



**STARA PLANINA HOLD PLC**

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**CONSOLIDATED  
ACTIVITY REPORT**

**For 2017**

# CONTENTS

Introduction .....	3
I. Activity overview .....	3
1. Main indicators characterizing activity results .....	3
2. Investment portfolio .....	4
3. Activity results .....	5
4. Risk factors for the activity .....	7
II. Consolidated non - financial statement .....	9
III. Important events occurred since the beginning of the Year .....	9
IV. Projected development of the group .....	10
V. Research and Development Activity .....	12
VI. Company shares .....	12
1. Own shares. Buy-back .....	12
2. Changes in the companies share prices .....	13
3. Dividend policy .....	15
VII. Financial instruments used by the enterprise .....	16
1. Accounting policy .....	16
2. Major indicators for financial and accounting analysis .....	16
3. Financial instruments .....	16
4. Liquidity .....	17
5. Exposition of the enterprise with regard to the risk .....	17
VIII. Declaration of corporate management .....	17
1. National Code of corporate governance .....	17
2. Implementation of the Code .....	18
3. Assessment of the implementation of the code .....	21
4. Internal control and risk management system .....	22
5. Information Art. 10 of Directive 2004/25/EC .....	22
6. Equal opportunities policy .....	22
7. Information about the Board of Directors .....	23
IX. Additional information on Appendix 10 of Ordinance No 2 of the FSC .....	23

## 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.

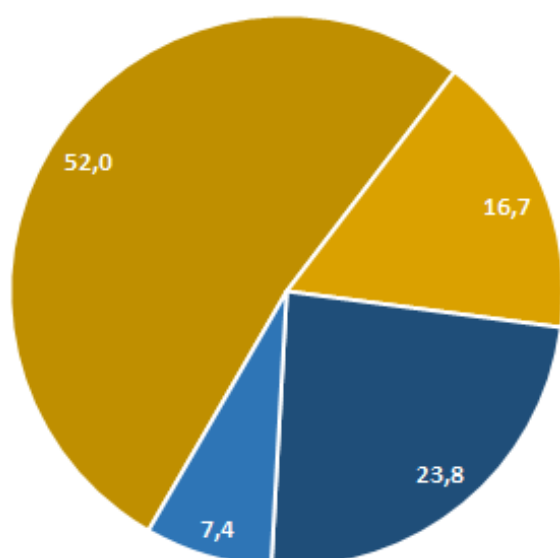
Stara Planina Hold PLC is a parent company. The holding owns shares in industrial enterprises working in various fields of production. It actively participates in the development of the Bulgarian industry by achieving European and world quality level and profitability.

## 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	

	Y2015	Y2016	Y2017
Income from main business activity	176,006	187,444	218,109
Net profit from business activity	5,968	7,158	7,861
Amount of assets	181,155	193,449	206,395
Own capital	82,206	89,698	93,429



### Structure of Investment Portfolio

■ Hydraulic Systems	52.0%
■ Accumulators	16.7%
■ Light Industry	23.8%
■ Financial	7.4%

## 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 31.12.2017:

### *Investments in subsidiaries*

„Hydraulic Elements and Systems Plc	64.53 %
Elhim Iskra Plc	51.40 %
Fazan Jsc	92.65 %
Vinprom Jsc	95.69 %
Slavyana Jsc	98.74 %

### *Investments in associates*

M+C Hydraulic Plc	30.91 %
Bulgarian Rose Plc	49.99 %
Boryana Jsc	50.00 %
Ustrem Ltd	45.00 %

