



**STARA PLANINA HOLD PLC**

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**CONSOLIDATED  
ACTIVITY REPORT**

**For 2016**

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## Introduction

The annual consolidated activity report provides commentary and analysis of financial statements and other important information regarding the financial condition and results from the activity of the company. It includes information pursuant to the Accountancy Act and Public Offering of Securities Act as well as pursuant to Ordinance No 2 of the Financial Supervision Commission.

**STARA PLANINA HOLD PLC** is a public limited company. The company is successor of Central Privatization Fund AD promoted on 27 September 1996. The company has been bearing its present name since 30 April 1999.

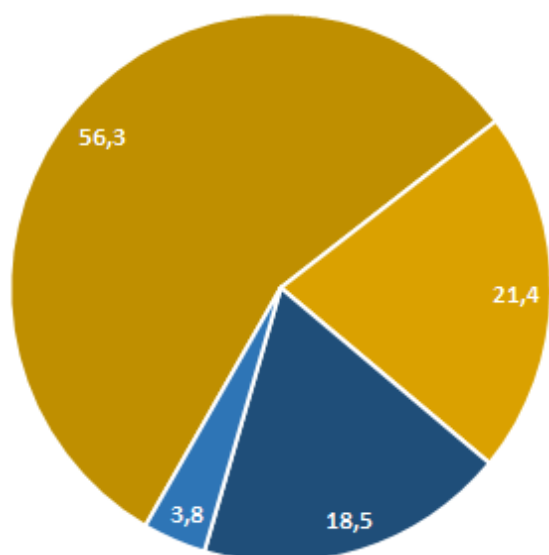
Stara Planina Hold PLC is a parent company. The holding owns shares in industrial enterprises working in various fields of production. It actively participates in the development of the Bulgarian industry by achieving European and world quality level and profitability.

## I. Activity overview

### 1. Main indicators characterizing activity results

Indicator	(BGN'000s)
Income from main business activity	
Net profit from business activity	
Amount of assets	
Own capital	

Y2014	Y2015	Y2016
181,504	176,006	187,444
6,837	5,968	7,158
178,401	181,155	193,449
78,624	82,206	89,698



### Structure of Investment Portfolio

■ Hydraulic Systems	56.3%
■ Accumulators	21.4%
■ Light Industry	18.5%
■ Financial	3.8%

## 2. Investment portfolio

The participation of Stara Planina Hold Plc in subsidiaries and associated companies is reported in accordance with the provisions and requirements of IFRS 10: Consolidated financial statements and IAS 28: Investments in Associates.

The company recognizes subsidiary dividends in the profit or loss account of its separate financial statements when entitlement to dividends is established.

Subsidiaries are those enterprises which are controlled by the company. Control over the subsidiaries is expressed by the company's ability to manage and define the financial and business policies of the subsidiaries so as to benefit from their operations. In the separate financial statements of the company, investments in subsidiaries are accounted for at their cost.

Associates are those enterprises over which the company is capable of exerting significant influence but are not subsidiaries, nor jointly controlled entities. Investments in associates are accounted for at their cost. The company recognizes dividends from associates in the profit or loss account of its separate financial statements when entitlement to dividends is established.

Major investments in the portfolio of Stara Planina Hold on 31.12.2016:

### *Investments in subsidiaries*

Hydraulic Elements and Systems Plc	64.53 %
Elhim Iskra Plc	51.40 %
Fazan Plc	88.07 %
Slavyana Jsc	98.74 %

### *Investments in associates*

M+S Hydraulic Plc	30.91 %
Bulgarian Rose Plc	49.99 %
Boryana Jsc	50.00 %

### *Investments in other companies*

Asset Insurance AD	20.00 %
Leasing Company Jsc	5.00 %

Taking into account the influence of the holding on the decision-making process with regard to the associates and the need to provide more comprehensive and correct information to the shareholders, investors and all interested parties, as of 01.01.2011 Stara Planina Hold Plc applies accounting policy aimed to further assist investors in making a well-founded investment decision

The related company Slavyana Jsc owns 8.28% of the Hydraulic elements and systems Plc capital and 0.8% of the Elchim-Iskra capital.

### 3. Activity results

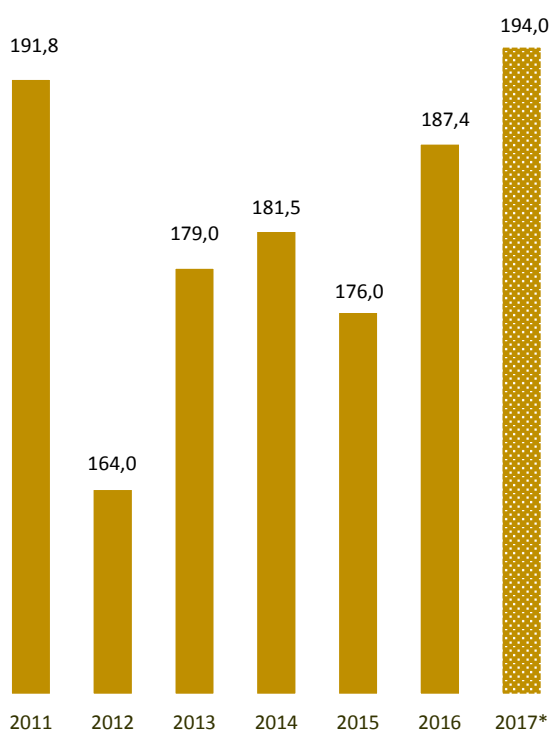
As a holding type company, Stara Planina Hold Plc does not carry out autonomous commercial activity and has only financial income. The consolidated activity results are formed mainly from the results of the entities within the group which participate in the consolidated statement.

The structure of income within the last three years is summarized in the table below:

#### INCOME (BGN'000s)

Sales of finished goods
Sales of trading goods and services
Other incomes
Grants
Financial income
Total Income

Y2014	Y2015	Y2016
171,850	167,491	180,890
5,798	4,898	3,734
3,856	3,826	2,820
989	638	278
1,752	1,894	1,910
184,245	178,747	189,632

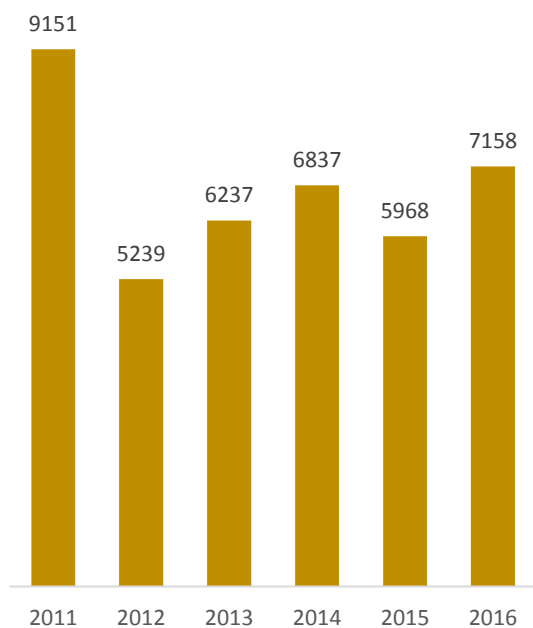


#### Annual sales of all enterprises of Stara Planina Hold group

(million BGN)

The annual sales of the enterprises within the group reached BGN 187.4 million. This would result in a 6.50% increase compared to the 2015 and 3.26% to the 2014 sales. The forecasts for 2017 suggest sales growth of about 3.5%, but still the first quarter showed growth of 8.0% compared to the same period of 2016 and 7.3% above the business plan. We expect the first half of 2017 to be in peak sales will reach BGN 105 million.

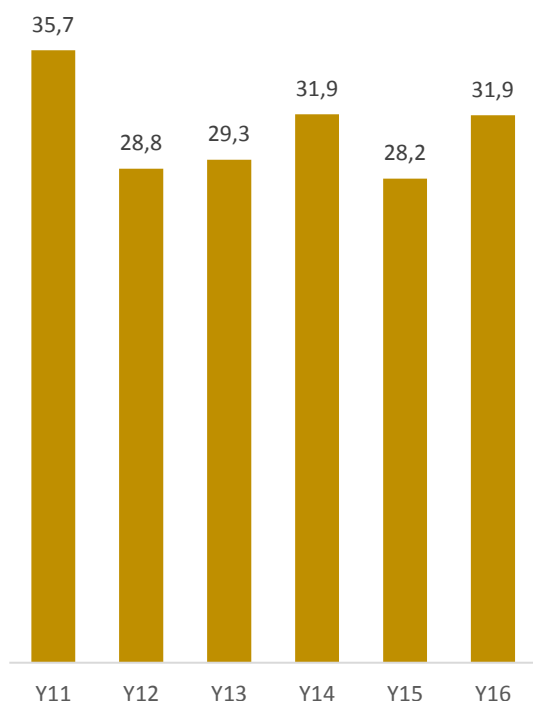
\* forecast



### Consolidated Net Profit

(BGN'000s)

The net profit for 2016 amounts to BGN 7,158 thousand, a growth of 19.94% compared to the 2015 and 4.70% to the 2014 net profit. This is the highest consolidated net profit of the holding group in the last 5 years.



