventories

The cost of the inventories include their purchase or production costs, processing and other direct costs, associated with their delivery. At the end of every reporting period the inventories are accounted for at the lower of the acquisition cost and their net realizable value. The amount of every impairment is recognized as expense for the impairment's period.

The net realizable value is the evaluation of the sales price upon normal carrying out of the activity, reduced by the costs for finishing and sale.

The inventories are expensed using the "average weighted" method.

Upon the sale of inventories, their carrying value is recognized in cost of sales for the same period in which the respective revenue is recognized in the consolidated statement of comprehensive income. (in profit or loss for the year).

## 2.9. Trade and other receivables

Trade receivables are recognised in the consolidated financial statements and carried at fair value based on the original invoice amount (cost) less any allowance for uncollectable debts. In case of payments deferred over a period exceeding the common credit terms, where no additional interest payment has been envisaged or the interest considerably differs from the common market interest rates, the receivables are initially valued at their fair value and subsequently – at amortised cost, after deducting the interest incorporated in their nominal value and determined following the effective interest method.

An estimate allowance for doubtful and bad debts is made when significant uncertainty exists as to the collectability of the full amount or a part of it. Bad debts are written-off when the legal grounds for this are available. Impairment of trade receivables is being accrued through a respective corresponding allowance account for each type of receivable in the item 'other expenses' on the face of the consolidated statement of comprehensive income (within profit or loss for the year).

The indicators of the presence of grounds for impairment are the following: substantial financial difficulties of a client, declaring of insolvency, delay in the payment or non-payment. The amount of impairment is the difference between the book and the recoverable value. The latter is the present value of the cash flows, discounted by the effective interest rate. The amount of the provision for impairment is recognized in the income statement.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event that occurred after the impairment was recognized, the previously recognized impairment loss is recovered to the extent that the book value of the asset does not exceed its amortized cost at the date of recovery. The recovery of impairment loss is recognized in the consolidated statement of comprehensive income. (in profit or loss for the year).

## 2.10. Cash and cash equivalents

The cash and cash equivalents consist of money on bank accounts and other highly liquid short-term investments with an initial due date of 3 months or less

For the purposes of the cash flows statement:

- cash proceeds from customers and cash paid to suppliers are presented at gross amount, including value added tax (20%);
- interest on investment purpose loans received is reported as payments for financing activities while the interest on short-term loans financing operating activities is included in the operating activities;

- negative overdraft balances (financing working capital) are deducted (net) from Cash and cash equivalents
- VAT paid on fixed assets purchased from foreign suppliers is presented on the line 'taxes paid' while that paid on assets purchased from local suppliers is presented as 'cash paid to suppliers' in the cash flows from operating activities as far as it represents a part of the operating flows of the Group companies and is recovered therewith in the respective period (month);

## 2.11. Share capital and reserves

Speedy Jsc (the parent company) is a joint-stock company and is obliged to register with the Commercial Register a specified share capital, which should serve as a security for the creditors for execution of their receivables. Shareholders are liable for the obligations of the Company up to the amount of the capital share held by each of them and may claim returning of this share only in liquidation or bankruptcy proceedings. The parent company reports its share capital at the nominal value of the shares registered in the court.

According to the requirements of the Commercial Act and the Articles of Association, the parent company is obliged to set aside a Reserve Fund (statutory reserve) by using the following sources:

- at least one tenth of the profit, which should be allocated to the Fund until its amount reaches one tenth of the share capital decided by the General Meeting of Shareholders;
- any premium received in excess of the nominal value of shares upon their issue (share premium reserve);
- other sources as provided for by a decision of the General Meeting.

The amounts in the Fund can only be used to cover

- Annual loss
- Losses from previous years
- When the statutory reserves exceed 1/10 of the registered capital, the excess could be used for capital increase.

Premium reserves include premiums received on the issuance of equity. Any transaction costs associated with the issuing of shares are deducted from the capital, net of taxes.

Retained earnings include the current financial result and the accumulated profit from previous years and the uncovered loss from previous years.

Distribution of dividends is recognized as liability in the financial statements, for the period in which it was approved by the owners.

The foreign translation gain / loss reserves from consolidation of foreign operations includes the conversion of the financial statements of the foreign companies from local currency to the reporting currency. This reserves are presented as a separate item of the equity in the consolidated statement of financial position and is recognized as part of the gain / loss in the consolidated statements of the comprehensive income in case of divestment of foreign operation (company).

## 2.12. Net earnings or losses per share

Net earnings or losses per share is calculated by dividing net profit or loss attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the period.

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor. This factor represents the number of days that the shares are outstanding as a proportion of the total number of days in the period.

In case of a capitalisation, bonus issue or splitting, the number of the outstanding ordinary shares as at the date of such event, is adjusted as to reflect the proportional change in the number of outstanding ordinary shares as if the event has occurred in the beginning of the earliest presented period.

Diluted net earnings or losses per share are not calculated because no dilutive potential ordinary shares have been issued.

### **2.13. Trade and other payables**

Trade payables are obligations to pay for goods or services that have been acquired from suppliers in the ordinary course of business. Trade payables are classified as current liabilities if payment is due within one year or less (or the normal business cycle is longer), otherwise they are presented as non-current liabilities.

Trade and other current amounts payable are booked at original invoice amount (acquisition cost), which is the fair value of the consideration to be paid in the future for goods and services received. In case of payments deferred over a period exceeding the common credit terms, where no additional interest payment has been envisaged or the interest considerably differs from the common market interest rates, the payables are initially valued at their fair value and subsequently – at amortised cost, after deducting the interest incorporated in their nominal value and determined applying the effective interest method.

### **2.14. Interest-bearing loans and other financial resources received**

All loans and other borrowings are initially recognised at cost (nominal amount), which is accepted to be the fair value of the consideration received on the transaction, netted of the direct costs related to these loans and borrowings. After the initial recognition, the interest-bearing loans and other borrowings are subsequently measured at amortised cost applying the effective interest rate method. Amortised cost is calculated by taking into account all types of charges, commissions and other costs, including any discount or premium on settlement, associated with these loans. Gains and losses are recognised in the consolidated statement of comprehensive income (within profit or loss for the year) as finance income or costs (interest) throughout the amortisation period, or when the liabilities are derecognised or reduced.

Interest-bearing loans and other borrowings are classified as current ones unless (and for the relevant portion thereof) the company has unconditionally the right to settle its obligation within a term of more than 12 months after the end of the reporting period.

### **2.15. Leases**

#### *Finance lease*

##### *Lessee*

Finance leases, which transfer to the Company a substantial part of all risks and rewards derived from ownership of the asset under finance lease, are recognised as assets in the consolidated statement of financial position of the lessee and are presented as property, plant and equipment at their immediate sale price or, if lower, at the present value of the minimum lease payments. The lease payments are apportioned between the financial expenses (interest) and the portion attributable of the lease liability (principal repayment) so as to achieve a constant interest rate on the remaining outstanding balance of the lease liability. Interest expense is included in the consolidated statement of comprehensive income (within profit or loss for the year) as financial costs (interest) based on the effective interest rate.

Assets acquired under finance lease are depreciated on the basis of their useful economic life.

##### *Lessor*

Finance lease, where a substantial portion of all risks and rewards derived from the ownership of the leased asset is transferred outside the company, is written out of the inventory of the lessor and is presented in the

consolidated statement of financial position as a receivable at an amount equal to the net investment in the lease. The net investment in the lease agreement represents the difference between the total amount of minimum lease payments under the finance lease agreement and the non-guaranteed residual value, accrued for the lessor and the unearned financial income. The difference between the carrying amount of the leased asset and the immediate (fair selling) value is recognised in the consolidated statement of comprehensive income (within profit or loss for the year) in the beginning of the lease term (when the asset is delivered) as income.

The recognition of the earned financial income as current interest income is based on the application of the effective interest rate method.

#### *Operating lease*

##### *Lessee*

Leases where the lessor keeps a substantial part of all risks and economic benefits derived from the ownership of the specific asset are classified as operating leases. Therefore, the asset is not included in the consolidated statement of financial position of the lessee.

Operating lease payments are recognised as expenses in the consolidated statement of comprehensive income (within profit or loss for the year) on a straight-line basis over the lease term.

##### *Lessor*

Lessor continues to hold a significant part of all risks and rewards of ownership over the said asset. Therefore the asset is still included in the composition of long-term assets while its depreciation for the period is included in the current expenses of the lessor.

Rental income from operating leases is recognised on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

## **2.16. Government grants**

Government grants represent various forms of providing gratuitous resources by a government (local and central authorities and institutions) and/or intergovernmental agreements and organisations.

Government grants (from municipal, government and international institutions, including under the procedure of using the European funds and programmes) are initially recognised as deferred income (financing) when there is reasonable assurance that they will be received by the Group and that the latter has complied and complies with the associated thereto requirements.

A government grant that compensates the Company for expenses incurred is recognised in current profit or loss on a systematic basis in the same period in which the expenses are recognised.

A government grant that compensates investment expenses incurred to acquire an asset is recognised in current profit or loss on a systematic basis over the useful life of the asset usually proportionately to the amount of the recognised depreciation charge.

## **2.17. Employees compensations**

### **Pensions and other payables to personnel under the social security and labour legislation**

The employment and social security relations with workers and employees of the Group are based on the Labour Code and the provisions of the effective social security legislation for the companies operating in Bulgaria, on labour legislation for the company in Romania.