### *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

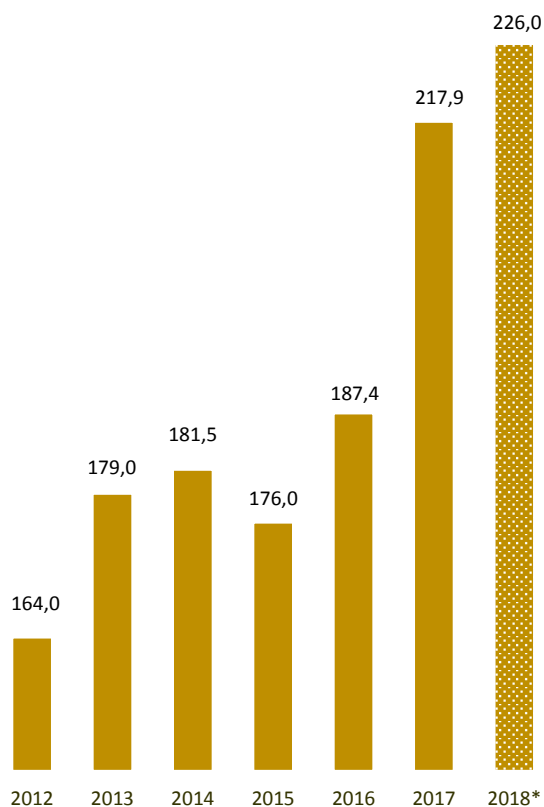
As a holding type company, Stara Planina Hold Plc does not carry out autonomous commercial activity and has only financial income. The consolidated activity results are formed mainly from the results of the entities within the group which participate in the consolidated statement.

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

Y2015	Y2016	Y2017
167,491	180,890	209,485
4,898	3,734	4,668
3,826	2,820	3,956
638	278	318
1,894	1,910	1,109
178,747	189,632	219,536



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

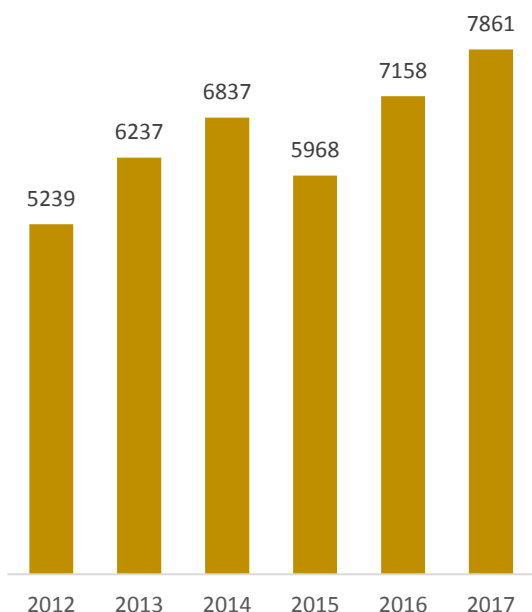
(million BGN)

For the first time since 2011, the second half was stronger than the first in our cyclical business. This is due mostly to the significant increases in the main machine-building enterprises in the group.

The annual sales of the enterprises within the group reached BGN 217.9 million. This would result in a 16.24% increase compared to the 2016 and 13.25% to the 2015 sales.

The forecasts for 2018 suggest sales growth of about 3.7%, but still the first quarter showed growth of 20% compared to the same period of 2017 and 7.1% above the business plan. We expect the first half of 2018 to be in peak sales will reach BGN 116 million.

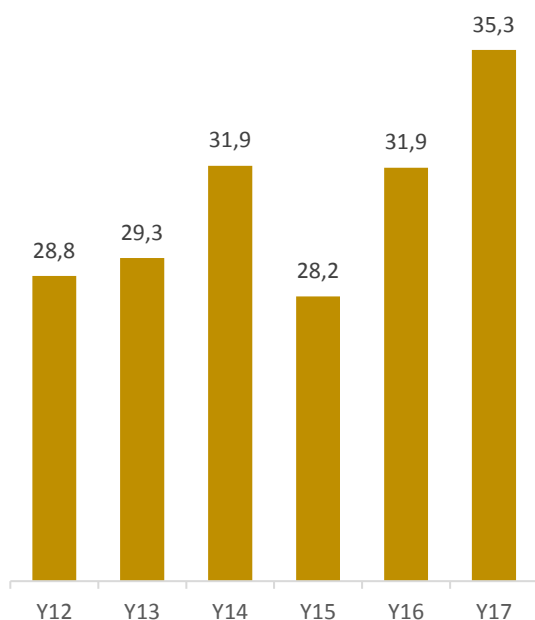
\* forecast



### Consolidated Net Profit

(BGN'000s)

The net profit for 2017 amounts to BGN 7,861 thousand, a growth of 9.82% compared to the 2016 and 31.72% to the 2015 net profit. This is the highest consolidated net profit of the holding group in the last 5 years.



