

SPEEDY AD

SOFIA

**EXPLANATORY NOTES TO THE NON-CONSOLIDATED
FINANCIAL STATEMENT**

31 DECEMBER 2016

EXPLANATORY NOTES

Core Activity

In 2016 Speedy AD accelerated its development as the focus was both on the development of existing services and expansion of capacity as well as in offering new services. During the year a record investment of BGN 14.2 m. was made. The largest part of investments (BGN 5.6 m) are in vehicles and the remaining part of funds was invested in the logistics centers and offices. More than 100 offices have been refurbished in line with the company's new vision that aim at improving functionality of the working place and to customers' experience. Apart from that a network of automated post stations (APS) started its development in which a significant amount of money was invested. Major repairs were made in the newly rented premises. The sorting centres 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.

The APS are part of the our new service, "Speedy post", that offers to the clients opportunity to send parcels in four sizes up to 20 kg in our office network at exceptionally low prices. A new contract with Western Union provides another services to our clients through part of our office network – international money transfers.

During the previous year the focus was on developing regional market with Speedy Balkans service, which is now the main contributor for the high growth in this segment, especially deliveries to/from Romania. Speedy Jsc. contracted the franchise right of DPD network for Greece. The service is expected to be launched by the end of 2016 with opening of an office in Thessaloniki, after Greek regulators grant all licenses and permissions needed. The company plans to offer international deliveries to / from Europe through DPD network, while deliveries within Greece are going to continue to be carried out through the local partner.

Financial results

The investments in capacity and new services helped the acceleration of revenue's growth to 15.3% compared to 13.4% in 2015 but also resulted in higher operating expenses such as rents, compensation costs, marketing, sub-contractors. The initial low utilization of the new capacity had a negative effect on the profitability and on annual basis EBITDA shrunk with 6.8%.

The revenues from international deliveries remain the main source of growth, while revenues from main service, parcels and pallets on the domestic market also sustain high pace of more than 14%.

Revenue structure

In BGN '000	Q4 15	Q4 16	Change	2015	2016	Change
Domestic market	20 037	22 878	14.2%	71 757	81 599	13.7%
<i>% of the total revenues</i>	80.8%	80.8%		82.1%	81.7%	
International market	3 301	3 978	20.5%	10 256	12 967	26.4%
<i>% of the total revenues</i>	13.3%	14.0%		11.7%	13.0%	
Others	1 469	1 465	-0.3%	5 377	5 307	-1.3%
<i>% of the total revenues</i>	5.9%	5.2%		6.2%	5.3%	
Number of parcels delivered	3 881	4 733	22.0%	13 598	16 245	19.5%
Total revenues	24 807	28 321	14.2%	87 390	99 873	14.3%

The expansion during the last quarter resulted in better utilization of the capacity and combined with the steps for cost optimization reversed the negative trend in operating profit and in Q4 2016 EBITDA jumped with 23% yoy. The decrease of net profit on annual basis is due to increase of the depreciation with BGN 2 m and BGN 2.5 m less dividends received.

Cost Structure

In BGN '000	Q4 15	Q4 16	Change	2015	2016	Change
Costs of materials	1 896	1 806	-4.7%	6 204	6 089	-1.9%
Costs of external services	12 176	15 148	24.4%	41 040	52 055	26.8%
Compensation costs	5 655	6 352	12.3%	18 484	22 168	19.9%
Book value of goods sold	447	90	-79.9%	1 561	712	-54.4%
Other operating costs	1 015	474	-53.3%	1 723	1 727	0.2%
Depreciation	2 085	2 471	18.5%	7 474	9 474	26.8%
EBITDA	3 618	4 451	23.0%	18 378	17 122	-6.8%
Net profit for the period	1 671	1 705	2.0%	12 033	6 443	-46.5%

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. A maximum amount of variable remuneration for the members of BoD that have contracts with Speedy Jsc. were approved

On 14.12.2016 an extraordinary General Meeting of Shareholders of Speedy Jsc was held, where was voted decision for capital increase under 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.