#### *Short-term benefits*

Short-term benefits to hired personnel in the form of remuneration, bonuses and social payments and benefits (due for payment within 12 months after the end of the period when the employees have rendered the service or have satisfied the required terms) are recognised as an expense in the statement of comprehensive income (within profit or loss for the year) for the period when the service thereon has been rendered and/or the requirements for their receipt have been met, unless a particular IFRS requires capitalisation thereof to the cost of an asset, and as a current liability (less any amounts already paid and deductions due) at their undiscounted amount.

At date of each financial report, the companies of the Group measure the estimated costs of the accumulating compensated annual leave, which amount is expected to be paid as a result of the unused entitlement. The measurement includes the estimated amounts of employee's remuneration and the statutory social security and health insurance contributions due by the employer thereon.

### **Long-term retirement benefits**

#### *Defined contribution plans*

##### *For Bulgaria*

The major duty of the companies - employers in Bulgaria is to make the mandatory social security contributions for the hired employees to the Pensions Fund, the Supplementary Mandatory Pension Security (SMPS) Fund, to the General Diseases and Maternity (GDM) Fund, the Unemployment Fund, the Labour Accident and Professional Diseases (LAPD) Fund, the Employee Receivables Guarantee Fund and for health insurance.

The rates of the social security and health insurance contributions are defined annually in the Law on the Budget of State Social Security and the Law on the Budget of National Health Insurance Fund for the respective year. The contributions are split between the employer and employee in line with rules of the Social Security Code (SSC).

These pension plans, applied by the Company in its capacity as an employer, are defined contribution plans. Under these plans, the employer pays defined monthly contributions to the government funds as follows: Pensions Fund, GDM Fund, Unemployment Fund, LAPD Fund as well as to universal and professional pension funds – on the basis of rates fixed by law, and has no legal or constructive obligation to pay further contributions if the funds do not hold sufficient means to pay the respective individuals the benefits they have worked-out over the period of their service. The obligations referring to health insurance are identical.

##### *For companies abroad*

The rates of the social security contributions in Romania are approved by the Social Security Budget, Tax Code (Law 227/2015). The social security contributions are being apportioned between an employer and employees at ratios regulated by the relevant local laws.

There is no established and functioning private voluntary social security scheme within the Group.

The contributions, payable by the companies of the Group under defined contribution plans for social security and health insurance, are recognised as a current expense in the statement of comprehensive income (within profit or loss for the year) unless a particular IFRS requires this amount to be capitalised to the cost of an asset, and as a current liability at their undiscounted amount along with the accrual of the respective employee benefits to which the contributions refer and in the period of rendering the underlying service.

#### *Defined benefit plans*

In accordance with the requirements of the Labour Code, the employers in Bulgaria is obliged to pay to its personnel upon retirement an indemnity, which depending on the length of service with the entity varies between two and six gross monthly salaries as at the termination date of the employment. According to the

Social Security Budget and Tax Code (Law 227/2015), in Romania the employer has no obligations to pay indemnity to the employee upon retirement. In their nature these are unfunded defined benefit schemes.

The calculation of the amount of these liabilities necessitates the participation of qualified actuaries in order to determine their present value at the date of the financial statements, at which they are presented in the consolidated statement of financial position, and respectively, the change in their value – in the consolidated statement of comprehensive income as follows: (a) current and past service costs, interest costs and the gains/losses on a curtailment and settlements are recognised immediately when incurred and are presented in current profit or loss under 'employee benefits expense'; and (b) effects from remeasurement of obligations that in substance represent actuarial gains and losses are recognised immediately when occurred and are presented to other comprehensive income in the item 'remeasurements of defined benefit pension plans'. Actuarial gains and losses arise from changes in the actuarial assumptions and experience adjustments.

At the date of each consolidated financial statements, are assigned certified actuaries who provide their report with calculations regarding the long-term retirement benefit obligations. For this purpose, they apply the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows, which are expected to be paid within the maturity of this obligation, and using the interest rates of long-term government bonds of similar term, quoted in the respective country where the company itself operates.

#### *Termination benefits*

In accordance with the local provisions of the employment and social security regulations of the Group companies, the employer is obliged, upon termination of the employment contracts prior to retirement, to pay certain types of indemnities.

The Group recognises employee benefit obligations on employment termination before the normal retirement date when it is demonstrably committed, based on a publicly announced plan, including for restructuring, to terminating the employment contract with the respective individuals without possibility of withdrawal or in case of formal issuance of documents for voluntary redundancy. Termination benefits due more than 12 months are discounted and presented in the consolidated statement of financial position at their present value.

## **2.18. Income tax**

*Current income taxes* of the Bulgarian companies of the Group are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act (CITA). The nominal income tax rate in Bulgaria for 2016 is 10 % (2015: 10%).

The foreign subsidiary is taxed in accordance with the requirements of the respective local tax regulations in Romania at tax rate of 16% (31.12.2015: 16%).

*Deferred income taxes* are determined using the liability method on all temporary differences of each consolidated company existing at the consolidated financial statements date, between the carrying amounts of the assets and liabilities and their tax bases. To determine the deferred taxes are used the tax rates that are expected to be effective in their future realization.

The deferred tax liabilities are recognized for all temporary differences subject to taxation, unless it arises from initial recognition of an asset or liability in a transaction that at the time of execution does not affect neither accounting nor taxable profit or loss, except in case of business combination.

The deferred tax assets are recognized for all temporary differences that are deductible to the extent that there are probable future taxable profits against which the assets will be realized.

As of 31.12.2016 the deferred income taxes of the companies in the group are calculated using a tax rate applicable for 2017, that is 10% for Bulgarian entities and for subsidiary in Romania it is 16%.

## **2.19. Provisions**

Provisions are accounted for, where there occurs a present judicial, constructive or legal liability for the Group as a result of past events, when it is expected to incur outgoing cash flows for covering of the liabilities and when the amount of the liability can be estimated with reasonable accuracy. No provisions for future operating losses are recognized.

When there are several such liabilities, the likelihood of incurring outgoing cash flows for their payment is evaluated taking into account the whole class of liabilities.

Provision is recognized even in cases, when an outgoing cash flow for a given liability in the class is unlikely to occur.

The provisions are estimated at the present value of the costs, which are expected to be necessary for covering of the liabilities, using a discount factor before taxes, which reflects the current market level of the risks associated with the liability.

## **2.20. Financial instruments**

### *Financial assets*

The Group classifies its financial assets in the following categories: 'loans (credits) and receivables'. The classification depends on the nature and purpose (designation) of the financial assets at the date of their acquisition. The management of the parent company together with the management of the respective subsidiary determine the classification of the financial assets for the purposes of the Group at the date of their initial recognition in the statement of financial position.

The Group companies usually recognise their financial assets in the statement of financial position on the trade date - the date when they commit to purchase the respective financial assets. All financial assets are initially measured at their fair value plus the directly attributable transaction costs.

Financial assets are unrecognised from the company consolidated statement of financial position when the rights to receive cash from these assets have expired or have been transferred, and the Group has transferred substantially all the risks and rewards of ownership of the asset to another entity (person). If the Group retains substantially all risks and rewards associated with the ownership of a particular transferred financial asset, it continues to recognise the transferred asset in its consolidated statement of financial position but also recognises a collateralized liability (loan) for the consideration received.

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are valued in the consolidated statement of financial position at their amortised cost using the effective interest method less any allowance for impairment. These assets are included in the group of current assets when having maturity up to 12 months or within a common operating cycle of the respective Group company while the remaining ones - as non-current assets.

This group of financial assets includes: trade receivables, other receivables from counterparts and third parties, cash and cash equivalents from the consolidated statement of financial position. Interest income on



loans and receivables is recognised applying effective interest rate except for short-term receivables (due in less than three months) where the recognition of such interest would be unjustifiable as immaterial and in line with the common credit terms. It is presented in the consolidated statement of comprehensive income (within profit or loss for the year) under the item 'finance income'.

At the end of each reporting period, the company assess whether events and circumstances have occurred that indicate the existence of objective evidence necessitating loans and receivables to be impaired

#### *Financial liabilities and equity instruments*

The Group classifies debt and equity instruments either as financial liabilities or as equity depending on the substance and the conditions of the contractual arrangements with the respective counterpart regarding these instruments

#### *Financial liabilities*

The financial liabilities include loans, account payables and other counterparts. They are initially recognised in the consolidated statement of financial position at fair value net of the directly attributable transaction costs and subsequently, at amortised cost using the effective interest method.

### **2.21. Revenues**

Revenue in the Group is recognised on accrual basis and to the extent it is feasible the economic benefits to flow to the Group and the amount of revenue can be reliably estimated.

Revenue is measured on a fair value of the proceeds basis, net of indirect taxes (excise duties and VAT) and any discounts and rebates granted.

Before recognizing revenue, the following specific recognition criteria also shall be satisfied:

#### *Sale of materials and goods*

Upon sale of goods, revenue is recognised when all significant risks and rewards of ownership have passed to the buyer that is commonly the time of launching the delivery.

#### *Rendering services*

Upon rendering of services, revenue is recognised based on stage of completion of the transaction as of the reporting data. In case the benefits of the transaction cannot be reliably measured, the revenue is recognized to the extend costs incurred are recoverable.