### Consolidated EBITDA

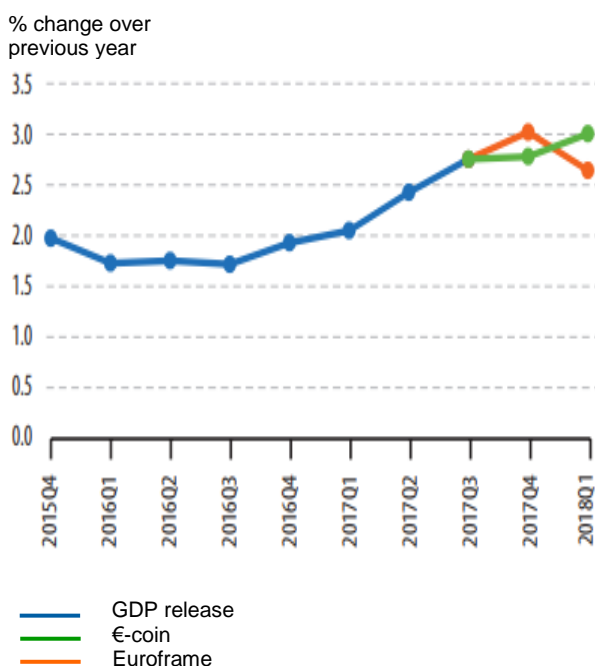
(million BGN)

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.

2017 consolidated EBITDA amounts to BGN 35,250 thousand, a growth of 10.61% compared to the 2016.

#### 4. Risk factors for the activity

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



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 sluggish yet over the last year industrial manufacturing registered growth.

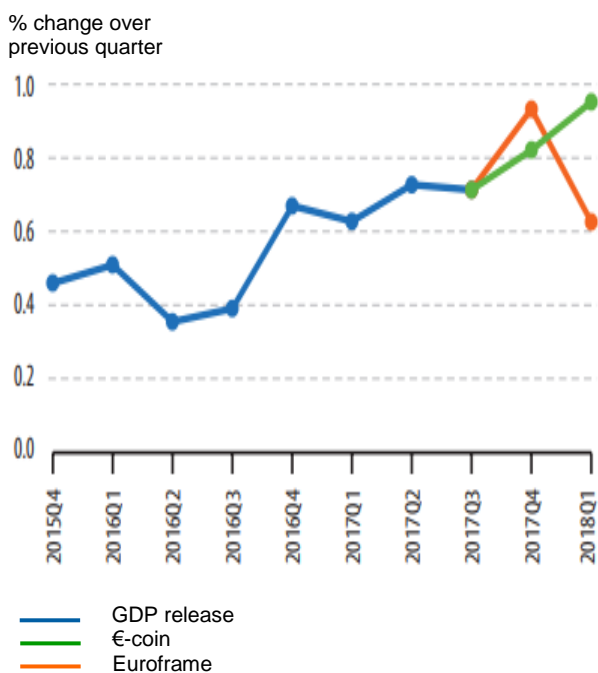
The short-term orders made by our traditional customers from Western Europe have now become an established practice. In that sense, there could be some fluctuations, which might have a positive or negative effect on our results.

**EUROSTAT** reported a 2.3% increase in the Eurozone GDP for 2017 and 2.4% in EU28 compared to 1.8 and 2.0%, respectively, in 2016. The annual growth of the Bulgarian economy is 3.5%.

Despite the slight drop in the rate of 0.8 percentage point month-over-month in the beginning of 2018, the economic sentiment indicator ESI grew annually from 108 to 114 points. The main reason for the overall decrease in confidence is that Eurostat still calculates data from the UK where the monthly drop is 1.6 percentage points and the annual decrease is 27.9%.

In 2017 industrial manufacturing in the Eurozone grew by 3.0% and by 3.3 in EU28, compared to 1.3% and 1.4%, respectively, for 2016.

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



Eurostat also registered the lowest unemployment rate since 2008. In January 2018 the Eurozone unemployment rate was 8.6%, in EU28 it was 7.3%, and in Bulgaria it stood at 5.9%. In January 2017 the Eurozone unemployment rate was 9.6%. The drop in the Eurozone unemployment rate means nearly 1.430 million new jobs.

In 2017 the consumption of steel for the production of machine parts in the EU grew by 1.9% compared to 2.5% in 2016. Manufacturing in steel-consuming industries in the EU is expected to grow by 2.2% in 2018 and by 1.8% in 2019. This clearly shows that the growth potential of the European economy in the machine-building sector is not exhausted which is good news in the light of the worrying signals for the consumption in Asia. The anti-dumping process is expected to have a negative impact on the European economy.