RISK FACTORS IN COMPANY OPERATIONS.

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

Macroeconomic risk

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

Regulatory risk

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

Interest rate risk

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

Credit risk

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

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

Price risk

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

Currency risk

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

Liquidity risk

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

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

3. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and equipment	Vehicles	Other	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
1 January 2015 r.					
Book value	280	13,158	2,459	3,149	19,046
Acquired	376	6,422	695	2,213	9,706
Written-off		(2,469)	(33)	(17)	(2,519)
Depreciation for the year	(193)	(4,260)	(1,336)	(805)	(6,594)
Written-off depreciation	-	2,235	6	9	2,250
Book value at the end of the period	463	15,086	1,791	4,549	21,889
31 December 2015					
Initial value	1,973	28,713	6,139	6,952	43,777
Accumulated depreciation	(1,510)	(13,627)	(4,348)	(2,403)	(21,888)
Book value	463	15,086	1,791	4,549	21,889
1 January 2016					
Book value at the beginning of the period	463	15,086	1,791	4,549	21,889
Acquired	2,269	5,674	897	4,252	13,092
Written-off		(2,580)	-	-	(2,580)
Depreciation for the year	(372)	(5,255)	(1,475)	(1,029)	(8,131)
Written-off depreciation	-	2,032	-	-	2,032
Book value at the end of the period	2,360	14,957	1,213	7,772	26,302
31 December 2016					
Initial value	4,243	31,807	7,036	11,203	54,289
Accumulated depreciation	(1,883)	(16,850)	(5,822)	(3,432)	(27,987)
Book value	2,360	14,957	1,213	7,771	26,302

4. INTANGIBLE ASSETS

	<u>Software</u> <u>BGN'000</u>
1 January 2015	
Book value at the beginning of the period	378
Acquired	2,235
Written-off	-
Depreciation	(879)
Written-off depreciation	-
Book value at the end of the period	<u>1,734</u>
31 December 2015	
Initial value	4,816
Accumulated depreciation	(3,082)
Book value	<u>1,734</u>
1 January 2016	
Book value at the beginning of the period	1,734
Acquired	1,149
Written-off	-
Depreciation	(1,343)
Written-off depreciation	-
Book value at the end of the period	<u>1,539</u>
31 December 2016	
Initial value	5,965
Accumulated depreciation	(4,426)
Book value	<u><u>1,539</u></u>

5. INVESTMENTS IN SUBSIDIARIES

	<u>31.12.2016</u> <u>BGN'000</u>	% of ownership	<u>31.12.2015</u> <u>BGN'000</u>	% of ownership
Speedy EOOD	982	100%	982	100%
Geopost Bulgaria EOOD	8,165	100%	8,165	100%
DPD S.A. Romania	17,300	100%	17,300	100%
Total	<u>26,447</u>		<u>26,447</u>	

6. INVENTORIES

	<u>31.12.2016</u> <u>BGN'000</u>	<u>31.12.2015</u> <u>BGN'000</u>
Materials	286	281
Fuel	185	235
Total	<u>471</u>	<u>516</u>

7. TRADE AND OTHER RECEIVABLES

	31.12.2016	31.12.2015
	BGN'000	BGN'000
Receivables from customers and suppliers – gross amount	10,724	10,914
Less impairment	(922)	(820)
Receivables from customers and suppliers – net amount	9,802	10,094
Advance payments to suppliers	529	3,692
Receivables from related parties /note 23/	8,308	5,821
Tax receivables	241	157
Other receivables	1,047	500
Total	19,927	20,264

Write-downs of receivables are as follows:

	31.12.2016	31.12.2015
	BGN'000	BGN'000
At the beginning of the year	820	698
Write-downs	102	585
Recovery of write-downs	-	(463)
At the end of the year	922	820

8. CASH AND CASH EQUIVALENTS

	31.12.2016	31.12.2015
	BGN'000	BGN'000
Cash at hand	235	361
- in BGN	235	361
Cash on bank accounts	3,212	2,514
- in BGN	2,870	2,249
- in RON	342	265
Cash in transit	2,850	2,757
Total	6,297	5,632

9. EQUITY

9.1 SHARE CAPITAL

As of 31 December 2016, the registered capital of the Company consists of 5,335,919 ordinary shares with par value of BGN 1 per share.