#### *Financial income*

Financial income is presented separately on the face of the consolidated statement of comprehensive income (in the annual income or loss) and comprises of: interest income on term deposits. Interest income is recognized at the time of the accrual of the interest (using effective interest rate method), i.e. the interest rate at which the expected future cash flows over the lifetime of the instrument are discounted to the book value of financial asset).

### **2.22. Expenses**

Expenses are recognised in the Group when they are incurred based on the accrual and matching concepts and to the extent that this would not lead to recognition of an asset or liability not satisfying the definitions for assets and liabilities in the Framework and IFRS themselves.

#### *Prepaid expenses*

Prepaid expenses are deferred to be recognized as a current cost in the period when the contracts, whereto they refer, are performed.

#### *Financial expenses*

Financial expenses is presented separately on the face of the consolidated statement of comprehensive income (in the annual income or loss) and comprises of: interest expenses under loans received, bank fees and charges on loans and guarantees, net foreign exchange loss from revaluation of loans in foreign cu.

### **2.23. Fair value measurement**

IFRS 13 is applied when another IFRS requires or allows fair price estimate or dissemination of fair price measurement of financial instruments as well as non-financial items. The Standard is not applicable to shares related payments under the scope of IFRS 2 “Payments based on shares”, lease operations under the scope of IFRS 17 “Leases”, as well as regarding valuations that share some similarities with fair value measurement but are not such – like valuation based on net realizable value in IAS 2 “Inventories” or useful value in IAS #^ “Impairment of assets”.

IFRS 13 define fair value as an asset sale price or a transfer of liability in the normal course of business between market participants on core (or most favourable) market and under prevailing market conditions at valuation date. The fair value according to IFRS 13 is the announced price notwithstanding whether this price is immediately accessible for observation or is an approximate estimate using other valuation technic.

Fair value is measured from the perspective of using the assumptions and judgments that potential market participants would use when pricing the respective asset or liability assuming that market participants act in their economic best interest.

In measuring the fair value of non-financial assets the starting point is always the assumption what would be the best and most efficient use of the particular asset for the market participants.

The Group applies various valuation techniques that would be relevant to the specific features of the respective conditions and for which it has sufficient available inputs while trying to use the publicly available information, and respectively, to minimize the use of unobservable information. It uses the three acceptable approaches – the market approach, the income approach and the cost approach - whereas consider the relevance of applying each of the methods, and respectively, valuation technic and model, depending on characteristics of the transaction and valuation target.

Centralized, in the parent company are organized and executed all procedures for fair value measurement of various assets and liabilities. Purposely, a the group has a specially designated person that organized the whole valuation process with a position “Head of financial sector “Analyses and management reporting”

### **2.24. Segment reporting**

Reporting segment represents identifiable part of the group, that undertake business activities out of which is able to generate proceeds and to incur expenses (including proceeds and payments related to activities with other parts of the group), whose operating results are regularly monitored from the management, responsible for key operating decisions, decision making regarding resources that are subject to distribution to the segment and evaluating the operating results and for which is available separate financial information

The group has identified only one reporting segment because of homogeneous characteristics of its activity as well as internal interconnection of the activities of each subsidiaries united and operating within the group. Additionally, certain KPIs on regional base are monitored.

**5. 2.25. Important assumptions in applying the company accounting policy. Key approximate estimates and assumptions of high uncertainty.**

***Valuation and capitalization of intangible assets***

The group currently develops new modules and makes changes in the support of existing functionalities of its IT system. The upgrading process itself includes performing a number of specific tasks from IT professionals. The process of accounting judgment which and what part of costs for IT system incurred fulfil the requirements for “upgrade” and shall be capitalized and which virtually are “support” and shall be expensed on a current basis, is based on management judgment. There participate IT and accounting specialists that perform assessment on a regular base regarding the type, scope, substance, aims, time horizon of utilization and benefits of the end product, etc. These assessments are based on professional analysis of the complied information for invested workhours and the characteristics of the work, assumptions regarding attribution of the separate activities and modules.

***Lease***

According to criteria of IAS 17 Lease, the management of respective companies in the Group have classified the leasing contracts of machines, equipment and vehicles as finance lease. In some cases, the lease transaction is complex and the management evaluate the priority criteria and the substance of the deal in order to define whether the contract is a finance lease where all substantial risks and benefits derived from the ownership of the assets are transferred to the lease.

***Useful life of depreciable tangible assets***

The management of the respective companies in the group reviewed the useful life of depreciable assets at the end of each reporting period. As of 01.01.2016 the group took decision to amend the useful life of the following group of assets:

- vehicles – from 4 to 7;
- software – from 2 to 10 ;
- electronics and computers – from 2 to 5 ;
- equipment – from 3.3 to 5

The actual useful life could defer from the estimate made because of technical wear down or obsolescence, mostly equipment, vehicles, computers and software.

***Impairment of receivables***

The approximate estimate of losses from doubtful and non-collectable receivables is made as of the each reporting date. Receivables where has been encountered difficulties with their collection are subject to review to determine the amount that is feasible collectable and the remaining part up to the book value of the particular receivable is recognized in the consolidated report of comprehensive income as a write down.

Payment in arrears in excess of 90 days is considered as an indication for impairment. Accounts payables consist of large number of small amounts. The Group has adopted the following policy to determine the approximate estimate of losses from doubtful receivables: delay above 80 days – 25% write down; over 180 days – 50% and over 365 days – 100%

***Actuarial calculations***

In calculating the present value of long-term retirement liabilities to the employees are used calculations of certified actuaries based on assumptions regarding mortality, staff turnover, expected remuneration level and discount factors.

**3. PROPERTY, PLANT AND EQUIPMENT**

	Property	Plant and equipment	Vehicles	Computers	Facilities and other assets	Investments in rented assets	Cost of acquired assets	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
<b>31 December 2015</b>								
Book value at the beginning of the period	25	752	16,602	2,847	3,303	-	-	23,529
Acquired	5	943	7,105	795	2,283	-	-	11,131
Reclassification and transfers (Note 4)	-	-	-	-	(2,826)	2,223	-	(603)
Written-off	-	-	(2,776)	(33)	(101)	-	-	(2,910)
Depreciation	(25)	(446)	(4,805)	(1,536)	(977)	-	-	(7,789)
Written-off depreciation	-	-	2,566	6	94	-	-	2,666
<b>Book value at the end of the period</b>	<b>5</b>	<b>1,249</b>	<b>18,692</b>	<b>2,079</b>	<b>1,776</b>	<b>2,223</b>	<b>-</b>	<b>26,024</b>
<b>31 December 2015</b>								
<b>Initial value</b>	67	4,183	34,090	8,119	2,679	3,950	-	53,088
<b>Accumulated depreciation</b>	(62)	(2,934)	(15,398)	(6,040)	(903)	(1,727)	-	(27,064)
<b>Book value</b>	<b>5</b>	<b>1,249</b>	<b>18,692</b>	<b>2,079</b>	<b>1,776</b>	<b>2,223</b>	<b>-</b>	<b>26,024</b>
<b>31 December 2016</b>								
<b>Book value at the beginning of the period</b>	<b>5</b>	<b>1,249</b>	<b>18,692</b>	<b>2,079</b>	<b>1,776</b>	<b>2,223</b>	<b>-</b>	<b>26,024</b>
FX revaluation	-	(3)	(9)	(3)	-	-	-	(15)
Acquired	728	7,013	5,958	955	1,696	512	1,873	18,735
Written-off	-	(2,660)	(2,845)	(414)	(31)	-	-	(5,950)
Depreciation	(19)	(685)	(5,610)	(755)	(387)	(679)	-	(8,135)
FX revaluation of depreciation	-	6	10	4	-	-	-	20
Written-off depreciation	-	206	2,294	415	31	4	-	2,950
<b>Book value at the end of the period</b>	<b>714</b>	<b>5,126</b>	<b>18,490</b>	<b>2,281</b>	<b>3,085</b>	<b>2,060</b>	<b>1,873</b>	<b>33,629</b>
<b>31 December 2016</b>								
<b>Initial value</b>	<b>795</b>	<b>8,533</b>	<b>37,194</b>	<b>8,657</b>	<b>4,344</b>	<b>4,462</b>	<b>1,873</b>	<b>65,858</b>
<b>Accumulated depreciation</b>	<b>(81)</b>	<b>(3,407)</b>	<b>(18,704)</b>	<b>(6,376)</b>	<b>(1,259)</b>	<b>(2,402)</b>	<b>-</b>	<b>(32,229)</b>
<b>Book value</b>	<b>714</b>	<b>5,126</b>	<b>18,490</b>	<b>2,281</b>	<b>3,085</b>	<b>2,060</b>	<b>1,873</b>	<b>33,629</b>

The assets in process of acquisition in amount of BGN 1,873 thousand as of 31 December 2016 consist of: BGN 1,868 thousand costs for buying automated post stations and BGN 5 thousand other (31.12.2015: N/A)

As of 31 December the value of plant and equipment include technical equipment with book value amounting BGN 556 thousand (31.12.2015: BGN 748 thousand), bought under contract for financing under Operating Programme "Development of the Competitiveness of the Bulgarian Economy" 2007-2013.

*Finance lease*

As of 31.12.2016 assets with book value BGN 16,779 thousand were acquired under financial lease contracts (31.12.2015: BGN 15,322 thousand) and consist of:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Vehicles	14,401	13,587
Equipment	2,378	1,735
	<b>16,779</b>	<b>15,322</b>

*Other data*

The initial value of long-term assets that are in operation and fully depreciated as of 31.12.2016 are in amount BGN 10,971 thousand (31.12.2015: BGN 6,233 thousand).