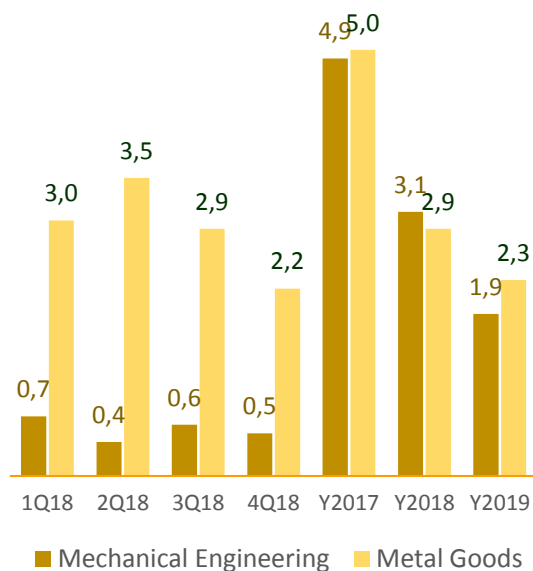
Inflation processes are indicative of the business environment. For a second consecutive year the inflation in the Eurozone is positive and in February 2018 it was 1.2% on a 12-month basis. Energy costs account for the largest share in this rate.

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 to the US dollar in 2017 remained within a narrow band of around 1.127. However, in February 2018 the average monthly exchange rate of the Euro to the US dollar reached 1.2347 compared to 1.0642 12 months earlier. The lower rate of the US dollar is due to the anti-dumping process and it is not clear where the end of this trend would be.

The change in the interest rates also has an effect depending on the share of bank and commercial loans taken. The global short-term interest rates are still at stable low levels with Euribor continuing in the negative, yet there is a slight but solid increase in the long-term interest rates in EU28 of over 1.8%. Stara Planina Hold Plc uses optimally the available resource in order to reduce the impact of the interest rate levels. Factors which are expected to have an impact on the costs in 2018 are the market prices of raw



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



## II. Consolidated non - financial statement

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

materials and production inputs, regional market price of labor force and the prices of energy resources. The non-market determination of a significant portion of the electricity price components in Bulgaria will continue to have a negative effect on our manufacturing costs.

The optimistic forecasts of [EUROFER](#), published each quarter in 2017 were confirmed but were also increased over the subsequent periods.

Together with the optimistic data from Eurostat mentioned earlier in this report, EUROFER forecasts for 2018 are also firmly expressed in positive numbers. In the beginning of 2017, the European Steel Association issued a 2018 forecast of 2.3% growth in machine building and growth of 1.8% in the production of machinery components. The forecasts in the beginning of this year were increased to 2.9% and 3.1%, 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.

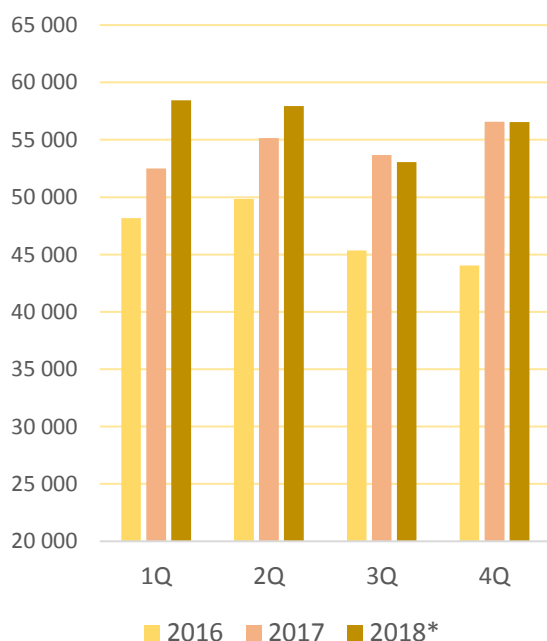
As a public interest entity which is a Parent company in a large group, Stara Planina Hold Plc presents a consolidated non-financial statement as a separate document, which is an integral part of this report.

The consolidated non-financial declaration contains a description of the Group's policies on environmental, social and employee activities, human rights, the fight against corruption, diversity and gender equality in the management bodies of enterprises.