### Consolidated EBITDA

(million BGN)

The EBITDA is very important benchmark for any business group. The graph provides data on consolidated EBITDA of Stara Planina Hold Group in the last 6 years.

2016 consolidated EBITDA amounts to BGN 31,868 thousand, a growth of 13.10% compared to the 2015.

#### 4. Risk factors for the activity

As of the present moment, the management of Stara Planina Hold Plc is not aware of any specific trends or conditions which may exercise significant influence on the future activity and results of the company. Risks to the company and risk management related solely to the risks relevant to the activities of the subsidiaries of the group.

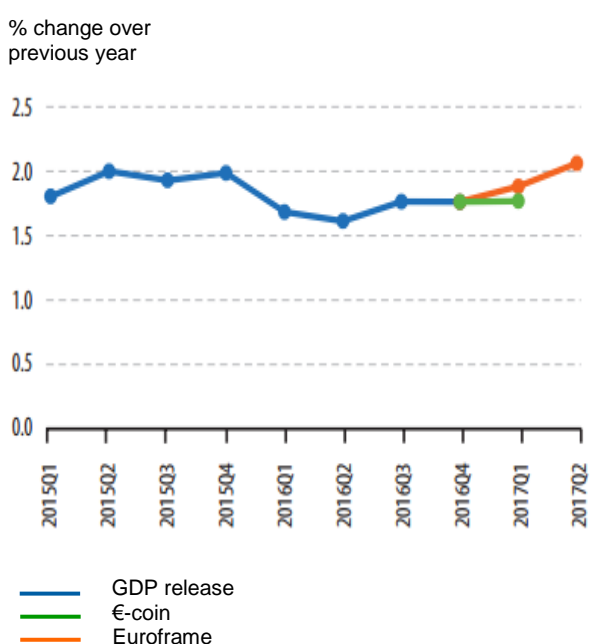
A significant impact on the financial status of Stara Planina Hold Plc results from the direct dependence on the financial results of its subsidiaries and associated companies, the main business of which is export oriented - mainly to EU countries.

Our analysts monitor closely the development of the European economy and the impact of global processes. Europe continues to be a secure and very predictable market for us.

The processes in the European economy and especially in the Eurozone are inert, but there has been low yet stable growth throughout the last year.

The short-term orders made by our traditional customers from Western Europe have now become an established practice. In that sense, there could be some fluctuations, which might have a positive or negative effect on our results.

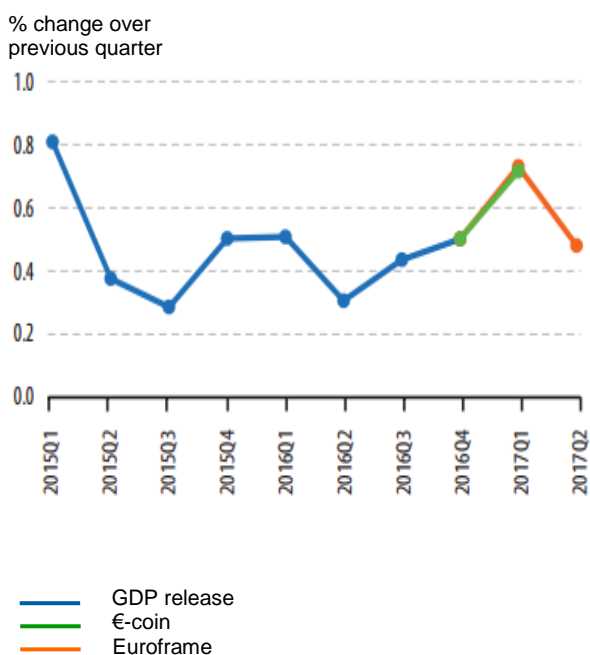
#### Year-over-year GDP growth indicators (Euro Area, q/q-4)



**EUROSTAT** reported a 1.7% growth in GDP in the Q4 of 2016, compared to the 0.3% reported for the same period of 2015. Despite the slight decrease of the trend by 0.1% in comparison to Q3 of 2016, the ESI indicator for economic trust remained unchanged – up to 108 points at the start of 2017. Industrial manufacturing grew by 1.3% throughout the year in the Eurozone and by 1.4% in the EU28. EUROSTAT also reported the lowest unemployment rate since May of 2009.

The expected GDP growth in the EU28 during the Q1 of 2017 is 0.7% and the forecast, for the quarter, has been revised up by 0.3 points. The forecast for the Eurozone GDP growth remains at 0.5% for the Q1 of 2017.

**Quarter-over-quarter GDP growth indicators**  
(Euro Area, q/q-1)



The inflation processes are indicative of the business environment. For the first time in a long while, the annual inflation in the Eurozone is positive, and in February of 2017 it is 2.0% on a 12-month basis. The lowest share of this percentage is due to increased energy expenditures (up by 9.2%).

Changes in the currency values also have a certain effect and constitute a risk factor for the business. Exchange rates affect the export sales revenue and the shipping costs for the delivery of raw materials from abroad. The exchange rate of the euro against the dollar has remained in a tight band with no significant fluctuations. In February 2017, the average monthly exchange rate of the euro against the dollar reached 1.0614, but 12 months earlier it was 1.1093.

The change in the interest rates also has an effect depending on the share of attracted bank and commercial loans. Global short-term interest rates remain very low; Euribor continued to hold negative positions, although a slight increase in long-term interest rates of 1.3% in the EU28 has been observed for the first time. Stara Planina Hold Plc optimally uses its free resources to limit the effect of the interest rates.

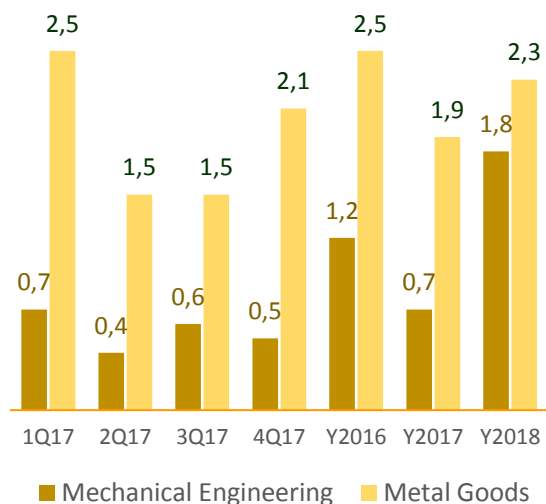
Factors which are expected to have an impact on the costs in 2017 are the market prices of raw materials and production inputs, regional market labor costs and the energy prices. The non-market determination of a significant portion of the electricity price components in Bulgaria will continue to have a negative impact on our manufacturing costs.

The optimistic forecasts of [EUROFER](#), published each quarter of 2016, were confirmed without significant adjustments over the subsequent periods.

Despite the above-mentioned optimistic data from EUROSTAT, the 2017 EUROFER forecasts were revised downwards. Initially, the European Steel Association issued a 2017 forecast of 2.6% growth in machine



### Development of the steel using sectors (E-28, % change YoY)



building and 2.4% growth in the production of machine components. At the beginning of this year the forecasts were significantly reduced to 0.7% and 1.8%, respectively.

There are risks associated with the potential changes in the demand for the manufactured products due to changes in price levels, quality, reliability, and the solvency of consumers, the technologies used and the organization of the manufacturing process.

The main task faced by the management of the companies from Stara Planina Hold Plc group is to improve cost-effectiveness, retain the existing and attract new clients with high-quality and promptly delivered goods.