	2016	2015
	Number of shares	Number of hares
Number of issued and fully paid-in shares:		
At the beginning of the year	5,335,919	5,335,919
Number of issued and fully paid-in shares	-	-

Total number of shares outstanding, end of the period 31.12.2016	5,335,919	5,335,919
---	-----------	-----------

The list of the main shareholders of the Parent Company is the following:

	31.12.2016 г.		31.12.2015 г.	
	# of shares	%	# of shares	%
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 natural and legal entities	457,573	8.58%	457,573	8.58%
Total	5,335,919	100.00%	5,335,919	100.00%

9.2 STATUTORY RESERVES

	31.12.2016	31.12.2015
	BGN'000	BGN'000
Statutory reserves	534	534
Total	534	534

9.3 PREMIUM RESERVES

	31.12.2016	31.12.2015
	BGN'000	BGN'000
Premium reserves	19,565	19,565
Total	19,565	19,565

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

10. PAYABLES UNDER FINANCIAL LEASE AGREEMENTS

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

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

	31.12.2016	31.12.2015
	BGN'000	BGN'000
Payables under financial lease agreements	14,368	14,026
• Long-term part	8,759	9,408
• Short-term part	5,609	4,618
Total	14,368	14,026

The lease agreements consist of fixed lease payments and purchase option during the last year of the term of the lease.

11. BANKS LOANS

	<u>31.12.2016</u>	<u>31.12.2015</u>
	<u>BGN'000</u>	<u>BGN'000</u>
Payables under received loans from banks, incl.:	8,877	6,079
- <i>short-term part</i>	1,892	2,416
- <i>long-term part</i>	6,985	3,663
Total	<u>8,877</u>	<u>6,079</u>

12. TRADE AND OTHER PAYABLES

	<u>31.12.2016</u>	<u>31.12.2015</u>
	<u>BGN'000</u>	<u>BGN'000</u>
Trade payables	3,519	3,082
Payables to related parties (note 23)	1,834	1,574
Payables to the staff	2,436	2,017
Payables for social security	708	619
Other payables – COD	2,828	3,121
Total	<u>11,325</u>	<u>10,413</u>

13. REVENUES

	<u>31.12.2016</u>	<u>31.12.2015</u>
	<u>BGN'000</u>	<u>BGN'000</u>
Revenues from courier services	94,566	82,013
Total	<u>94,566</u>	<u>82,013</u>

14. OTHER REVENUES

	<u>31.12.2016</u>	<u>31.12.2015</u>
	<u>BGN'000</u>	<u>BGN'000</u>
Revenues from renting out of motor vehicles	2,622	2,238
Other revenues	1,836	2,436
Financing	849	703
Total	<u>5,307</u>	<u>5,377</u>

15. COSTS OF MATERIALS

	<u>31.12.2016</u>	<u>31.12.2015</u>
	<u>BGN'000</u>	<u>BGN'000</u>
Fuels	3,153	3,237
Delivery-related materials	1,592	1,473
Spare parts	198	897
Office materials and consumables	238	279
Uniforms	251	83

IT consumables	354	97
Other costs	303	138
Total	6,089	6,204

16. COSTS OF HIRED SERVICES

	<u>31.12.2016</u>	<u>31.12.2015</u>
	BGN'000	BGN'000
Subcontractors	41,115	32,998
Rents	3,267	2,452
Communications and utility services	1,700	1,531
Vehicle maintenance	2,302	1,144
Insurances	936	923
Office/warehouse maintenance	329	143
Staff training	225	191
Marketing	393	201
Audit, consultant and other services	585	414
Other costs	1,203	1,043
Total	52,055	41,040