After the date of the annual accounting closing, the management of Stara Planina Hold Plc is not aware of any important and material events which may influence the investors' interest.

#### IV. Projected development of the group

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



Stara Planina Hold Plc and the enterprises from our group bid good bye to another successful year. The first year of the third decade of Stara Planina Hold Plc is the most successful in the history of the group. Preliminary data show that the annual sales of the group enterprises have reached BGN 217.9 million, showing an increase of 16.24% compared to 2016. At the same time the net profit of Stara Planina Plc reached BGN 5,531 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.

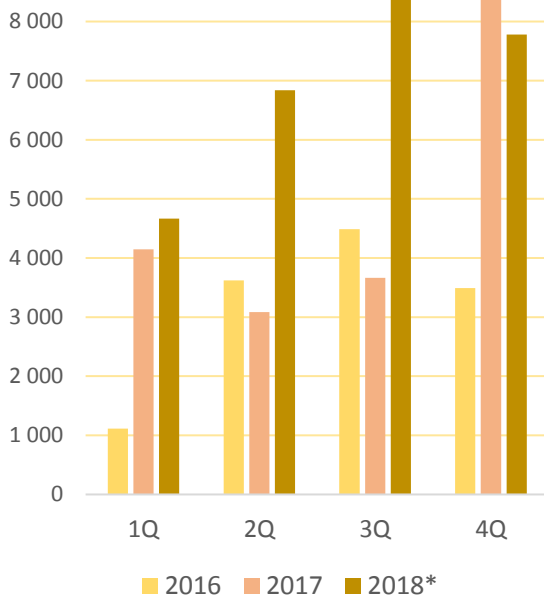
The level of our export is directly dependent on the markets in which the group operates – mainly in the EU. Throughout 2017, we managed to retain our main markets, including the markets in Russia. Regardless of this fact, the mutual sanctions between the EU and Russia continue to hamper our business in many areas.

The Board of Directors of Stara Planina Hold Plc expects the consolidated sales revenue to reach BGN 226.0 million in 2018, which represents an increase of 3.7% compared to the 2017 estimates.

The Board of Directors of Stara Planina Hold Plc maintains the forecasts for the beginning of 2018.

We expect the year-over-year rate of sales within the group to remain the same with the consolidated income from sales for 1Q increased by 11.3% compared to the beginning of 2017. In the 2Q, which is traditionally the strongest one, sales are expected to grow by about 5.0% on an annual basis with the first six months of 2018 performing stronger by 8.1% than the first six months of 2017. We expect for the second half of the year to be comparable with the same period of 2017.

**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 2018, 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 2017, the investments in the entire Stara Planina Hold Plc group reached BGN 19.3 million - 52% higher than the investments made in 2016.

In 2018 we will continue to have an active investment policy and we expect a new significant investment growth of 45% reaching BGN 28 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 6% 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 2017 is 9.8% higher compared to the last quarter of 2016. At the same time, while the annual increase in the operating expenses of the group is around 16%, the increase in the wages and social security costs exceeds 24% and labor productivity has been increased by 6.0%.

In 2018 we plan to increase the following:

- Number of employees by 1.0%
- Labor productivity by 2.4%
- Wages by 5.8%.

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 2017, 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 2015.

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

As of 31.12.2017, 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.

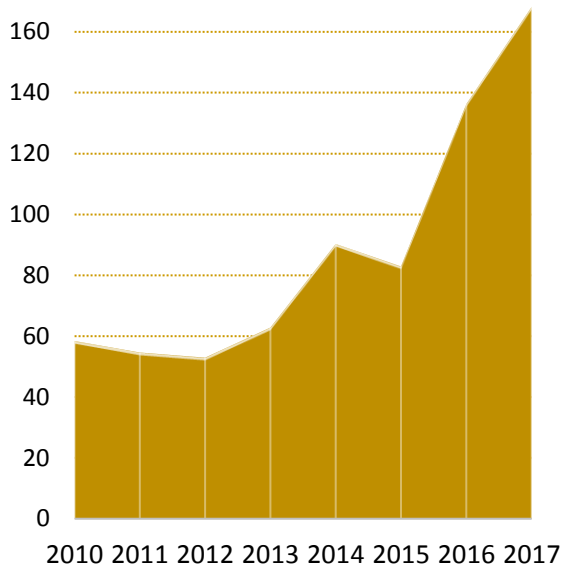
## 2. Changes in the companies share prices

The average stock exchange price of one share on the last business day of 2016 was BGN 6.49 and on the last business day of 2017 – BGN 8.01.