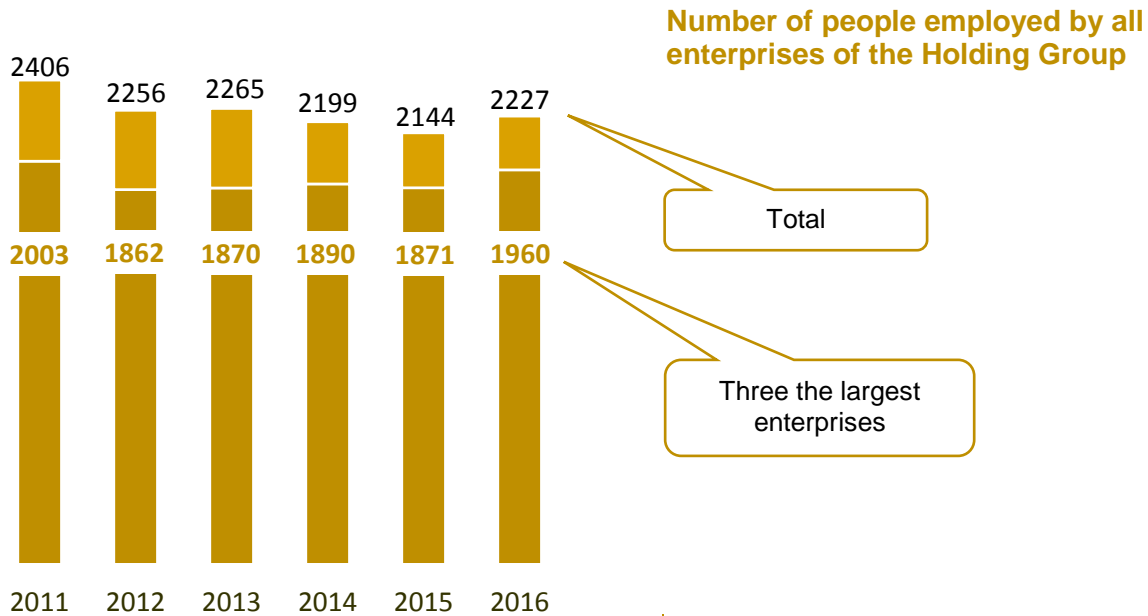
## II. Analysis of major financial and nonfinancial indicators

### 1. Environmental protection

As a holding type company which does not carry out autonomous trade activity, Stara Planina Hold Plc has directed its activity mainly in the management of the subsidiary and associated enterprises. The holding gives special consideration to the impact on the environment which is exercised by our enterprises. They report on annual basis on the environment impact assessment and the measures which they undertake in this respect.

## 2. Corporate social responsibility

The group companies have a functioning corporate social responsibility strategy mostly focused on the relationship between the company and the staff.



In Stara Planina Hold Plc and the main companies in the group, some incentives and benefits are being provided on top of the statutory ones.

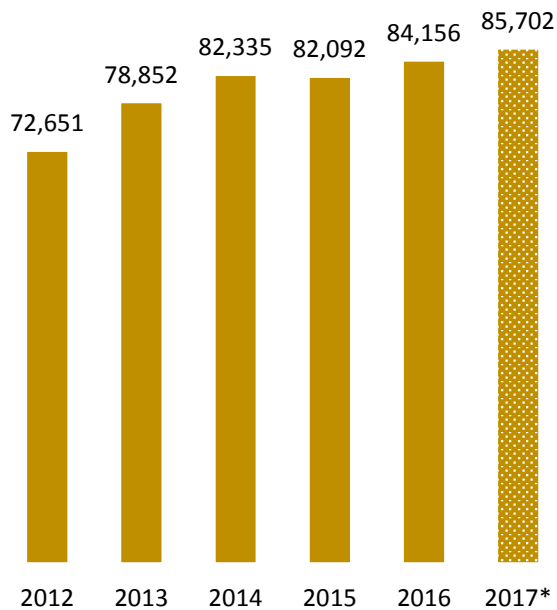
The monthly remuneration system applies elements of bonuses and incentives. Food vouchers are provided.

In addition to the legally required Occupational Injury Insurance, additional Life and Accident and General Illness insurance is also provided.

With regard to healthcare, great attention is paid to preventive medical practices.

Further professional training and qualification is a priority element of the corporate social responsibility.

One of the visible results of the applied policy is the increased productivity.



\* forecast

### III. Important events occurred since the beginning of the Year

#### Labor productivity per employee in the group (BGN'000s)

The above diagrams show the appropriateness of the restructuring measures undertaken in the previous years aimed at overcoming the negative effects of the economic crisis.

In 2016, the number of employed persons increased by 3.87%, while the productivity is 2.51% higher. We foresee a 1.84% increase in productivity for 2017.

On April 12, 2017 Stara Planina Hold acquired shares in several businesses.

- 95,69% of the capital of Vinprom JSC, Veliko Tarnovo;
- 68,99% of the capital of Dionisiy JSC, Nikopol;
- 80% 80% of the capital of Ustrem LTD, Svishtov.

Stara Planina Hold intends to invest in the modernization and development of new enterprises.

They are included in consolidation as of April 1, 2017.

With the acquisition of new subsidiaries we expect consolidated annual sales revenue to reach BGN 194 million.

#### IV. Projected development of the group

Stara Planina Hold Plc and the enterprises from our group bid good bye to a tough, yet relatively successful year. Preliminary data show that the annual sales of the group enterprises have reached BGN 187.4 million, showing an increase of 6.5% compared to 2015. At the same time the net profit of Stara Planina Plc reached BGN 5,146 thousand which will give us assurance that a part of it will be distributed as a dividend to the holding's shareholders for another consecutive year. Traditionally, dividends will also be distributed by the largest enterprises of the group.

Group's results are directly dependent on the processes taking place in the Eurozone economy which exhibits decreased confidence in the industrial manufacturing against the background of an increasing global insecurity and cautious investors.

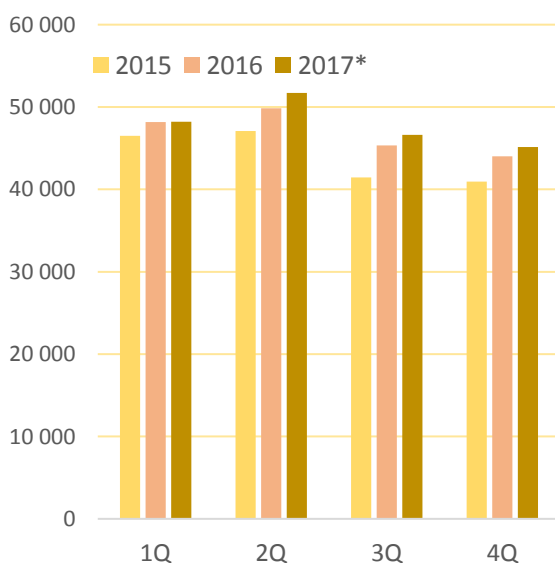
The level of our export is directly dependent on the markets in which the group operates – mainly in the EU. Throughout 2016, we managed to retain our main markets, including the markets in Russia. Regardless of this fact, the mutual sanctions between the EU and Russia continue to hamper our business in many areas.

The Board of Directors of Stara Planina Hold Plc expects the consolidated sales revenue to reach BGN 194 million in 2017, which represents an increase of 3.5% compared to the 2016 estimates.

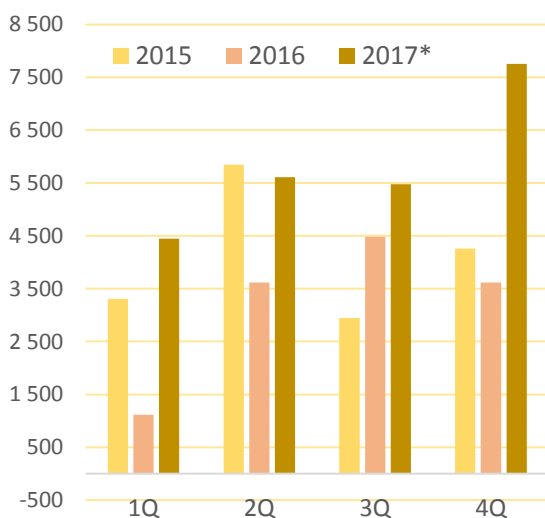
The Board of Directors of Stara Planina Hold Plc increased the announced forecasts for the beginning of 2017. We expect 8% increase in the sales of the group on an annual basis with consolidated sales revenue for the Q1 matching those of Q1 of 2016. In the Q2, which is traditionally the strongest one, sales are expected to grow by approximately 6.5% on an annual basis with the first six months of 2017 performing stronger by 7% than the first six months of 2016.

These forecasts include expectations related to the activities of the new acquisitions of the holding.

