



## REPORT

On the Implementation of the Remuneration Policy for the Members of the Board of Directors

This report has been prepared on the grounds of Art. 12 of Ordinance No. 48 of the FSC. The report describes the way in which the Company implements the Remuneration Policy for the Members of the Board of Directors adopted at the regular annual General Meeting of Shareholders in 2014. The report contains a remuneration policy implementation program for the next financial year and an overview of the way in which the remuneration policy has been implemented throughout the year. An important consideration to be kept in mind is that the Remuneration Policy is being implemented for the first time.

### **I. Implementation of the Remuneration Policy in the reporting period**

Pursuant to the requirements of Ordinance No. 48, the Company shall provide the following information in relation to the implementation of the Remuneration Policy for the Members of the Board of Directors in 2016:

*1. Information on the process of decision-making in determining the remuneration policy, including if applicable, information on the mandate and composition of the remuneration committee, the names of external consultants whose services have been used in determining the remuneration policy;*

The Remuneration Policy for the Members of the Board of Directors has been developed in compliance with the requirements set out in Ordinance No. 48 while taking into account the recommendations provided for in the National Corporate Governance Code and was adopted at a regular annual meeting of the Company's shareholders in 2014.

According to the existing remuneration policy for the members of the Board of Directors, no Remuneration Committee has been established in the Company, with the remuneration policy being monitored by the independent members of the Board of Directors. No external advisors have been involved in the development of the Policy.

*2. Information on the relative weight of variable and fixed remuneration of the members of management and supervisory bodies;*

Members of the Board of Directors are entitled to remuneration whose type, amount and term for which it is payable are determined by a resolution of the General Meeting of Shareholders and is payable subject to the terms and conditions of the Management Contracts concluded between these members and the Company.

The fixed remuneration comprises payments which are not calculated based on performance assessment and includes the compensations of permanent nature which have been precisely set or can be unambiguously determined and comply with the existing legislation.

The variable remuneration is a component of the total compensation in the form of profit-sharing bonuses, incentives, benefits, non-financial awards – related to retirement, and other financial incentives and financial instruments which are awarded based on activity performance assessment criteria.

The regular annual General Meeting of Shareholders held in 2014 adopted a resolution according to which each of the BD's members shall be paid a fixed remuneration. The members of the Board received variable remuneration for their activities in 2016 pursuant to a decision of the General Meeting of Shareholders. The ratio between variable and fixed remuneration is 43/57. 40% of the defined in the decision of the general meeting of shareholders variable remuneration is deferred for a period of three years.

*3. Information on performance criteria, based on which stock options were granted, company shares or other variable compensation and an explanation of how the criteria of art. 14, para. 2 and 3 contribute to the long-term interests of the company;*

No stock options, including company shares, rights to acquire financial instruments. Performance criteria for 2016, used as a basis for a possible payout of another type of variable remuneration, comprise the business results and other non-financial metrics set out in the company's Policy.

*4. Explanation of the methods applied to assess whether the performance criteria are met;*

Remunerations of the BD's members are not determined based on business performance. They have either been set at a specific level or can be unambiguously determined while taking the existing legislation into account.

Performance criteria for 2016, used as a basis for a possible payout of another type of variable remuneration, are as follows:

1. Business performance:

(a) Level and dynamics of EBITDA (the earnings of the company and its subsidiaries before interest, tax, depreciation and amortization); 2016 – BGN 32025 thousands, 2015 – BGN 28159 thousands, 2014 – BGN 31687 thousands. The formed net profit for 2016 amounts to BGN 5,146 thousand, an increase of 8.70% compared to 2015 and 94.04% compared to 2014 net profit. This is the highest net profit of the holding in the last 10 years.

(b) Level and dynamics of subsidiaries' sales; at the end of 2016 – BGN 187415 thousand, at the end of 2015 – BGN 175446 thousand, at the end of 2014 – BGN 181402 thousand. Sales growth in 2016 is 6.48% compared to 2015 and 3.31% compared to 2014.

(c) Level and dynamics of subsidiaries' receivables. At the end of 2016 – BGN 31388 thousand, at the end of 2015 – BGN 29861 thousand, at the end of 2014 – BGN 36622 thousand. The dynamics of receivables follow the dynamics of sales. The receivables decreased, in 2014 they represented 21.3 percent of output sold in 2015, their share fell to 17.8% and in 2016 is 17.4% or less than 1/5 of marketed production.

2. Non-financial indicators as follows:

(a) Compliance with the principles of the National Code of Corporate Governance;

(b) Implementation and enforcement of the adopted Code of Ethical Conduct, Policy on the provision and dissemination of information and other internal rules and policies of the company.