The intensified activity of investors on the Bulgarian Stock Exchange resulted in wide discrepancy in relation to the movement of the most representative stock exchange index in Bulgaria SOFIX – in favor of the holding's stock, which reached an annual growth of 23.4% at an index increase of 15.2%.

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.

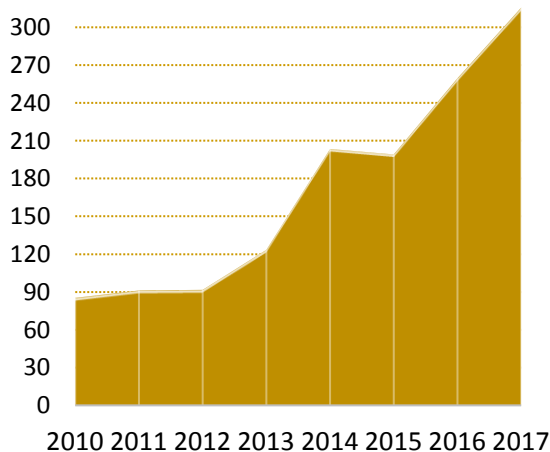
### Market capitalization (million BGN)



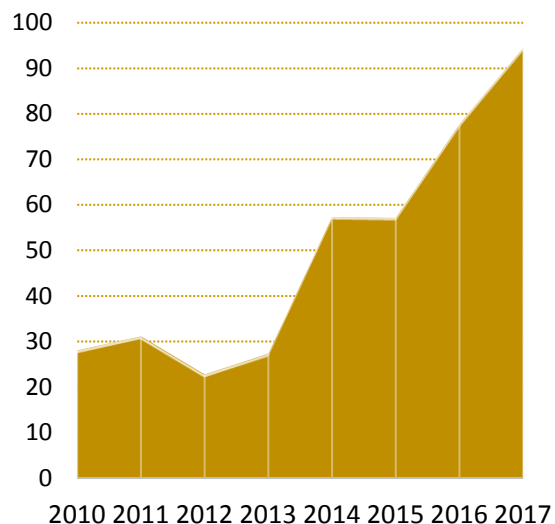
The market capitalization of Stara Planina Hold Plc reached BGN 168 million at the end of the year compared to BGN 136 million at the end of 2016. Four of the holding's entities are public companies and their market capitalization is determined by the stock exchange.