17. COMPENSATION COSTS

	<u>31.12.2016</u>	<u>31.12.2015</u>
	BGN'000	BGN'000
Salaries and wages	19,069	15,468
Social security contributions	3,099	3,016
Total	22,168	18,484

18. OTHER OPERATING COSTS

	<u>31.12.2016</u>	<u>31.12.2015</u>
	BGN'000	BGN'000
Cost of fuel sold	712	1,561
Insurance of parcels	753	507
Indemnities for parcels	273	194
Representation costs	149	91
Other costs	552	931
Total	2,439	3,284

19. FINANCIAL INCOME

	<u>31.12.2016</u>	<u>31.12.2015</u>
	BGN'000	BGN'000
Interests income	364	450
Dividends received	254	2,745
Total	618	3,195

20. FINANCIAL EXPENSES

	<u>31.12.2016</u>	<u>31.12.2015</u>
	BGN'000	BGN'000
Interest expenses	740	761
Fees	281	205
FX exchange loss	108	61
Total	<u>1,129</u>	<u>1,027</u>

21. TAXES

	<u>31.12.2016</u>	<u>31.12.2015</u>
	BGN'000	BGN'000
Accounting profit before taxes	<u>7,137</u>	<u>13,072</u>
Increase	57	9,401
Decrease/	(254)	(12,379)
Taxable income	<u>6,940</u>	<u>10,094</u>
Corporate tax	(694)	(1,009)
Corporate tax, %	10%	10%
Deferred taxes	-	(30)
Corporate tax, %	10%	10%
Total tax	(694)	(1,039)
Net Income	<u>6,443</u>	<u>12,033</u>

22. EARNINGS PER SHARE AND DIVIDENDS

22.1 Earnings per share

As a numerator for the calculation of the earnings per share is used the net income, distributable among the shareholders.

Weighted average number of shares used for the calculation of the earnings per share and the distributable net income is as follows:

	<u>31.12.2016</u>	<u>31.12.2015</u>
	BGN'000	BGN'000
Distributable income	6,443	12,033
Weighted average number of shares	5,335,919	5,335,919
Earnings per share, BGN	<u>1.21</u>	<u>2.26</u>

22.2 Dividends

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

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

23. RELATED PARTIES TRANSACTIONS

If not expressed explicitly, the transactions with related parties are not carried out under special conditions and no guarantees were either granted or received. The recorded amounts are paid by wire.

Related party	Type of relationship
Speedy Group AD	Parent Company
Speedy EOOD	Subsidiary
Geopost Bulgaria EOOD	Subsidiary
DPD S.A., Romania	Subsidiary
Dragomir Winery Estate OOD	Company under common control
Transbankan group OOD	Company under common control
Transabalkan group Romania	Company under common control
Omnicar BG EOOD	Company under common control
Omnicar Auto OOD	Company under common control
Omnicar C EOOD	Company under common control
Omnicar oil OOD	Company under common control
Omnicar rent OOD	Company under common control
Bulrom gas 2006 OOD	Company under common control
Geopost S.A., France	Company under common control

Extended loans

On 01.12.2014 the company has signed a contract with its subsidiary DPD S.A., Romania for extending a loan for the total amount of EUR 3,000 k. with maturity date 15.12.2020.