As of 31.12.2016 a pledge of equipment with book value BGN 1,755 thousand was established in relation to obtained bank loans (Note 11).

**4. GOODWILL AND OTHER INTANGIBLE ASSETS**

	<b>Goodwill and assets from business combinations*</b>	<b>Software</b>	<b>Cost of acquired assets</b>	<b>Total</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
<b>31 December 2015</b>				
Book value, beginning of the year	20,280*	1,523	-	21,803
Acquired	-	2,556	-	2,556
Reclassification of PPE	-	509	94	603
Depreciation	(546)	(1,133)	-	(1,679)
<b>Book value at the end of the year</b>	<b>19,734*</b>	<b>3,455</b>	<b>94</b>	<b>23,283</b>

**31 December 2015**

Initial value	20,326*	7,608	94	28,028
Accumulated depreciation	(592)	(4,153)	-	(4,745)
<b>Book value</b>	<b>19,734</b>	<b>3,455</b>	<b>94</b>	<b>23,283</b>

**31 December 2016**

Book value, beginning of the year	19,734*	3,455	94	23,283
FX revaluation of depreciation	(306)	(4)	-	(310)
Acquired	-	570	446	1,016
Written-off	-	(109)	(251)	(360)
Depreciation	(539)	(670)	-	(1,209)
FX revaluations	13	4	-	17

	<b>Goodwill and assets from business combinations*</b>	<b>Software</b>	<b>Cost of acquired assets</b>	<b>Total</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
<b>Book value at the end of the year</b>	<b>18,902</b>	<b>3,246</b>	<b>289</b>	<b>22,437</b>
<b>31 December 2016</b>				
Initial value	20,020	8,065	289	28,374
Accumulated depreciation	(1,118)	(4,819)	-	(5,937)
<b>Book value</b>	<b>18,902</b>	<b>3,246</b>	<b>289</b>	<b>22,437</b>

\* revaluated

As of 31 December the value of intangible assets include software with book value in amount of BGN 596 thousand (31.12.2015: BGN 817 thousand) bought under contract for financing under Operating Programme "Development of the Competitiveness of the Bulgarian Economy" 2007-2013.

The costs for acquisition of intangible assets as of 31 December include costs for developing of additional applications and modules to the software for management of the courier activity in amount of BGN 289 thousand (31.12.2015: BGN 94 thousand)

The initial value of intangible assets in operation that are fully depreciated as of 31.12.2016 are in amount of BGN 3,003 thousand (31.12.2015: BGN 2,430 thousand).

Goodwill recognized in the statement of financial position as of 31.12.2016 in the amount of BGN 11,440 thousand represents the excess of the cost of acquisition (the reward) over the fair value of the Group's share in net identifiable assets of Geopost Bulgaria EOOD (BGN 4,466 thousand) and Dynamic Parcel Distribution S.A., Romania (BGN 6,974 thousand) (including additionally recognized intangible assets from business combinations) at the date of their acquisition (Note 2.4). The fair value of the differentiable assets and liabilities from business combinations made from the Group are defined internally by the Management including the identification and valuation of newly recognized intangible assets from the respective business combination.

They are defined as "acquired rights" and include acquired with the business combination exclusive contracts with third parties, licenses and distribution network. Their book value is BGN 7,462 thousand as of 31.12.2016.

The Group's management has made the necessary procedures to perform an impairment test of the recognized goodwill of the acquisition of the subsidiaries Geopost Bulgaria EOOD and Dynamic Parcel Distribution S.A., Romania. For this purpose, it is assumed that each individual company is a "cash-flow generating unit". The basis for estimation of the cash flows (before taxes) are the financial budgets developed by the respective company management and the Group as a whole, covering a period of three to five years, and other medium and long-term plans and intentions for the development and restructuring of the activities within the Group. The key assumptions used in the calculations are set specifically for each company, principal of the goodwill, treated as a separate entity generating cash flows, and according to its specific operations, business environment and risks. The tests and assumptions of the management of the Group for recognized goodwill impairment are made through the prism of its forecasts and intentions about future economic benefits that the Group expects to receive from the subsidiaries, incl. by using their internally-established brands, commercial and business experience and the generated and expected revenues, securing positions on the Bulgarian and foreign markets (development and retention), expectations for future sales and restructuring activities, etc. The recoverable amount of each cash flow generating unit is determined on the basis of "value in use".

As a result of the calculations, as of 31.12.2016 r. the need for recognition of impairment of goodwill recognized for Geopost Bulgaria EOOD and Dynamic Parcel Distribution S.A., Romania, has not been identified.

As of December 31 the Group has reviewed its software and other intangible assets, where it was found no events or changes in circumstances on the basis of which it is assumed that their carrying amount may exceed their recoverable value.

## 5. INVENTORIES

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Materials	422	332
Fuel	159	235
Goods	32	-
<b>Total</b>	<b>613</b>	<b>567</b>

## 6. TRADE RECEIVABLES

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Receivables from customers	20,868	20,492
Write-down	(1,399)	(771)
	<b>19,469</b>	<b>19,721</b>
Advance payments to suppliers	1,050	1,043
<b>Total</b>	<b>20,519</b>	<b>20,764</b>

The receivables from customers include accrued amount of BGN 6,990 thousand (31.12.2015: BGN 6,472 thousand) representing receivables for services rendered in December, invoiced in January the following year.

Usually, the Group companies agree with the customers a certain term for sale-related payments within 7 to 40 days.

The Group has determined credit period of 90 days, during which it does not accrue interests on the customers. Delay after this period is adopted as indicator for write-down.

The managements of the Group companies judge the collectability by analysing the receivables' days in arrears and make a decision about its impairment.

*The term structure of performing trade receivables is as follows:*

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>BGN'000</b>	<b>BGN'000</b>
up to 30 days	9,858	9,308
from 31 up to 60 days	4,914	2,830
from 61 up to 90 days	69	1,681
<b>Total</b>	<b>14,841</b>	<b>13,819</b>

*The term structure of past due but not impaired trade receivables is as follows:*

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>BGN'000</b>	<b>BGN'000</b>
up to 30 days	3,197	3,098
from 31 up to 90 days	877	1,604
from 90 up to 180 days	98	719
from 181 up to 365 days	122	342
over 365 days	88	112
<b>Total</b>	<b>4,382</b>	<b>5,875</b>

The receivables of the company are written-down according to the impairment policy above described. Unwritten-down receivables with arrears over 365 days represent receivables from long-term partners of the company with long-lasting regular business relations.

*The term structure* of impaired past due trade receivables is as follows:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>BGN'000</b>	<b>BGN'000</b>
up to 30 days	72	162
from 31 up to 90 days	7	4
from 90 up to 180 days	86	13
from 181 up to 365 days	302	23
over 365 days	1,178	596
Write-downs	(1,399)	(771)
<b>Total</b>	<b>246</b>	<b>27</b>

## 7. OTHER RECEIVABLES AND PREPAID EXPENSES

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Prepaid expenses	950	785
Deposits made	727	599
Income tax	69	214
Other taxes	468	529
Other receivables	270	155
<b>Total</b>	<b>2,484</b>	<b>2,282</b>

*Prepaid expenses* include payments for insurances on property and parcels.

*Deposits made* as of 31 December are under contracts for rent of offices and premises.

*The advance income tax payment* represent overpaid advances during the year.



## 8. CASH AND CASH EQUIVALENTS

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Cash in hand	238	370
Cash in current accounts	8,178	5,962
Cash in safety vault	2,645	2,758
Food vouchers	6	2
<b>Total</b>	<b>11,067</b>	<b>9,092</b>

The cash is denominated: in leva – BGN 6,982 thousand, in Romanian leu – BGN 3,017 thousand, euro – BGN 1,005 thousand and in dollars BGN 63 thousand (31.12.2015: leva – BGN 7,954 thousand, EUR – BGN 846 thousand and RON – BGN 292 thousand).

According to the loan contract the Group has established as a pledge on all current and future receivables of SPEEDY AD on all bank accounts in local and foreign currency in UniCredit Bulbank AD.

As of 31 December for the purposes of cash flow statement, cash and cash equivalents include the following:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Money on bank accounts, in hand and on safety vault	11,067	9,092
Bank overdrafts /note 11/	-	(1,116)
<b>Total</b>	<b>11,067</b>	<b>7,976</b>

## 9. EQUITY

### 9.1 REGISTERED CAPITAL

As of 31.12.2016 the registered capital of the parent Company consists of 5,335,919 ordinary shares with par value of BGN 1. All shares give right of dividend, liquidation share, as well as a voting right at the General meeting of shareholders of the Company.

There is no change in the registered capital and number of ordinary shares in 2015 and 2016. The shareholders structure of the Parent-company is as follows:

	<b>31.12.2016 г.</b>		<b>31.12.2015 г.</b>	
	<b>Number of shares</b>	<b>%</b>	<b>Number of shares</b>	<b>%</b>
Speedy Group AD	3,544,367	66.42%	3,544,367	66.42%
GeoPost SA, France	1,333,979	25.00%	1,333,979	25.00%
Other individuals and legal entities	457,573	8.58%	457,573	8.58%
<b>Total</b>	<b>5,335,919</b>	<b>100.00%</b>	<b>5,335,919</b>	<b>100.00%</b>

On 14.12.2016 the General meeting of shareholders voted for capital increase from BGN 5,335,919 to 5,378,819 through issuing 42 900 new ordinary dematerialized shares each giving 1 voting right, par value of BGN 1 and issue price BGN 1. Subscription rights has only current members of the Board of Directors and employees of parent company cumulatively covering predefined criteria. Subscription initial day is 01.04.2017, subscription end date is 30.06.2017.