**Net sales revenue**  
(Quarterly, BGN'000s)



**Investments**  
(Quarterly, BGN'000s)



It is possible that these estimates won't be reached due to the non-market increase in the industrial electricity costs. We cannot turn a blind eye on this rather worrying fact as this is affecting not only our manufacturing costs but has also an impact on the energy intensive production processes of our suppliers, e.g. metal castings and blanks.

In 2017, too, our priority task is to retain the major markets and to widen our presence in the new markets. This will require us to offer good prices, high quality and short delivery times. We expect the prices of the main raw materials to remain stable, with insignificant downward movement.

Our companies plan investments which would result in the launch of new products, higher productivity and better remuneration for the employed staff, respectively. In 2016, the investments in the entire Stara Planina Hold Plc group reached BGN 12.8 million and consisted of own funds only.

In 2017, we will continue to have an active investment policy and we expect a serious investment growth of 80% reaching BGN 23 million.

The companies are preparing to participate in the procedures under the European operational programs Human Resources Development and Competitiveness. The major portion of the planned investments will be allocated for the upgrade of production facilities as well as for the enhancement of the organizational capacity and human resources of the companies. Over 5% of the investments are to be made in the area of social activities.

This year, too, our top priority was to increase labor productivity and retain highly qualified professionals. The number of employees at the end of 2016 is 3.8% higher compared to the Q4 of 2015. At the same time, while the annual increase of the operating expenses of the group is around 4.5%, the salaries in the group companies saw a 11% increase which is higher than the 2016 business plan, whereas the productivity increased by 2.1%. In 2017 we plan to increase the number of employees by 1.0%, the productivity by 1.8% and remuneration costs by 5.6%.

The achievement of a good financial result at the expected production volume is a major task to accomplish so as to ensure the market capitalization of the companies of the group in view of guaranteeing shareholders' investments and their profitability.

## **V. Research and Development Activity**

As a holding type company, Stara Planina Hold Plc does not carry out autonomous trade activity. The holding provides support to the enterprises from the group in the research and development activity since it views this activity as an integral part of the annual business plans of the companies.

The companies have departments and units developing operations for process improvement, and research and development of new products. In 2016, too, the main objectives of the units carrying out R&D activities were focused on meeting the growing requirements of the customers by developing new types of products.

## **VI. Company shares**

### **1. Own shares. Buy-back**

The General Meeting of Shareholders, held on 15.07.2009, adopted a resolution to buy back shares from the capital of the company and appointed the Board of Directors to define the specific parameters. The Board of Directors executed three reacquisition procedures during the period October 2009 – March 2014.

On 08.11.2016, Stara Planina Hold Plc sold 100,000 own shares at market value.

As of 31.12.2016, Stara Planina Hold Plc owns 121 265 own shares, constituting 0.58% of the capital of the holding. 50,000 shares are also owned by our subsidiary Slavyana Jsc.

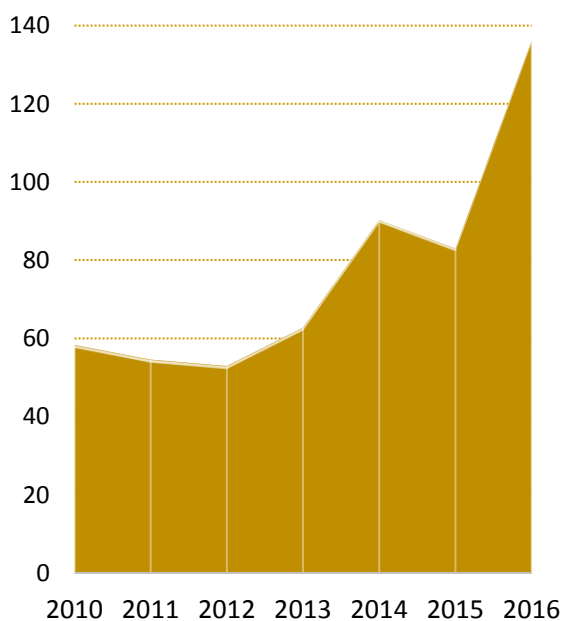
Under the provision of Art. 187a, Para. 3 of the Commerce Act, the exercise of any rights, including the right to vote, on these 171,265 shares shall cease until their transfer.

The subsidiaries do not have their own shares.

## 2. Changes in the companies share prices

According to analyzers, the impact of the index fund Expat BG SOFIX UCITS ETF is significant for the initial registered stock market increase in share price. However, it is not defining, because the fund's deals are less than 50% of the total number of lots for the given period.

### Market capitalization (million BGN)



The average stock exchange price of one share on the last business day of 2015 was BGN 3.95 and on the last business day of 2016 – BGN 6.49. The growth in share price began as early as March, when the management of the holding company announced its intention to propose a record dividend for the financial 2015.

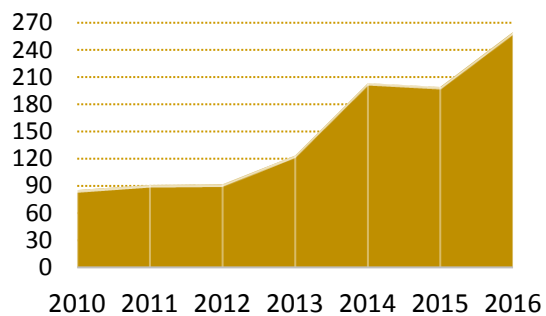
The final quarter of 2016 turned out to be integral for the share price of the highest quality companies, which Stara Planina Hold Plc undoubtedly is according to its stock market estimate.

The increased activity of investors on the Bulgarian Stock Exchange lead to a large discrepancy in the movements of the most representative Bulgarian stock index SOFIX – to the benefit of the holding's shares, which reached an annual growth of 64.3% at an Index growth of 27.8%

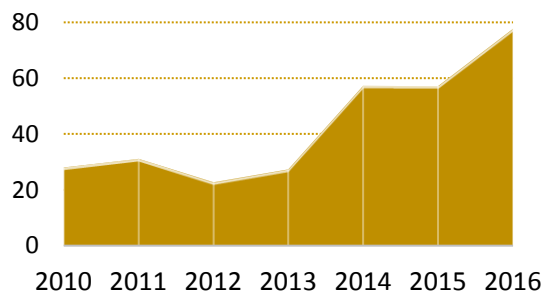
At the time, the traded stock shares of the group companies of Stara Planina Plc also registered significant growth, in which the discount between the holding and the subsidiaries preserved its levels.

The market capitalization of Stara Planina Hold Plc reached BGN 136 million at the end of the year compared to BGN 83 million at the end of 2015. Five of the holding's entities are public companies and their market capitalization is determined by the stock exchange.

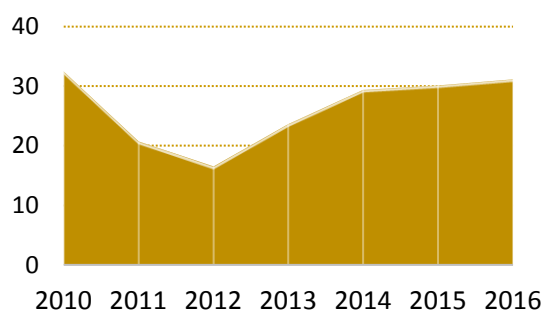
This allows for calculating the ratio between the market capitalization of the holding and the market capitalization of its shares. Traditionally the price of the holding is lower than the total price of its shares