Non-financial metrics: as evident from the annual report, based on the report on the accomplishment of the specifically set initiatives, an assessment has been made of the overall implementation by Stara Planina Hold Plc of the National Corporate Governance Code and the internationally recognized standards for good corporate governance. In 2016 the activity of the Board of Directors complied with the principles laid down in the Bulgarian Code for Corporate Governance. The Ethical Code of Conduct, Policy on the Provision and Dissemination of Information and the other internal rules and policies of the company have been applied and adhered to.

The results under item 1 are very good and as far as the non-financial metrics performance under item 2 is concerned, we propose to the General Meeting of Shareholders to distribute a portion of the 2016 company's profit as an additional remuneration for each member of the Board of Directors in the form of profit-sharing bonuses.

On the grounds of Art. 4 of the Remuneration Policy, the payout of 40% of the variable remuneration defined in the resolution of the General Meeting of Shareholders shall be paid over an installment period of 3 years.

*5. Clarification on the relationship between pay and performance;*

There are performance criteria in place which allow for the payout of another type of variable remuneration, however, no such has been applied.

*6. Fixed payments and justification of the annual bonus payment scheme and/or any other additional non-monetary compensations:*

A regular annual general meeting of shareholders held in 2014 adopted a resolution according to which each of the BD's members shall be paid a fixed monthly remuneration. The term for which the resolution on the fixed remuneration amount shall apply is equal to the mandate of the members of the Board of Directors.

*7. Description of the main characteristics of the supplementary voluntary pension insurance and information on paid and / or contributions payable by the company in favor of the Director for the financial year, if applicable:*

No provision has been made for additional voluntary pension plans for the members of the Board of Directors.

*8. Information for periods of delayed payment of variable remuneration:*

The payout of 40% of the variable remuneration defined in the resolution of the General Meeting of Shareholders shall be made over an installment period of 3 years and the payout of the installment portion of the variable remuneration shall be made proportionately over the installment period.

*9. Information on severance payment:*

Early contract termination compensation is set out in the Remuneration Policy for the Members of the Board of Directors adopted by the General Meeting of Shareholders and it is dependent on the amount of fixed remunerations paid over the last 24 months.

No compensation is due where the dismissal is due to poor performance or culpable conduct on the part of the member of the Board of Directors.

Management contracts concluded with members of BD on behalf of the Company shall contain a clause providing the Company with an option to demand the payback of a variable compensation which has been paid out based on data which have subsequently been found to be false. Resolution to demand payback shall be taken by the General Meeting of Shareholders of the Company.

*10. Information for the period in which the shares cannot be transferred and stock options cannot be exercised at variable remuneration based on shares:*

No provision has been made for compensations comprising stock options, including company shares, rights to acquire financial instruments.

*11. Information on the policy to retain a number of shares until the end of the mandate of the members of the Supervisory and Managing Boards;*

The Company does not have such policy.

*12. Information on the contracts of the members of the managing and supervisory bodies, including the terms of the individual contracts, termination notice periods and details of any compensation and/or other redundancy payouts:*

The term of each contract with the individual members of the BD ends upon the expiration of the mandate for which that member has been elected by the General Meeting of Shareholders. In the reporting financial year, the company does not have a terminated contract with any member of the Board of Directors.

*13. Full amount of the remunerations and other financial incentives for the members of the managing and supervisory bodies for the respective financial year:*

The full amount of the remunerations of the members of the Board of Directors for the financial 2016 stands at a total of BGN 673753, distributed as follows:

Evgeniy Vasilev Uzunov – BGN 194072.

Vasil Georgiev Velevev – BGN 197694.

Spas Borisov Videv – BGN 140994.

Stefan Atanasov Nikolov – BGN 140994.

The deferred portion of the total amount of remuneration is the total amount of BGN 208075.

*14. Information on the remuneration of each individual who had been a member of a managing or supervisory body of a public company for a certain period in the respective financial year:*

Not applicable for the reporting financial year.

*15. Information in respect of shares and / or stock options and / or other incentive schemes based on shares*

The Remuneration Policy for Members of the BD adopted by the General Meeting of Shareholders provides for an option to pay variable remunerations in the form of shares, stock options, stock or other financial instruments acquisition rights. No such options have been provided so far.

## **II. Remuneration Policy Implementation Program for the next financial year**

The Remuneration Policy for Members of the Board of Directors adopted in 2014 at a general meeting of shareholders endorses the core principles of Ordinance No. 48 of the FSC.

The Remuneration Policy 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.

This policy has been developed with long-term implementation in mind, unless the shareholders request its update or amendment. Amendments to the Policy approved by the General Meeting of Shareholders are adopted as per the rules for its preparation and approval.

The Board of Directors reckons that the principles in the policy which govern the setting of remunerations are at this point effective considering the financial results achieved in the reporting period. Their application remains a priority for the Board of Directors in the future as well.

The Board of Directors is responsible for the prompt announcement of the Remuneration Policy adopted by the General Meeting of Shareholders and any subsequent amendments thereto.

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This report was approved at a meeting of the Board of Directors held on 20.03.2017.