## 9.2 RESERVES

	<u>31.12.2016</u>	<u>31.12.2015</u>
	<u>BGN'000</u>	<u>BGN'000</u>
Premium reserves	19,565	19,565
Statutory reserves	534	545
Foreign translation reserves	(361)	(115)
<b>Total</b>	<b><u>19,738</u></b>	<b><u>19,995</u></b>

The statutory reserves are formed from setting aside of 10% of the net profit in accordance with the requirements of the Commercial Act and decision of the General Meeting of the shareholders of the Parent Company. According to the legal requirements, statutory reserves shall reach at least 10% of the registered capital. These reserves are not distributable.

The share premium of the Group comes up to BGN 19,565 thousand. It is accumulated by the proceeds, obtained in addition to the par value of the shares issued in 2014 with issue value per share to the amount of BGN 23

Foreign translation reserves from currency revaluation of foreign activities in amount of BGN 361k (negative value) (31.12.2015: BGN 115k – negative value) are formed from exchange rates differences as a result of translation of financial reports of foreign subsidiaries from local reporting currency to Group's reporting currency.

## 9.3 RETAINED EARNINGS

Changes in retained earnings are as follows:

	<i>2016</i>	<i>2015</i>
	<i>BGN '000</i>	<i>BGN '000</i>
<b>As of 1<sup>st</sup> January</b>	<b><u>18,769</u></b>	<b><u>15,182</u></b>
Net profit for the year	6,951	9,275
Dividends distributed	(6,029)	(5,602)
Actuary losses from revaluations, net of taxes	(13)	-
Other change	(23)	-
Reserves	-	(86)
<b>As of 31 December</b>	<b><u>19,655</u></b>	<b><u>18,769</u></b>

## 10. FINANCE LEASES

Under a financial lease agreement, the Group has acquired plant, computers, vehicles and equipment.

As of 31 December 2016, the payables of the Group under financial lease agreements are the following:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Payables under financial lease agreements		
• Long-term part	8,838	9,423
• Short-term part	5,642	4,658
• Accrued interest	23	-
<b>Total</b>	<b>14,503</b>	<b>14,081</b>

The lease agreements consist of fixed lease payments and purchase option at the end of the lease term.

## 11. BANKS LOANS

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Payables under received loans from banks, incl.:		
- <i>short-term part, incl.:</i>		
- Principal	1,891	3,527
- interest	7	5
- <i>long-term part, incl.:</i>		
- principal	6,985	3,662
<b>Total</b>	<b>8,883</b>	<b>7,194</b>

The loan terms are as follows

### Investment loan 1

- initial principle – BGN 705k, date of contract 27.11.2014;
- maturity 27.02.2018;
- collateral: pledge on fixed assets and receivables from the contract for financing with Ministry of Economy.
- **Amount outstanding as of 31.12.2016: BGN 274 k principle**

### Investment loan 2

- initial principle, tranche I – BGN 5,000 k, date of contract 21.11.2014;
- maturity 21.11.2019;
- initial principle, tranche II – BGN 5,867 k., date of contract 21.11.2014;
- maturity 21.11.2020
- collateral: pledge on commercial enterprises – Geopost Bulgaria EOOD, DPD Romania SA, pledge on future receivables from loan from Speedy JSC and DPD Romania
- **Amount outstanding as of 31.12.2016: BGN 7,060k principle, and BGN 5 k interest**

### Investment loan 3

- initial principle – EUR 830 k, date of contract 24.03.2016;
- maturity 24.09.2021;
- Covenant for maintaining current ratio of above 1

- collateral: pledge on fixed assets (sorting line), pledge on existing and future receivables from existing and future current bank accounts of parent company
- **Amount outstanding as of 31.12.2016: BGN 1,542 k principle and BGN 2k interest (EUR 788 k principle and 1 k interest)**

**Overdraft**

- initial principle - BGN 300 k, date of contract 18.12.2008;
- maturity 30.10.2018;
- **no outstanding amount as of 31.12.2016**

The negotiated interest rates on borrowings are between 1M-EURIBOR+1,80% to 3M SOFIBOR + 2,9%.

**12. DEFERRED TAX ASSETS AND LIABILITIES**

Deferred income taxes on profit are attributable to the following balance sheet items

	<i>Temporary difference</i>	<i>Tax</i>	<i>Temporary difference</i>	<i>Tax</i>
	<i>31.12.2016</i>	<i>31.12.2016</i>	<i>31.12.2015</i>	<i>31.12.2015</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000*</i>
<i>Deferred tax liabilities</i>				
Intangible assets related to business combinations	(7,462)	(1,060)	(8,010)*	(1,244)*
<b>Deferred tax liabilities</b>	<b>(7,462)</b>	<b>(1,060)</b>	<b>(8,010)</b>	<b>(1,244)</b>
<b>Deferred tax assets</b>	<b>2,010</b>	<b>201</b>	<b>1,920</b>	<b>192</b>
<b>Deferred tax liabilities and assets, net</b>	<b>(5,452)</b>	<b>(859)</b>	<b>(6,090)</b>	<b>(1,052)</b>

\* restated (Note №2.4)

Changes in deferred tax assets is presented below

	<i>As of 1 January 2016 z.</i>	<i>Recognized in current profit</i>	<i>Foreign translation</i>	<i>As of 31 December 2016 z.</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Intangible assets related to business combinations	(1,244)	163	21	(1,060)*
Deferred tax assets	192	9	-	201
	<b>(1,052)</b>	<b>172</b>	<b>21</b>	<b>(859)</b>
	<i>As of 1 January 2015 z.</i>	<i>Recognized in current profit</i>	<i>Foreign translation</i>	<i>As of 31 December 2015 z.</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Intangible assets related to business combinations	(1,244)	-	-	(1,244)*
Deferred tax assets	225	(33)	-	192
	<b>(1,019)</b>	<b>(33)</b>	<b>-</b>	<b>(1,052)</b>

\* restated (Note № 2.4.)

In recognizing deferred tax assets is taken into account the probability each item to reverse in future and the ability of the companies in the group to generated sufficient profit.

### 13. GOVERNMENT GRANTS

The parent company made a contract on 03.12.2013 with the Ministry of Economy for financing of project “Introducing innovative process for organization and management of logistic services and delivery of technological infrastructure and terminals for allowing access to the platform by employees, partners and client of Speedy JSC” from Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007-2013. The project is completed on 21.06.2015. The project includes purchase of hardware, software, engineering technical consultancy services in total amount of BGN 4,084 k. The financing received is 50% of total investment, or BGN 2,042 k. In 2016 is recognized financing income in amount of BGN 314 k (2015: BGN 703 k)

In 2013, the Group signed a grant contract for the project "Improving the conditions and ensuring safe working conditions in SPEEDY EOOD" with beneficiary SPEEDY EOOD with priority area - improving the working conditions at the workplace, and priority axis - increasing the efficiency and adaptability of the employees. As of 31.12.2016 the Group has acquired assets in amount of BGN 17 k and has accrued depreciation of EUR 4 thousand Levs.

Long-term and short-term part of financing received:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Long-term part	671	981
Short-term part	305	313
<b>Total</b>	<b>976</b>	<b>1,294</b>

The short-term part of financing will be recognized as income within the 12 months of the date of consolidated statement of financial position and is presented as “Government Grants” in current liabilities.

### 14. LONG-TERM LIABILITIES TO EMPLOYEES FOR RETIREMENT

Liabilities to employees for retirement include present value of group’s liabilities for payment of indemnity to retiring employees as of 31.12.2016

According to the Bulgarian Labour Code, each employee has indemnity rights in amount of two gross salaries when retire and if he has worked for the same employer for the last 10 years, the indemnity amounts to six gross salaries when retire. It is defined benefits plan.

In order to identify its long-term liabilities to the employees, the parent company has made actuarial assessment using the services of certified actuary

The change in the present value of liabilities to the employees is as follows.