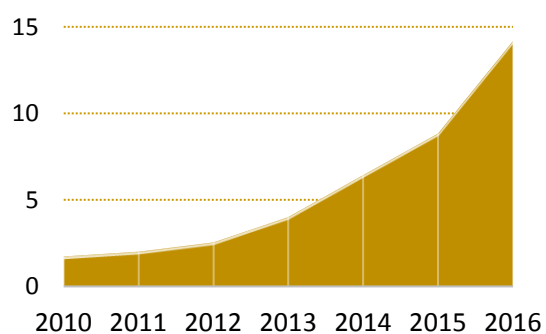
**M+S Hydraulic Plc**



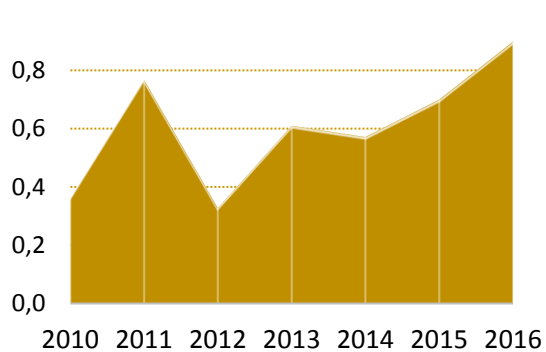
**Hydraulic Elements and Systems Plc**



**Elhim Iskra Plc**



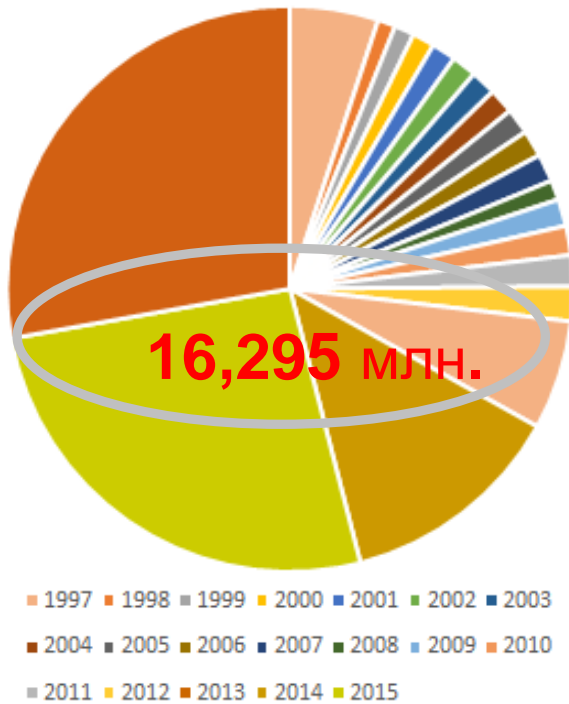
**Bulgarian Rose Plc**



**Fazan Plc**



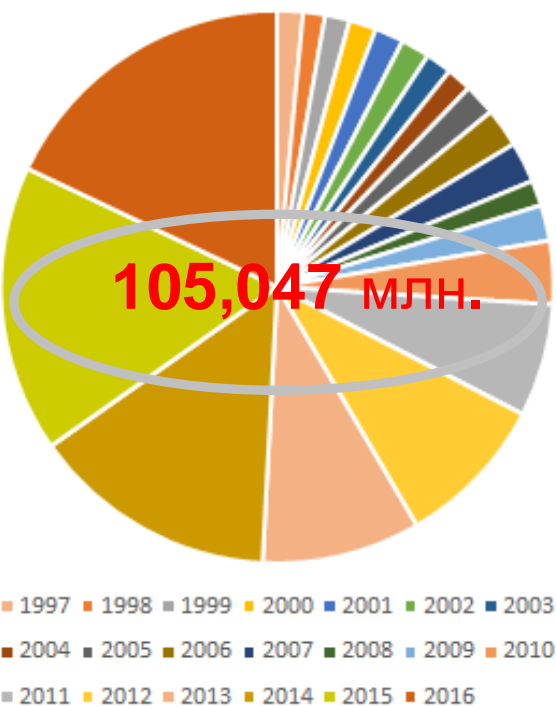
### 3. Dividend policy



#### Stara Planina Hold Plc

Every year since its establishment, Stara Planina Hold Plc has paid out dividends. The total amount of the distributed dividend up to and including 2016 is BGN 11,764 million.

For the 19 fiscal years since it was established, the group of Stara Planina Hold Plc has distributed dividends in total of BGN 86.2 million.



#### Total for the Whole Group

Over the last several years the management of Stara Planina Hold Plc has been applying a new element in its comprehensive transparency policy and has been announcing its proposals for dividend from the enterprises from the holding's group as early as March.

If the proposals would be adopted by the shareholders, the total amount of distributed dividend of Stara Planina Hold AD will reach 16.295 million lev and the total dividend for the whole group will surpass BGN 105 million.

\*2016 - proposal

## **VII. Financial instruments used by the enterprise**

### **1. Accounting policy**

In compliance with the accounting legislation in force in Bulgaria, since the beginning of 2003 Stara Planina Hold Plc has been applying the International Financial Reporting Standards.

These annual financial statements are prepared in compliance with the International Financial Reporting Standards adopted by EU. The company continues to apply the same accounting policy as used for the preparation of the annual financial report for 2015.

The accounting policy of the Company is described in the Explanatory Notes presented to the Annual Consolidated Financial Statements.

Throughout the reporting year, the accounting policy of the company has not changed from the previous reporting periods. No errors were found, both in the current and the prior reporting periods. Therefore, there are no adjustments due to errors or adjustments resulting from change in accounting policy, and no adjustments in approximate accounting estimates.

### **2. Major indicators for financial and accounting analysis**

The ratios of the financial autonomy characterize the financial independence of Stara Planina Hold Plc from creditors and the ability to meet its obligations. We achieve good financial autonomy which guarantees the interests of the owners.

Grounds for the conclusions stated above are included in the indicators provided in Section I of the Report.

Profitability (yield) is the ability of group companies to provide economic profit to its owners through the skillful management of the assets, of the own and borrowed capital and of the other liabilities. It is the main indicator for the efficiency of the activity carried out by us. The profitability coefficients of a consolidated basis are significantly lower than the previous two years, due to the direct impact on the global economic crisis.

The major portion of the income for 2016 was formed from manufacturing of products. The analysis of the income and expenditure

efficiency for 2016 shows that for each BGN 1 of expenses there has been received BGN 1.114 of income on consolidated basis. The incomes cover completely the expenses of the companies, which is a precondition for a positive cash flow from operating activity and allows for the satisfaction of the undertaken obligations.

As in previous periods, in 2016 Stara Planina Hold Plc and the related companies promptly discharges its current debts with the available current assets. The liquid structure of the current assets and liabilities allows for part of the amounts to be allotted for long-term financing of the controlled companies.

### **3. Financial instruments**

The biggest item in the financial instruments used by the enterprise are the participations of Stara Planina Hold Plc in the subsidiary and associated enterprise.

Financial instruments of the Company are detailed in the Explanatory Notes presented to the Annual Financial Statements.

Typical of the investments of Stara Planina Hold Plc (stock exchange code 5SR) in subsidiaries and associates is that 5 of them are public companies whose stock have been admitted for trade on the Bulgarian Stock Exchange: Hydraulic elements and systems Plc (stock exchange code 4HE), M+C Hydraulic Plc (stock exchange code 5MH), Elhim Iskra Plc (stock exchange code 52E), Fazan Plc (stock exchange code 4F5) and Bulgarska Roza Plc (stock exchange code 4BH).

The stocks of Stara Planina Hold Plc are included in the stock exchange indices SOFIX, BGTR30, BGBX40 and CGIX. The latest SGIX index includes share issues for seven companies, listed on the Bulgarian Stock Exchange, which have the best corporate management. The stocks of Stara Planina Hold Plc are included in the 8 of на [STOXX®](#) indices.

Next, in terms of significance, come the long and short term loans granted to the companies from the portfolio of Stara Planina Hold Plc. They are entered as per their nominal value of

occurrence. As of the end of the reporting period, there are no data for the presence of circumstances for impairment of receivables and such has not been carried out. The distribution as 31.12.2016 is specified in Section IX of the report.

The policy of Stara Planina Hold Plc with regard to the management of the financial resources is directed mainly at the management of the enterprises from the portfolio. The free cash amounts are directed at the financing of the companies.

#### **4. Liquidity**

Considering the specifics of the activity, the major portion of the cash inflows is generally formed by the received dividends, and the cash outflows are used to payout dividends to the shareholders, purchase shares and cover administrative overheads related to its maintenance.

Considering the specifics of the activity, the major portion of the cash inflows in the parent company only is formed from the received dividends, and the cash outflows are used to payout dividends to the shareholders, purchase shares and cover administrative overheads related to its maintenance.

The major portion of the cash inflows in the group is formed from income from sales of products of the subsidiaries and bank loans.

Cash outflows are predominantly connected with payments to suppliers, purchase of fixed assets, payments to the personnel, payments on loans and dividend payments.

### **VIII. Declaration of corporate management**

#### **1. National Code of corporate governance**

Stara Planina Hold Plc implements a long-term Good Corporate Governance Program. It provides for the realization of a number of initiatives in several major directions, whose implementation is in the context of the priority goals set in the program, namely: protection of shareholders' rights; ensuring equal attitude towards each shareholder (including minority and foreign shareholders); ensuring the

### **5. Exposition of the enterprise with regard to the risk**

The market risk consists of three types of risk:

Currency risk – the risk that the value of a financial instrument will fluctuate due to the change in the currency exchange rates

Interest risk – the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates

Price risk – this is the risk that the value of a financial instrument will fluctuate as a result of changes in the market prices.