A loan obtained from UniCredit Bulbank AD on 21.11.2014 is collateralized with a pledge of receivables from the loan that the company has extended to DPD S.A., Romania

As of 31.12.2016 the company's receivables from extended loans are as follows:

	31.12.2016	31.12.2015
	BGN'000	BGN'000
DPD S.A., Romania	7,343	4,340
<i>including</i>		
- principal	6,957	4,232
- interest	386	108
Total	7,343	4,340

Commercial transactions

The Company has receivables from related parties as follows:

		31.12.2016	31.12.2015
		BGN'000	BGN'000
DPD S.A., Romania	Services	462	684
Transbalkan group OOD	Services	43	230
Omnicar Auto OOD	Services	83	160
Omnicar Auto OOD	Advances paid	-	2,653
Geopost Bulgaria EOOD	Services	216	194
Geopost Bulgaria EOOD	Dividend	-	-
Dragomir Winery Estate OOD	Services	-	20
Transbalkan group Romania	Services	38	38
Omnicar BG EOOD	Services	18	8
Geopost S.A. France	Services	105	142
Omnicar rent OOD	Services	-	5
	Total	965	4,134

The Company has the following payables to related parties:

		31.12.2016	31.12.2015
		BGN'000	BGN'000
Speedy EOOD	Services	440	523
Geopost Bulgaria EOOD	Services	417	363
Transbalkan group OOD	Services	773	463
DPD S.A., Romania	Services	-	102
Omnicar Auto OOD	Services	31	13
Omnicar rent OOD	Goods	27	-
Omnicar oil EOOD	Materials	27	-
Omnicar BG EOOD	Service	9	-
	Total	1,724	1,464

As of 31.12.2016 the company has payables to the BoD's members in amount of BGN 110k (31.12.2015 – BGN 110k) in compliance with art. 240, para 1 of Commercial Code.

The Company has realized the following sales to related parties:

		31.12.2016	31.12.2015
		BGN'000	BGN'000
Transbalkan group OOD	Services	3,436	3,172
DPD S.A., Romania	Services	4,598	3,908
Omnicar BG EOOD	Services	168	280
Geopost Bulgaria EOOD	Services	2,391	1,849
Omnicar Auto OOD	Services	54	212
Dragomir Winery Estate OOD	Services	23	23
Geopost S.A. France	Services	508	369

The Company has purchased the following goods, materials and services from related parties:

		31.12.2016	30.09.2015
		BGN'000	BGN'000
Transbalkan group OOD	Services	11,255	10,831
Speedy EOOD	Services	100	72
Geopost Bulgaria EOOD	Services	3,933	3,220
Omnicar Auto OOD	Services	(2,390)	3,703
Omnicar BG EOOD	Services	90	104
DPD S.A., Romania	Services	2,774	1,986
Dragomir Winery Estate OOD	Goods	44	38
Omnicar rent OOD	Services	140	123
Omnicar oil EOOD	Materials	57	3

INFORMATION under Appendix 9 from regulation 2 of FSC

- 1. Information about change of persons exercising control over the company.**
No change.
- 2. Information on opened insolvency proceedings against the company or its subsidiary and all stages regarding to the above mentioned proceedings.**
No opened insolvency procedures.
- 3. Information about significant deals. The decision for signing, terminating and breaking a contract for joined ventures.**
Not applicable.
- 4. Change of the company's auditor and reasons for it.**
On 14.12.2016 the extraordinary General Meeting of Shareholders of Speedy Jsc voted a new auditor, „Afa“ OOD. The change of the auditing company chosen on the General Meeting of Shareholders of Speedy Jsc held on 14.06.2016 became necessary after Pricewaterhouse Coopers increased the initially offered price with 75% due to changes in the legal requirements concerning the annual financial audit, which according to the auditor will increase the scope of the audit.
- 5. Information about pending legal, administrative or arbitration proceedings, concerning obligations or receivables of the company or its subsidiary in amount of at least 10 percent of the company's equity.**
There are no legal or other proceedings with considerable value.
- 6. Purchase, sale or pledge of shares in other companies by the issuer or by any of its subsidiary.**
Not applicable.
- 7. Other events which the company consider to be of importance for the investors in taking decision to acquire, sell or hold publicly offered securities.**
No other events except already announced.