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Present value of liabilities, 01 January	-	-
Costs of current employment	18	-
Interest expenses	1	-
Cost of employments for past periods	26	-
Payments for the year	(2)	-
Effects from subsequent estimates for the year, incl.	13	-
<i>Actuarial loss from changes in financial assumptions</i>	2	-
<i>Actuarial loss from changes in demographic assumptions</i>	-	-
<i>Actuarial loss from changes due to past experience</i>	11	-
Present value of liabilities, 31 December	<b>56</b>	-

The accrued amount of long-term employees' income for retirement in the consolidated statement of comprehensive income includes:

	<b>2016</b>	<b>2015</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Costs of current employment	18	-
Interest expenses	1	-
Cost of employments for past periods	26	-
<b>Costs of define benefit plans recognized in profit and loss</b>	<b>45</b>	-
		-
<b>Effects from subsequent estimates of liabilities to the employees for retirement, incl.:</b>	<b>13</b>	-
<i>Actuarial loss from changes in financial assumptions</i>	3	-
<i>Actuarial loss from changes in demographic assumptions</i>	-	-
<i>Actuarial loss from changes due to past experience</i>	11	-
<b>Costs of define benefit plans recognized in other components of comprehensive income</b>	<b>13</b>	-
<b>Total</b>	<b>58</b>	-

In estimating the present value as of 31.12.2016 are made the following actuarial assumptions:

- mortality – from mortality table of NSI for overall mortality of the population of Bulgaria for 2013 – 2015;

- turnover level of the employee – the probability of resignation or layoffs with normal distribution NORMDIST(period to retirement; 13; 5; 1). This probability is applied to the existing payroll structure based on distribution of the employees by gender and age at the time of estimate;
- discount factor – applied factor is based on effective annual interest rate  $i=2.5\%$ . It is based on the yield of long-term government bonds (10 year maturity)
- the assumption about expected future employees compensations is based on information provided from the company management and is 5% annual growth from 2017 to 2018 - 5% thereafter (2015: 5%)

This defined benefit plan expose of the companies in the group to the following risks: investment, interest, longevity related risk and risk from rising compensation costs. The parents company's management assess them as follows:

- investment risk – as long as it is unfunded plan, the parent company shall monitor and regularly to balance future payments with providing sufficient financial resources. The past experience, as well as the liability structure, show that the expected annual payments are insignificant relative to regular level of liquidity funds.
- interest rate risk – the decrease of the government bonds yield with similar maturity result in increase of the pension plan liability;
- longevity related risk - the present value of the liability to employees for retirement is calculated based on best estimate and current information about mortality of the plan participants. Increased longevity will result in potentially higher liabilities. In the last years, this indicator is relatively stable; and
- risk from rising compensation costs - the present value of the liability to employees for retirement is calculated the best estimate for expected growth of compensation costs of the plan participants. Such increase will result in potentially higher liabilities.

Sensitivity analysis of base actuarial assumptions are based on potential changes in each assumption at the end of reporting period with other assumptions being equal.

Effects of change (up and down) with 1% of compensation costs, discount factor and employees turnover on total amount of costs of current employment for payment of defined benefits for retirement is as follow:

	<b>2016</b>	
	<b><i>Increase</i></b>	<b><i>Decrease</i></b>
	<i>BGN '000</i>	<i>BGN '000</i>
Change in compensation costs	4	(4)
Change in discount factor	(3)	3
Change in employees turnover	(7)	8

The average term of the long term liability to employees for the defined benefit plan is 33,6 years

Expected indemnity payments for retirement for the defined benefit plan for the next 5 years is BGN 6 k, incl. in 2017 – BGN 1k.

## 15. ACCOUNT PAYABLES

As of 31.12.2014 the account payables are as follows:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Trade payables	9,836	8,491
Collected cash-on-delivery	5,273	4,397
<b>Total</b>	<b>15,109</b>	<b>12,888</b>

Trade payables are from services received. The payables to suppliers are in BGN, RON and EUR.

Collected cash-on-delivery are from cash collected from parcels recipients on behalf of the sender and from money transfers.

## 16. TAX PAYABLES

*Tax payable* consist of:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Value added tax	1,027	375
Personal income tax	294	137
Income tax	30	-
Taxes on non-deductible expenses	14	9
<b>Total</b>	<b>1,365</b>	<b>521</b>

As of the date of publishing the present consolidated financial statement of the Group the following inspections and audits have been performed:

### *Parent Company*

- VAT – until 31.03.2013;
- full tax audit– until 31.12.2012;
- National social security agency – until 31.03.2012;

### *Subsidiaries*

#### Speedy EOOD

- VAT – until 30.11.2012;
- full tax audit– until 31.12.2011;
- National social security agency – until 31.10.2012;

Geopost Bulgaria – no audit have been performed

DPD Romania – no audit have been performed

Tax audit is performed for the subsidiaries in Bulgaria within 5 years following the year when the tax statement for the respective liability have been filed. The audit verifies the final tax liability for the respective company – taxable entity except for the cases explicitly stated in the legislation.



**17. OTHER SHORT-TERM LIABILITIES**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Payables to employees	1,733	1,388
Payables for social security	968	866
Payables to employees regarding unused paid leave	803	830
Provisions	10	43
Dividends due	6	5
Other payables	361	61
<b>Total</b>	<b>3,881</b>	<b>3,193</b>

**18. REVENUES**

The revenues of the Group include:

	<b>2016</b>	<b>2015</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Revenues from courier services	139,310	117,065
- revenues from Bulgaria	90,629	78,172
- revenues from Romania	48,681	38,893
Revenues from universal postal services	1,150	513
- revenues from Bulgaria	1,150	513
- revenues from Romania	-	-
Fee on postal money transfers	520	401
- revenues from Bulgaria	520	401
- revenues from Romania	-	-
<b>Total</b>	<b>140,980</b>	<b>117,979</b>

**19. OTHER OPERATING GAIN AND LOSSES, NET**

	<b>2016</b>	<b>2015</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Revenues from rent of vehicles and mobile devices	4,743	2,673
Sales of long-term assets	1,920	2,492
Book value of long-term assets sold	(1,689)	(2,127)
Income from long-term assets sold	231	365
Fuel sold	781	1,570
Book value of fuel sold	(738)	(1,561)
Income from fuel sold	43	9
Income from indemnifications	399	308
Subsidies	341	707
Penalties	100	141
Sales of goods	-	558
Book value of goods sold	-	(389)

Income from sales of goods	-	169
Foreign translation loss	(512)	(112)
Other	1,638	1,054
<b>Total</b>	<b>6,983</b>	<b>5,314</b>

## 20. COSTS OF MATERIALS AND CONSUMABLES

*The costs of materials and consumables include:*

	<b>2016</b>	<b>2015</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Fuels	3,305	3,387
Delivery-related materials	2,212	1,893
IT consumables	652	508
Uniforms	251	83
Office materials and consumables	241	211
Spare parts	199	900
Other costs	313	199
<b>Total</b>	<b>7,173</b>	<b>7,181</b>

## 21. COSTS OF EXTERNAL SERVICES

*The costs of external services consist of:*

	<b>2016</b>	<b>2015</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Subcontractors	75,016	58,151
Rents	5,018	3,633
Vehicle maintenance	2,380	1,188
Communications and utility services	2,343	1,810
Audit, consultant and other services	2,001	1,755
Insurances	1,088	1,046
Marketing	940	675
Office/warehouse maintenance	611	195
Bank charges	395	305
Staff training	365	342
Parcels insurances	273	341
Other	1,712	1,109
<b>Total</b>	<b>92,142</b>	<b>70,550</b>

The costs for audit of the consolidated annual financial statement are in amount of BGN 58 thousand (2015: BGN 24 thousand), tax advisory – N/A (2015 – N/A) and other services, not related to the audit – N/A (2015: N/A).

## 22. COMPENSATION COSTS

	<u>2016</u>	<u>2015</u>
	<u>BGN'000</u>	<u>BGN'000</u>
Remunerations	21,427	17,377
Social security	4,630	3,757
Welfare benefits	1,200	1,006
Accrued amounts regarding unused paid leave	767	809
Accrued amounts for social security on paid leave	145	140
Accrued amounts for long-term liabilities for pension benefits (Note 14)	45	-
<b>Total</b>	<b><u>28,214</u></b>	<b><u>23,089</u></b>

## 23. OTHER OPERATING EXPENSES

	<u>2016</u>	<u>2015</u>
	<u>BGN'000</u>	<u>BGN'000</u>
Indemnities for parcels	1,590	808
Accrued/(reversed) write-downs of receivables, net	528	817
<i>including.: accrued write-downs of trade receivables</i>	<i>1,043</i>	<i>1,020</i>
<i>Reversed write-downs of related parties receivables</i>	<i>(432)</i>	<i>(229)</i>
<i>Reversed write-downs of receivables</i>	<i>(125)</i>	<i>-</i>
<i>Write-downs of related parties receivables</i>	<i>8</i>	<i>-</i>
<i>Write-offs</i>	<i>34</i>	<i>26</i>
Representation costs	149	91
Other costs	272	252
<b>Total</b>	<b><u>2,539</u></b>	<b><u>1,968</u></b>

## 24. FINANCIAL INCOME

The financial revenues of the Group are as follows:

	<u>2016</u>	<u>2015</u>
	<u>BGN'000</u>	<u>BGN'000</u>
Interests received	2	200
<b>Total</b>	<b><u>2</u></b>	<b><u>200</u></b>

## 25. FINANCIAL COSTS

The financial costs of the Group consist of:

	<u>2016</u>	<u>2015</u>
	<u>BGN'000</u>	<u>BGN'000</u>
Interests paid on financial leases	535	553
Interests paid on bank loans	220	229

Fees on bank loans	94	47
FX exchange gain, net	1	1
<b>Total</b>	<b>850</b>	<b>830</b>

## 26. INCOME TAX EXPENSES

<b>Consolidated financial statement of the comprehensive income (profit or loss for the year)</b>	<b>2016</b>	<b>2015</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Taxable income for the year as per tax return	8,603	10,752
Current income tax expense for the year – 10% for Bulgaria/ 16% for Romania (2015: 10 %/ 16% for Romania)	925	1,100
Rebate	(1)	(1)
<i>Deferred taxes:</i>		
Nascence and reversals of time differences	(89)	32
Unrecognized asset from time differences	-	1
Reversals of time differences from previous years	(83)	-
<b>Total income tax expense, reported in the consolidated financial statement of the comprehensive income ( in the P &amp; L for the year)</b>	<b>752</b>	<b>1,132</b>