As of 31.12.2016 Stara Planina Hold Plc does not have any financial instruments in foreign currency, interest bearing financial instruments of Stara Planina Hold Plc are only from the granted loans.

Investments in subsidiary and associated enterprises are reported and presented as per the acquisition cost method. The nature of the financial instruments used by the enterprise shows that the market risk does not exercise huge influence on the financial results.

Credit risk – Stara Planina Hold Plc has granted loans to enterprises from its portfolio which have longstanding and untarnished credit reputation which minimizes credit risk.

Due to the nature of the financial instruments used by Stara Planina Hold Plc, the liquidity risk and the interest risk of the cash flow are also kept at a minimum.

recognition of the rights of the parties interested in the management and the sustainable development of the company and to encourage the collaboration with them; ensuring prompt and accurate disclosure of the statutory required information related to Stara Planina Hold Plc regarding important issues of the financial condition, results from activity, ownership and management of the company; support of the strategic management of Stara Planina Hold Plc, the efficient control over the activity of the Board of Directors and its reporting before all interested parties.

On 30.10.2007 the Board of Directors of Stara Planina Hold Plc considering the important role of the modern corporate governance for the support of sustainable development of the national economy of the Republic of Bulgaria and lead by its determination to continue the implementation of internationally recognized standard for good corporate management and as issuer, registered at the Bulgarian Stock Exchange - Sofia, Official market, segment A, resolved that the holding shall carry out its activity in compliance with the principles and provisions of [the National Code For Corporate Governance](#).

## 2. Implementation of the Code

The management of Stara Planina Hold Plc applies the National Code based on the “comply or explain” principle. The application of this principle is based on EU Commission Recommendation on the quality of corporate governance reporting.

The major direction when executing the Program of Stara Planina Hold Plc was to bring all internal acts of the company and its activity as a whole in line with the continually changing legislation in force.

All internal regulations listed below may be found in the [Corporate Governance](#) section on the company website.

Stara Planina Hold Plc participates in the discussion of draft amendments and supplements or new acts in the field of the public offering of securities presented by the competent authorities. As a member of the [National Corporate Governance Committee](#), Stara Planina Hold Plc participates through its representative in the discussion and adoption of amendments to the National Code, effective February 2016.

All financial reports of the company are being prepared in compliance with the IAS, and the annual audit is carried out by an independent auditor in order to ensure unbiased and objective assessment of the manner in which these reports have been prepared and presented. The financial reports are accompanied by detailed activity reports.

The Board of Directors shall direct and control the company in a responsible and independent manner according to the vision, goals and strategies of the company and in the best interest of all shareholders. It shall monitor the performance of the company and initiate changes in the management of its operations, when necessary. The Board of Directors shall treat all shareholders equally; act in their best interest and in a diligent manner. The members of the Board of Directors shall base their actions on common principles of integrity and managerial and professional competence. The Board adopts and adheres to an Ethics Code.

The Board of Directors must provide and control the establishment and proper functioning of a corporate risk management system; establish and control the integrated functioning of the company financial and accounting systems; guide, approve and control the implementation of the company's business plan; material transactions; and all other operations and actions required by the company's Rules of Procedure. The Board of Directors reports its activity to the General Meeting of Shareholders. Upon proposing new members of the Board of Directors, the principles of compliance of the candidates' competencies with the nature of the company's activities must be followed. 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 should be stipulated by contract.

The number of members and the structure of the Board of Directors are determined by the Articles of Association. The composition of the Board is structured in a way which ensures the professionalism, independence and impartiality of its resolutions related to the management of the company. The Board of Directors has allocated the tasks and obligations among its members. The basic function of independent directors is to oversee 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 should be an independent director. The members of the Board of Directors shall 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 the company's activities and performance. Increasing the competency and upgrading the qualifications of the members of the Board of Directors is an ongoing practice and their training is encouraged.

The succession of the mandates ensures effective operation of the company and compliance with legal requirements.

The members of the Board of Directors have sufficient time to carry out their tasks and duties. The company's Rules of Procedure limit the number of management positions the members of the Board are allowed to hold in companies, outside the portfolio of Stara Planina Hold Plc as well as the number of consecutive mandates of the independent members. The size and the structure of the remuneration of the members of the Board of Directors are defined by the General Meeting of the Shareholders. They shall take the following into account: the responsibilities and contribution of each member, the availability and ability to select and retain qualified and loyal members, the need to have the interests of the members of the Board of Directors aligned with the long-term interests of the company. The remuneration of the independent members of the Board of Directors is invariable. In compliance with a decision of the Shareholders, it also has a variable part.

The General Meetings of Shareholders adopted a Remuneration Policy for the members of the Board of Directors, which aims to support the long-term business goals of the company and to encourage behavior which facilitates the creation of value for the shareholders while ensuring competitive level of remuneration sufficient to attract and retain directors possessing qualities required for the successful management and development of the company. The Remuneration Policy determines the specific additional incentives associated with certain performance and economic group indicators under clear criteria. Information on the remunerations of the members of the Board of Directions is disclosed in a special annual report which is a separate document to the Annual Financial

Statements of the company. The policy defines the principles of forming the amount and the structure of the remuneration. The company has accepted general rules for the members of the Board of Directors, in which the functions and responsibilities of the Board as well as the appointment and release of members are stipulated.

The Board of Directors of Stara Planina Hold Plc has accepted procedures to avoid and disclose conflicts of interest. They oblige the members to avoid any actual or potential conflict of interest, while if necessary, they shall immediately disclose conflicts of interest and provide the shareholders access to information regarding transactions concluded between them, the company or any related party. On the other hand, every conflict of interest in the company shall be disclosed to the Board of Directors. Stara Planina Hold Plc does not and shall not allow transactions between the company and members of the Board of Directors and any related party.

With regards to the specifics of the company, the Board of Directors has determined the need to create an Audit Committee. The Audit Committee operates under its own set of operating rules and schedule of activities. The audit committee supervises the internal audit process and monitors the overall relations with the external auditor, including the nature of non-audit services, provided by the latter. Its activities were focused on the increase of the effectiveness of financial reporting processes, the systems for internal control and risk management.

The Audit Committee shall, in accordance with the established professional standards and requirements, present in writing at the General Meeting of Shareholders a motivated proposal for the selection of external auditor. Following the accepted principles of rotation, in 2014, the Audit Committee and the Board of Directors proposed the appointment of a new auditor to the shareholders. The company has developed an internal control system which should also ensure the effective operation of the reporting systems and reveal information with regard to any material risks the company might face and their effective management. The corporate management of Stara Planina Hold ensures the equal treatment of all shareholders,

including minority and foreign shareholders and is responsible for the protection of their rights. It facilitates the exercising of these rights within the limits permitted by applicable law and in accordance with the internal rules of the company.

All shareholders have access to information regarding their rights.

All shareholders have access to information about the rules under which General meetings shall be convened and held, including voting procedures. The company shall provide sufficient and timely information concerning the date and venue of the General meeting, as well as detailed information on the issues to be discussed and decided on at the meeting. During the General Meeting of Shareholders, corporate management shall ensure that each shareholder has the right to express their opinion and ask questions during the General Meeting.

Here is where we should point out that good practices are set forth in this Code, but despite the efforts of corporate management, the application of some of these is unfortunately hampered by unclearly motivated legal restrictions. The management of the company has undertaken activities to encourage shareholders participation in the General Meeting, but in recent years we have observed a decline in their interest. This is due to the highly restrictive interpretation of the European directives and suggestions by the law enforcement authorities. This incorrect, in our opinion, interpretation limits the participation in the General Meeting to restricting shareholders to vote “for” or “against”, without having the opportunity for their proposal to be examined by the meeting, potentially leading to a different decision according to it, different from the announced one.

Shareholders have the right to vote at the General Meeting of the company themselves or through authorized representatives. Rules for Organization and Carrying-Out of Regular and Special General Meetings of Shareholders have also been adopted guaranteeing the equal treatment of all shareholders and the right of each shareholder to state his/her opinion on the items on the agenda of the meeting. The procedure and rules for the carrying-out of the

General Meeting of Shareholders do not encumber the voting and do not make it more expensive. These procedures encourage the participation of shareholders in the General Meeting but do not provide an option for remote attendance through technical means as this would make the carrying-out of the meeting more costly. Rules for voting by proxy have been adopted. All members of the corporate management attend the general meetings of the shareholders. It assists the shareholders, appointed by the court, with the inclusion of additional items on the agenda of the General Meeting and guarantees the right of the shareholders to be informed about the adopted resolutions. The texts of the written materials on the agenda of the general meeting are specific and clear and do not mislead the shareholders. All proposals on major corporate events are presented as separate items in the agenda, including the proposal for the distribution of profit. The rules for organizing and holding General Meetings ensure a mechanism for cooperation with shareholders who have made use of their right to add further items and to propose resolutions on issues already included in the agenda. The decisions of the General Meeting are published on the company's website for a period of 10 years. The company has not emitted shares of a different class. The company has no shareholders with control rights.