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

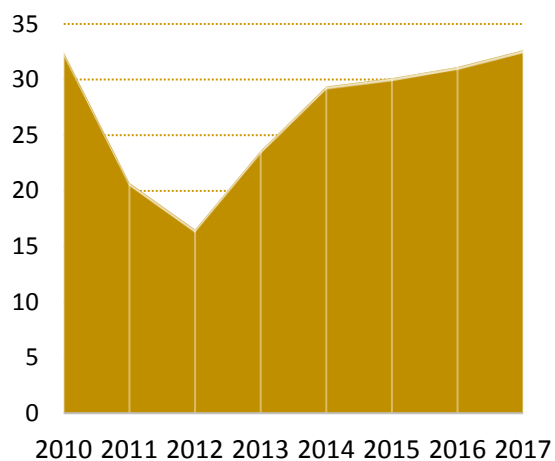
### M+S Hydraulic Plc



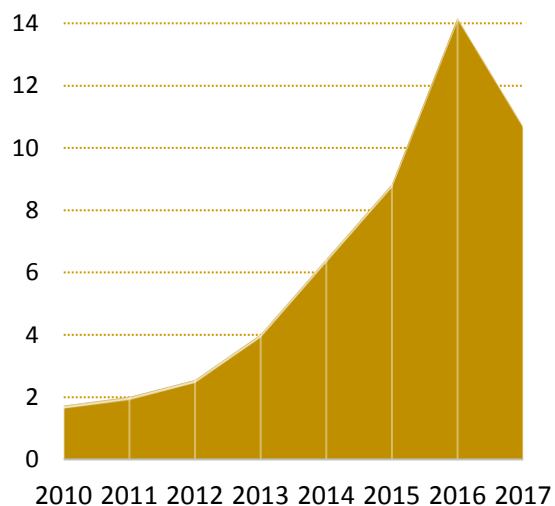
### Hydraulic Elements and Systems Plc



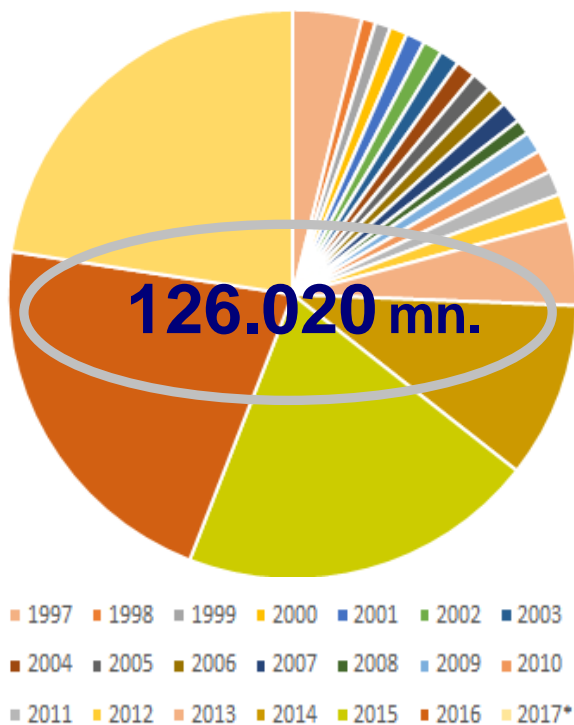
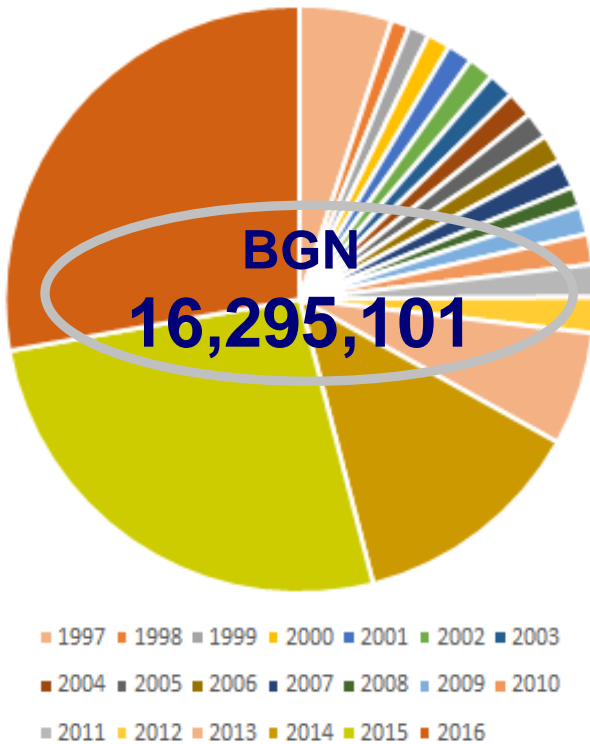
### Elhim Iskra Plc



### Bulgarian Rose Plc



### 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 2017 is BGN 16.295 million.

For the 19 fiscal years since it was established, the group of Stara Planina Hold Plc has distributed dividends in total of BGN 105 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 over BGN 21 million and the total dividend for the whole group will surpass BGN 126 million.

\*2017 - 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 2016.

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 2017 was formed from manufacturing of products. The analysis of the income and expenditure

efficiency for 2017 shows that for each BGN 1 of expenses there has been received BGN 1.112 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 2017 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 4 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) 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 31.12.2017 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 recognition of the rights of the parties

### **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 31.12.2017 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.

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 April 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.

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.

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 2017, 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-2017, 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 2017 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.

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 Velez – member of the Board of Directors and Executive Director

## 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.*

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*

- 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.

*the production of goods of 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 Jsc – socks and socks items.

Vinprom Jsc – vinegar and other products of the wine industry.

Ustrem Ltd – spare parts for grain combines, agricultural machinery and non-standard equipment.

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

In 2017 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](#).

*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](#).

*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. Subsidiary Fazan Jsc increased its capital from 641826 to BGN 1234692 and the funds were used for repayment of loans.

*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](#).

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 25.04.2018.

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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 596/2015 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!**