### **Reconciliation between accounting and taxable income**

<i>Accounting profit for the year</i>	7,697	10,874
Income tax applicable to the accounting profit – 10% for Bulgaria/ 16% for Romania	745	1,087
Rebate	(1)	(1)
<i>From non-deductible amounts under tax return related to increases and decreases:</i>		
Reversals of time difference from previous years	(83)	-
<b>Total income tax expense reported in the consolidated financial statement of comprehensive income (P &amp; L for the year)</b>	<b>752</b>	<b>1,132</b>

## 27. EARNINGS PER SHARE AND DIVIDENDS

### 27.1 Earnings per share

Weighted average number of shares used for calculating EPS as well as distributable net income are presented below:

	<u>31.12.2016</u>	<u>31.12.2015</u>
Distributable net income /BGN'000./	6,951	9,275
Weighted average number of shares	5,335,919	5,335,919
<b>Earnings per share /BGN per share/</b>	<b><u>1.30</u></b>	<b><u>1.74</u></b>

## 27.2 Dividends

On 14.06.2016 the General Meeting of Shareholders of the Parent Company took a decision for the distribution of the profit for 2015 in the amount of BGN 12,033 thousand as follows:

- The amount of BGN 6,030 thousand to be allocated for payment of dividends to shareholders one lev and thirteen stotinka per share before tax;
- The remaining profit to be allocated to retained earnings.

## 28. RELATED PARTIES TRANSACTIONS

The companies that are related to the Group and the type of their relations are as follows:

<b>Related party</b>	<b>Type of relation</b>
Speedy Group AD	Main shareholder with 66.42% of the capital of the Parent company (ultimate parent-company)
Geopost SA, France	Shareholder with significant influence
Winery Estate Dragomir OOD	Company under control of the ultimate owner
Transbalkan Group OOD	Company under control of the ultimate owner
Transbalkan Group Romania	Company under control of the ultimate owner
Omnicar BG EOOD	Company under control of the ultimate owner
Omnicar Auto OOD	Company under control of the ultimate owner
Omnicar C EOOD	Company under control of the ultimate owner
Omnicar Oil EOOD	Company under control of the ultimate owner
Omnicar Rent EOOD	Company under control of the ultimate owner
Bulrom Gas 2006 OOD	Company under control of the ultimate owner
Omnicar Plus OOD	Company under control of the ultimate owner
Omnicar Varna OOD	Company under control of the ultimate owner
Sandriny Flo EOOD	Company related through key management personnel
Star Performineing OOD	Company related through key management personnel

The beneficiary owner is Valery Harutyun Mektouptchiyan.

**Business relations**

**Receivables from related parties**

*The receivables from related parties consist of:*

	<u>31.12.2016</u>	<u>31.12.2015</u>
	<u>BGN'000</u>	<u>BGN'000</u>
Trade receivables from related parties	333	785
Impairment	(52)	(476)
	<u>281</u>	<u>309</u>
Advances paid to related parties	117	2,559
<b>Total</b>	<b><u>398</u></b>	<b><u>2,868</u></b>

The Group has trade receivables and advances paid from the following related companies:

		<u>31.12.2016</u>	<u>31.12.2015</u>
		<u>BGN'000</u>	<u>BGN'000</u>
Omnicar Auto OOD	Services	129	347
Geopost SA, France	Services	105	142
Omnicar Rent OOD	Advances	64	6
Omnicar Auto OOD	Advances	53	2,553
Transbalkan group OOD	Services	43	230
Transbalkan group Romania	Services	38	38
Omnicar BG EOOD	Services	18	8
Dragomir Winery Estate OOD	Services	-	20
Impairment		(52)	(476)
<b>Total</b>		<b><u>398</u></b>	<b><u>2,868</u></b>

**Liabilities to related parties**

*The liabilities to related parties include:*

	<u>31.12.2016</u>	<u>31.12.2015</u>
	<u>BGN'000</u>	<u>BGN'000</u>
Trade payables to related parties	884	491
Deposits members of BoD	110	110
<b>Total</b>	<b><u>994</u></b>	<b><u>601</u></b>

The Group has *payables* to related parties as follows:

		<u>31.12.2016</u>	<u>31.12.2015</u>
		<u>BGN'000</u>	<u>BGN'000</u>
Transbalkan group OOD	Services	775	463
Omnicar Auto OOD	Services	30	13
Omnicar Rent OOD	Services	27	-
Omnicar Oil EOOD	Goods	27	-
Speedy Group AD	Loan	16	15
Omnicar BG EOOD	Services	9	-
<b>Total</b>		<b><u>884</u></b>	<b><u>491</u></b>

The liabilities for deposits from the members of the Board of Directors is in amount of BGN 110 thousand (31.12.2015: BGN 110 thousand) represent deposited amounts according to the requirements of Art. 240 para (1) of the Commercial Act.

### Transactions with related parties

The Group has realized sales to related parties as follows:

		<b>31.12.2016</b>	<b>31.12.2015</b>
		<b>BGN'000</b>	<b>BGN'000</b>
Transbalkan group OOD	Services	2,863	3,172
Omnicar BG EOOD	Services	140	280
Omnicar Auto OOD	Services	51	236
Dragomir Winery Estate OOD	Services	19	23
Star Performineing OOD	Services	8	-
Geopost SA, France	Services	508	369

The company has purchased goods, materials and services from related parties, as follows:

		<b>31.12.2016</b>	<b>31.12.2015</b>
		<b>BGN'000</b>	<b>BGN'000</b>
Transbalkan group OOD	Services	9,381	10,831
Omnicar Auto OOD	Materials	505	3,703
Star Performineing OOD	Services	186	-
Omnicar Rent EOOD	Goods	117	123
Omnicar BG EOOD	Goods	75	104
Omnicar oil EOOD	Materials	48	3
Dragomir Winery Estate OOD	Materials	37	38
Omnicar Plus OOD	Services	13	-
Omnicar C EOOD	Services	8	10
Omnicar Varna OOD	Services	6	-
Sandriny Flo EOOD	Services	3	-

Unless otherwise stated, transactions with related parties are carried out in regular manner and no guarantees are extended or received. The amounts due are settled through bank transfer.

The remunerations of key management of the Parent Company for 2016 is in amount of BGN 532 thousand (31.12.2015: BGN 559 thousand), that represent current expenses for base and additional compensations and social security. With decision of the BoD in the remunerations for 2015 and 2016 are included additional remunerations in amount of BGN 94 thousand that are payable within 3 years.

## 29. CONTINGENT LIABILITIES AND COMMITMENTS

### Operating lease

#### The Group as Lessor

The Group has signed contracts for renting out of vehicles.

As of 31 December 2016, the receivables from future minimum rental payments under rent agreements are as follows:

	<u>31.12.2016</u>	<u>31.12.2015</u>
	BGN'000	BGN'000
Within one year	2,650	2,360
Between one and five years	13,250	12,350

#### The Group as Lessee

The Group has concluded contracts for renting of offices, commercial and warehouse premises, vehicles and parking spots.

As of 31.12.2016 the future minimum lease payments under operating leases are as follows:

	<u>31.12.2016</u>	<u>31.12.2015</u>
	BGN'000	BGN'000
Within one year	3,432	2,780
Between one and five years	16,379	12,166

## 30. FINANCIAL RISK MANAGEMENT

The Group can be exposed to a variety of financial risks, that derive from the use of financial instruments. In this Appendix the Group has described its goals, policies and risk management processes, along with their assessment methods.

The most important risk types are:

- Credit risk
- Currency risk
- Liquidity risk

The structure of financial assets and liabilities is as follows:

#### *Financial assets*

	<u>31.12.2016</u>	<u>31.12.2015</u>
	BGN'000	BGN'000
<b>Loans and receivables:</b>		
Cash and cash equivalents	11,067	9,092
Trade receivables	19,469	19,721
Receivables from related parties	398	2,868
	<u><b>30,934</b></u>	<u><b>31,681</b></u>



**Financial liabilities**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>BGN'000</b>	<b>BGN'000</b>
<b>Financial liabilities at amortized cost</b>		
Liabilities under financial lease	14,503	14,081
Liabilities under bank loans	8,883	7,194
Trade liabilities	15,109	12,888
Payables to related parties	994	601
	<b>39,489</b>	<b>34,764</b>

The main goal of the financial instruments the Group operates with, is to finance its current trade activities.

The Group's management bears the entire responsibility to define the group's goals and policies for risk management and, by keeping the ultimate responsibility, can delegate its rights for definition and management of processes that prove the effectiveness of the goals policies' fulfilment of the group. The Management receives monthly reports and reviews the process' effectiveness on site and the effectiveness of the goals and risk management policies it sets.

The common goal of the Management is to set policies that seek risk mitigation, as much as possible, by keeping intact the group's competitiveness and flexibility. Additional detailed information regarding those policies has been described below:

**Credit risk**

Credit risk is the risk of financial loss for the group, as a result of any of the Group's clients or counterparties fails to discharge in full and within the normally envisaged contractual terms and obligations. The latter is presented by the group's exposure to credit risk by credit sales.

The Management has set up credit policy based on which each new customer's accountability is analyzed before the standard payment of the group's companies.