Increasing the trust of shareholders, investors and parties interested in the management and operation of the company has been one of the major commitments of the corporate management. In this regard, the company is continually strengthening its position of a stable entity. In 2016, too, we continued to endorse and apply various means to disclose current information about the financial and economic position of the company and important corporate events as well as their popularization.

Stara Planina Hold Plc has an established policy and system for disclosure of information in accordance with legal requirements. It guarantees equal access to information to all stakeholders (shareholders, interested parties, investment community) and prevents abuse of insider information. The system for disclosure of information ensures full, timely, accurate and understandable information, which allows for

objective and informed decisions and assessments. The holding has internal rules for the preparation of the annual and interim reports and rules for disclosure of information.

The company maintains its own website which contains information about the company, the management bodies, shareholder structure and the companies in the portfolio of Stara Planina Hold Plc. The section concerning corporate governance contains the internal regulatory documents, information about the shareholders' rights and their participation in the general meeting, financial statements for the last 10 years, information about dividend payments as well as about personal data protection. A special section contains materials on the forthcoming general meetings of shareholders, information about the resolutions adopted at the general meetings. Public access is provided to data on the initiatives of the company, to the auditors and the media which publish news about the company. The News section is particularly comprehensive and provides information about the periodic publications of the company, the forthcoming events as well as any other information connected with the operation of the holding. The system for questions from shareholders, interested parties and receipt of replies via electronic means proved its efficiency. A procedure has been provided for receiving dividends from previous years by the shareholders. We continue the practice of sending prompt replies to letters and inquiries from shareholders, including to those received via email and their storage in a register duly kept by the Investor Relations Director. A practice has been established where, irrespective of the nature of the request; the reply should contain detailed explanation of the rights of the holding's shareholders. The procedure for inheritance of shares is described in detail. Any shareholder who approaches the holding, irrespective of the request, is provided with comprehensive information about his/her rights and receives information on various issues with regard to the business and the current position of the company, including the historical prices of the shares of Stara Planina Hold Plc on the stock exchange. During this year the company, once more, uses two media that provide equal and timely access to the relevant information to the users: Infostock.BG and X3 News.

The corporate management of Stara Planina Hold Plc ensures the effective interaction with the stakeholders, identified by the company as such. The policy regarding stakeholders complies with the legal requirements and is in accordance with the principles of transparency, accountability and business ethics. A policy has been adopted that takes into account the interests of stakeholders and guarantees the balance between company development and the environment, in which it operates. Effective relations are maintained with the stakeholders. The company periodically informs shareholders, stakeholders and the investment community about various important issues. The internal rules were supplemented by commitments regarding the provision of comprehensive information and the interaction of the company with its shareholders, who are institutional investors, as well as with the Bulgarian Stock Exchange – Sofia Plc, which is a regulated market of financial instruments and with the investment firms on this market. The company's shares are not tradable under another jurisdiction.

Stara Planina Hold Plc participates actively in various forms of joint collaboration with state institutions and non-government organizations that are concerned with corporate management within the country. Throughout the reporting year we, once again, recognize the benefit of our collaboration and membership in the Bulgarian Industrial Capital Association. The Directors of Investor relations of the holding and the public subsidiaries are members of the Association of Bulgarian Investor Relations Directors. The holding has appointed its representative in the National Corporate Governance Committee.

The control related to the disclosure of information by Stara Planina Hold Plc is multidirectional. To date, there have been no violations of the rules and the deadlines for disclosure. The financial reports are published on the website of the holding immediately after they are sent to the regulating authority and to the public, which allows an opportunity for control by the shareholders, investors and all stakeholders. Another form of control over the process of disclosure of information is exercised by the members of the Board of Directors over the Director of Investor Relations.

The Evaluation Card is an integral part of this report, developed by the National Corporate Governance Committee; it provides a realistic estimate of the level of adherence to the National Code by Stara Planina Hold Plc.

### **3. Assessment of the implementation of the code**

With the changes to the National Corporate Governance Code in April 2016 and the changes in legislation from mid-2016, the implementation of the code is a process, which will continue throughout the current year.

In order to bring the activities to compliance with the National Corporate Governance Code, in February 2017, the internal rules and policies of the company were updated. New rules on the activities of the Audit Committee were adopted, which will be proposed for approval at the General Meeting of Shareholders.

The review of the code in regards to implementation of the underlying principle of “adhere or explain” leads to the conclusion that the company, as a whole, complies with the Code.

The implementation of the recommendations in the Code is the responsibility of corporate management. In this sense, the application of specific texts of the Code does not depend on corporate management, insofar as the appointment of members of the Board of Directors is a right and prerogative of the Shareholders.

In conclusion, we can summarize that the activities of the Board of Directors of Stara Planina Hold Plc throughout 2016 complied with the National Corporate Governance Code.

### **4. Internal control and risk management system**

The managements of the holding and the subsidiaries prepare an annual operations report, as well as a financial statement for every financial year, which gives an accurate and honest estimate of the financial status of the company at the end of the year, operational financial results, and the cash flows in compliance with the applicable accounting framework. The management’s responsibility

includes the implementation of internal control system aimed at the prevention, detection and rectification of errors and false statements, resulting from application of the accounting system. In this regard, the management observes the following principles in its activities:

- Adherence to a specific management and accounting policy, disclosed in the financial statements;
- Performance of all operations in accordance with the laws and statutory regulations;
- Coverage of all events and operations in a timely manner, with the accurate sums in the appropriate accounts and for the respective reporting period, so as to permit the preparation of the financial statements in accordance with the specifically set accounting framework;
- Compliance with the principle of prudence in the validation of assets, liabilities, revenue and costs; detection and termination of fraud and errors;
- Completeness and correctness of the accounting information;
- Preparation of reliable financial information; adherence to international financial reporting standards and compliance with the going concern principle.

### **5. Information Art. 10 of Directive 2004/25/EC**

The companies of the holding group have no significant direct or indirect shareholding participation (including indirect shareholding participation via pyramid structures and cross-shareholding) within the meaning of Art. 85 of Directive 2001/34/EC. There are no holders of securities with special control rights. There are no restrictions on voting rights. The rules that regulate the appointment and replacement of members of the Board of Directors and the introduction of amendments to the Memorandum are specified in the published Articles of Association of the company and are not regulated by the corporate management. Shareholders can make the decision for buy-back or issuance of shares in accordance with



law. The Articles of Association have also provided authority to the Board of Directors to issue shares.

## **6. Equal opportunities policy**

The companies does not apply an equal opportunities policy with regard to the management body in aspects such as age, gender or education and professional experience.

The management structure is defined in the Articles of Association. The Board of Directors consists of three natural persons and one legal entity, which has in turn appointed a natural person as its representative. The appointment of members of the Board of Directors is a right and prerogative of the shareholders.

## **7. Information about the Board of Directors**

Stara Planina Hold Plc has one-tier management system. The Board of Directors is the management body of Stara Planina Hold Plc which carries out the planning and coordination of the entire activity of the company as laid down in the scope of its business activity and it also carries out all activities as provided in the law and the Articles of Association related to the organization, management and control. The Board of Directors prepares company activity report on annual basis. The organization of its work as well as its obligations, responsibilities and powers are set out and specified in Rules for the work of the Board of Directors of Stara Planina Hold Plc. The Board of Directors adopts its resolutions on meetings which are held at least every three months in compliance with the statutory requirements regarding the rules for their calling and carrying-out.

## **IX. Additional information on Appendix 10 of Ordinance No 2 of the FSC**

*1. Information provided in terms value and quantity, on the major categories of goods, services and/or provided services and specifying their share in the sales income of the issuer as a whole and the changes occurred during the reporting fiscal year.*

The composition of the Board of Directors as elected by the General Meeting guarantees the independence and objectiveness of the judgments and actions of its members with regard to the operation of the company.

### **Board of Directors**

- Evgeniy Vasilev Uzunov – Chairman of the Board of Directors
- Vasil Georgiev VeleV – member of the Board of Directors and Executive Director
- Finance Invest LTD, town of Plovdiv, resented in the Board of Directors by Spas Borisov Videv
- Stefan Atanasov Nikolov – member of the Board

For the reporting year, the members of the Board of Directors or persons connected with them have not concluded contracts with the company which are outside its usual business activity or significantly deviate from the market conditions.

In the reporting year there are no changes in the composition of the Board of Directors. The statutory requirement which provides that at least one third of the members of the Board of Directors shall be independent persons is met. Also there are no changes in the adopted criteria for the election of member of the Board of Directors. In our practice so far the Board of Directors has not faced a situation which represents emergence of direct or indirect conflict of interests between member of the management body and shareholder. There has not been established any instance of direct or indirect conflicts between the interest of a member of the Board of Directors and company's interest.

As a holding type company, Stara Planina Hold Plc does not carry out autonomous commercial activity and has only financial income. The incomes on consolidated basis are formed mainly from the income from sales of products of the subsidiary companies.

*2. Information related to the income as per the separate categories, activities, domestic and foreign markets as well as information about*

*the sources for material supply necessary for the production of goods or provision of services with the degree of dependence with regard to each separate seller or purchaser/consumer and, in case the relative share of any of these exceeds 10 percent of the expenses or sales income, there shall be provided separate information for each party, for its share in the sales or purchases and its relations with the issuer.*

As a holding type company, Stara Planina Hold Plc does not carry out autonomous commercial activity and has only financial income. The incomes from the subsidiaries are formed mainly from sales of production as follows:

M+S hydraulic Plc – hydraulic motors, steering units, valves, brakes and accessories..

HES Plc – hydraulic cylinders, hydraulic pumps, precision rotational elements.

Elhim Iskra Plc – car batteries, batteries and battery elements.

Bulgarska Rosa Plc – natural flavorings, tobacco sauces and cosmetics.

Boryana Jsc – fashion ladies' and man's knitwear.

Fazan Plc – socks and socks items.

*3. Information on concluded big transactions and transactions of material significance for the activity of the issuer.*

In 2016 there were no large-scale transactions of material significance for the activity of Stara Planina Hold Plc.

*4. Information on the transactions concluded between the issuer and connected parties during the reporting period, offers for conclusion of such transactions as well as transactions which are outside the scope of its usual business activity or significantly deviate from the market conditions in which the issuer or its subsidiary is a party, with specific amount of these transactions, the nature of the connection and any information necessary to assess the impact on the financial standing of the issuer.*

Transactions concluded between Stara Planina Hold Plc and connected parties during the reporting period are only the loans granted to subsidiary and associated enterprises.

These are specified in item 9 of this section of the report.

There are no transactions which are outside the scope of issuer's usual business activity or transactions which significantly deviate from the market conditions.

*5. Information on events and indicators of unusual nature for the issuer which have significant influence on its activity, the realized incomes and accrued expenses; assessment of their impact on the results throughout the current year.*

There were no events and indicators of unusual nature which to exercise significant impact on the activity of the issuing body and the companies from the group.

*6. Information on transactions off the balance sheet – nature and business purpose, specification of the financial impact of the transactions on the activity if the risk and benefit which these transaction entail are significant for the issuer and if the disclosure of this information is important for the assessment of the financial standing of the issuer.*

No such transactions.

*7. Information on share participations of the issuer, on its main investments in the country and abroad (in securities, financial instruments, intangible assets and real property) as well as investments in share securities outside its business group and sources/means of financing.*

Investments of Stara Planina Hold Plc are in securities and share participations in Bulgarian enterprises. The company does not have any real property. As far as such exist, investments of the companies from the group in securities are in minority packages.

Information on the share participation of Stara Planina Hold Plc is provided in this report - Section I, item *investment portfolio*.

*8. Information on the loan contracts concluded by the issuer, by its subsidiary or parent company in their capacity of borrowers with specification of the contractual terms and conditions, including the deadlines for repayment as well as information for provided securities and undertaken obligations.*

This information is provided in the [annual activity report](#) Section X.

*9. Information on the loan contracts concluded by the issuer, by its subsidiary or parent company in their capacity of lenders, including to connected parties with indication of the of their specific contractual terms, including the deadlines for repayment and the purpose for which these have been granted.*

This information is provided in the [annual activity report](#) Section X.

*10. Information on the utilization of the means gained from the issuance of new securities during the reporting period.*

During the reporting period there is no new issuance of securities.

*11. Analysis of the ratio between the achieved financial results, registered in the financial statement for the fiscal year, and earlier published prognoses for these results*

The achieved financial results registered in the financial statement for the fiscal year do not differ significantly from the projected results published in the interim financial statements.

*12. Analysis and assessment of the policy on the management of the financial resources with specification of the capacities for servicing of obligations, possible threats and measures which the issuer has taken or shall take with view of their elimination.*

The policy of Stara Planina Hold Plc is directed mainly at the management of the enterprises from the portfolio. This is indicated by the loans granted to the enterprises from the portfolio of the holding under conditions which are more favorable than the ones offered on the country's market. The loans are specified in item 9 of this section of the report. A manifestation of this policy is also the installment payment on the part of the enterprises for the dividends payable to Stara Planina Hold Plc.

Stara Planina Hold Plc services all of its obligations in a timely manner hence there is no possible threats which necessitate measures for their elimination.

*13. Assessment of the capacities for realization of investment intentions with*

*specification of the amount of available means and indication of possible changes in the financing structure of this activity.*

The activity of Stara Planina Hold is directed mainly at the management of the existing investments. There are no immediate plans for new investments in the company. The holding has as priority the development of the enterprises from its portfolio.

*14. Information on changes in the major principles for management of the issuer and its business group occurred during the reporting period.*

Stara Planina Hold manages its investments by setting high but achievable goals in the terms of quality, output and profitability. Greater consideration is being given to the aspect of environmental protection, human resources development and corporate and social responsibility. During the reporting period there are no changes in the major principles for management of Stara Planina Hold Plc and its business group.

*15. Information on the major features of the system for internal control and risk management system applied by issuer in the process of preparation of financial statements.*

In order to ensure unbiased and objective assessment of the financial statements, the annual audit of Stara Planina Hold Plc is performed by an independent Chartered Accountant. All financial statements are being prepared in accordance with the International Accounting Standards. The current financial and reporting activity of the company is subjected to periodic control and analysis by the management body. In the holding there is a well established practice of periodic discussion of current financial results from the activity of the companies included in its strategic investment portfolio with view of ensuring the implementation of their business programs and precise analysis of the capacities for realization of future investment projects.

*16. Information on the changes in the management and supervision bodies during the reporting fiscal year.*

Stara Planina Hold Plc has one-tier management structure. The Board of Directors includes 4 persons. Data on the Board of

Directors are specified in Section IX of the report.

17. *Information on the amounts of remunerations, premiums and/or benefits of each of the members of the management and control bodies during the reporting year paid by the issuer, regardless whether these have been included in the expenses of the issuer or arise from the distribution of the profit.*

The remuneration of the members of the Board of Directors is disclosed in the [special annual report](#), which is a separate document to the Annual Financial Statements.

18. *For the public companies - information on owned by the members of the management and control bodies, procurators and the executive officers shares of the issuer, including the shares owned by each of them separately and as a percentage of the each class of shares as well as the options on issuer's securities granted by that issuer – type and amount of securities on which the options have been institute, price for the use of these options, if any, and duration of the options.*

This information is provided in the [annual activity report](#) Section X.

19. *Information on the arrangements known to the company (including also after the closure of the fiscal year), as a result of which in future periods may occur changes in the relative portion of shares or debentures owned by shareholders or debenture holders – no such arrangements are known.*

20. *Information on pending court, administrative or arbitrary proceedings related to obligations or receivables of the issuer amounting to at least 10 percent of its own capital.*

Stara Planina Hold Plc is not involved in any pending court, administrative or arbitrary proceedings as well as in any judgments or requests for dissolution or declaration of liquidation.

21. *Information on the Investor Relations Director, including telephone and mailing address.*

Investor Relations Director: Nikolai Petrov Mitankin, tel. +3592-963-41-61, cell phone: +359-888-804-844, mailing address: 20, Frederic Joliot Curie Str. 9<sup>th</sup> floor, 1113 Sofia, Bulgaria.



The activity report was adopted at meeting of the Board of Directors of Stara Planina Hold Plc on 26.04.2017.

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This document contains information regarding the published estimates feasibility, future period forecasts, as well as data, which constitutes proprietary information pursuant to Art. 7 Regulation (EU) No 596/2014 on market abuse. This information could have significant impact on the price of shares issued by the company.

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**STARA PLANINA HOLD PLC – 20 YEARS SUCCESS!**