As of 31 December the Group has concentrated receivables by customers, as follows:

	<i>31.12.2016</i>	<i>31.12.2015</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Customer 1	7.80%	8.00%
Customer 2	7.26%	6.97%
Customer 3	4.89%	4.76%
Customer 4	3.83%	3.76%

The Group's quantity disclosure of the credit risk's exposure regarding financial assets have been proposed below

**Cash in banks**

As of 31 December the major part of the cash equivalents are held in the following banks:

	<b>Rating as of 31.12.2016</b>	<b>Balance as of 31.12.2016</b>
		<b>BGN'000</b>
Unicredit Bulbank JSC, Bulgaria	B-	1,995
DSK JSC, Bulgaria	/Ba2/BB	1,171
CCB JSC, Bulgaria	BB+	407
Raiffeisenbank, Romania	Ba1	3,808
Unicredit Bulbank JSC, Romania	BBB	786
Societe Generale Expressbank, Bulgaria	BBB+	5
Procredit Bank, Bulgaria	BBB-	6
		<b>8,178</b>

	<b>Rating as of 31.12.2015</b>	<b>Balance as of 31.12.2015</b>
		<b>BGN'000</b>
Unicredit Bulbank JSC, Bulgaria	B B+	2,428
DSK JSC, Bulgaria	B B B-	476
UBB JSC, Bulgaria	B	162
Raiffeisenbank, Romania	BBB	2,540
Unicredit Bulbank JSC, Romania	BBB	354
Societe Generale Expressbank, Bulgaria	BBB+	2
		<b>5,962</b>

### ***Exchange rate risk***

Exchange rate risk is the risk from negative impact from changes in prevailing currency exchange rates that on financial standing and cash flows of the Group. Since the Bulgarian lev pegged to the Euro, and the Group presents its financial statements in Bulgarian lev, the currency risk is only related to currencies other than the Euro. Exposures in different currencies are extremely limited.

The below table summarize the group's currency risk as of 31<sup>st</sup> December. It includes assets and liabilities at book value, categorized in currencies.

<b>31.12.2016</b>	<b>BGN</b>	<b>EUR</b>	<b>USD</b>	<b>RON</b>	<b>Total</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
Cash and cash equivalents	6,982	1,005	63	3,017	11,067
Receivables form related parties	398	-	-	-	398
Trade receivables	9,194	1,101	36	9,138	19,469
<b>Total assets</b>	<b>16,574</b>	<b>2,106</b>	<b>99</b>	<b>12,155</b>	<b>30,934</b>

31.12.2016	BGN	EUR	USD	RON	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Financial leases	14,392	111	-	-	14,503
Bank loans	7,339	1,544	-	-	8,883
Trade payables	6,005	1,336	13	7,755	15,109
Payables to related parties	994	-	-	-	994
<b>Total liabilities</b>	<b>28,730</b>	<b>2,991</b>	<b>13</b>	<b>7,755</b>	<b>39,489</b>

31.12.2015	BGN	EUR	USD	RON	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Cash and cash equivalents	7,954	846	-	292	9,092
Receivables from related parties	2,868	-	-	-	2,868
Trade receivables	9,487	389	-	9,845	19,721
<b>Total assets</b>	<b>20,309</b>	<b>1,235</b>	<b>-</b>	<b>10,137</b>	<b>31,681</b>

Financial leases	14,047	-	-	34	14,081
Bank loans	6,078	-	-	1,116	7,194
Trade payables	4,909	955	-	7,024	12,888
Payables to related parties	601	-	-	-	601
<b>Total liabilities</b>	<b>25,635</b>	<b>955</b>	<b>-</b>	<b>8,174</b>	<b>34,764</b>

### Liquidity risk

Liquidity risk stems from the working capital management, financial expenses and the principle repayments of debt instruments. This is the risk of difficulties that the management may encounters in in servicing the obligations in a due manner..

The management policy is to ensure that there will be sufficient liquidity available to meet its obligations when due. To achieve this goal it constantly seeks means to maintain cash in accounts (or accorded funds), to meet the requirements expected. Also, the Management seeks ways to mitigate liquidity risk by fixing interest rates (and therefore cash flows) on borrowed funds.

The Management gets regularly updated information regarding cash accounts.

The table below analyze liabilities of the Group as of 31<sup>st</sup> December 2016, grouped by maturity.

31.12.2016	Up to 3 months	From 3 to 12 months	From 1 to 5 years	Total
	BGN'000	BGN'000	BGN'000	BGN'000
Financial leases	1,436	4,229	8,838	14,503
Bank loans	480	1,418	6,985	8,883
Payables to related parties	884	-	110	994

Trade payables	15,066	26	17	15,109
<b>Total</b>	<b>17,866</b>	<b>5,673</b>	<b>15,950</b>	<b>39,489</b>

<b>31.12.2015</b>	<b>Up to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 5 years</b>	<b>Total</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
Financial leases	1,165	3,499	9,417	14,081
Bank loans	1,720	1,812	3,662	7,194
Payables to related parties	491	-	110	601
Trade payables	11,938	950	-	12,888
<b>Total</b>	<b>15,314</b>	<b>6,261</b>	<b>13,189</b>	<b>34,764</b>

### *Fair value of assets and liabilities*

The fair value is defined as the price at which a certain asset could be exchanged, or a liability settled between informed and willing parties in a fair deal.

The fair value concept presumes realization of the financial instruments through sales, based on position, assumptions and assessments of independent market players on a main or most favorable market for a particular asset or liability. The Group assumes as main market for its assets and liabilities in Bulgaria – Bulgarian Stock Exchange, larger commercial banks – dealers and regarding specific instruments – direct deals between parties. However, in most cases especially in regard of trade receivables and payables as well as loans and deposits with banks, the Group expects to realize these financial assets also through their total refund or respectively, settlement over time. Therefore, they are presented at amortized cost.

In addition, a large portion of the financial assets and liabilities are short-term in their nature (trade receivables and payables, short-term loans) and therefore, their fair value is almost equal to their book value. In cases of fixed interest rate loans, the method applied to its calculation uses as a standpoint current group observations regarding market interest rate levels.

As far as there is no liquid market for the different financial instruments, with sufficient stability, volume and liquidity in regards to purchases and sales of certain financial assets and liabilities, still no adequate and reliable quotes of market prices are available thereof, therefore alternative valuation methods and technics are applied.

The management of the parent company is of the opinion that the estimates of the financial assets and liabilities presented in the statement of financial position are as reliable, adequate and trustworthy as possible for financial reporting purposes and the fair value of the financial instrument in the consolidated report do not diverge substantially from their book value.

### *Risk from interest-bearing items*

Interest-bearing assets, presented in the structure of Group's assets include: cash, bank deposits and loans granted, which are with floating interest rate. The attracted funds are also with floating interest rates. This circumstance makes the cash flows of the Group partially dependent on interest risk. This risk is addressed in two ways:

a) optimization of resources and structure of credit resources for achieving relatively lower price of attracted funds; and

(b) combined structure of interest rates on loans comprising two components – a fixed one and a variable one, the correlation between them, as well as their absolute value, are maintained in a proportion favourable for the companies in the group. The fixed component has a relatively low absolute value and sufficiently high relative share in the total interest rate. This circumstance eliminates the probability of a significant change in interest rate levels in case of changes in variable component. Thus the probability for an unfavourable change of cash flows is reduced to a minimum.

The managing bodies of the Group companies together with the management of the parent currently monitor and analyse the exposure of the respective company to the changes in interest levels.

<i>31 December 2016.</i>	<b>Without interest</b>	<b>Floating interest</b>	<b>Total</b>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Receivables	19,867	-	19,867
Cash and cash equivalents	2,889	8,178	11,067
<b>Total financial assets</b>	<b>22,756</b>	<b>8,178</b>	<b>30,934</b>
Bank loans and financial leases	-	23,386	23,386
Other loans and liabilities	16,103	-	16,103
<b>Total financial liabilities</b>	<b>16,103</b>	<b>23,386</b>	<b>39,489</b>

<i>31 December 2015</i>	<b>Without interest</b>	<b>Floating interest</b>	<b>Total</b>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Liabilities	22,589	-	22,589
Cash and cash equivalents	3,130	5,962	9,092
<b>Total financial assets</b>	<b>25,719</b>	<b>5,962</b>	<b>31,681</b>
Bank loans and financial leasing	-	21,275	21,275
Other loans and liabilities	13,489	-	13,489
<b>Total financial liabilities</b>	<b>13,489</b>	<b>21,275</b>	<b>34,764</b>

### Capital management

The capital management objectives of the Group are to build and maintain capabilities to maintain stable credit rating and adequate capital ratios to sustain its business and to maximize its value.

The Group manages its capital structure and reacts accordingly to changes in economic environment.

The Group monitors its capital using the gearing ratio. This ratio is calculated as net debt divided by the equity plus net debt. Net debt is calculated as interest bearing loans and borrowings, trade and other payables less cash and cash equivalents, excluding discontinued operations.

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Loans and leases	23,386	21,275
Less cash	(11,067)	(9,092)
Net debt	12,319	12,183
Equity	44,729	44,100
Total net debt and equity	57,048	56,283
<b>Leverage</b>	<b>21,59%</b>	<b>21,65%</b>

### 31. EVENTS AFTER THE REPORTING PERIOD

No significant events have occurred after the date the financial statement was prepared, that could affect the consolidated financial statements of the Group as of 31<sup>st</sup> December 2016.