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*Translation from Bulgarian*

**AVTO UNION AD**

**CONSOLIDATED ANNUAL DIRECTOR'S REPORT  
AND  
CONSOLIDATED FINANCIAL STATEMENTS  
31 December 2016**



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**Avto Union AD**  
**GENERAL INFORMATION**  
For the year ending 31 December 2016

**Board of Directors**

Assen Hristov  
Kiril Boshov  
Assen Assenov

**Address**

Bulgaria,  
Sofia  
43 Christopher Columbus Blvd.

**Registration codes**

Unique Identification Number (UIC): 131361786  
VAT ID No: BG131361786

**Auditor**

BDO Bulgaria OOD



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**CONSOLIDATED ANNUAL DIRECTOR'S REPORT  
OF AVTO UNION AD  
FOR THE 2016 FINANCIAL YEAR**



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**Avto Union AD**  
**CONSOLIDATED ANNUAL DIRECTOR'S REPORT**  
For the year ending 31 December 2016

The management presents its annual report and the annual financial statements as at 31 December 2016

**This report is prepared on the grounds of:**

- article 100H of the Public Offering of Securities Act;
- article 39 of the Accountancy Act;
- article 247 of the Commerce Act

**and contains information in compliance with:**

- Annex № 10 to article 32, paragraph 1, item 2 of Ordinance № 2 of 17 September 2003 on the prospectuses for public offering and admission to trade on regulated market of securities and for disclosure of information;
- Article 100H, paragraph 7 and paragraph 8 of the Public Offering of Securities Act;
- Article 39 and Article 40 of the Accountancy Act;
- Article 247 of the Commerce Act

The Annual Director's Report of Avto Union AD gives comments and analysis of the financial statements and other material information about the financial position of and the results achieved by the company. The report describes the position and the perspectives for development of the company as well as the main risks it is exposed to.

In terms of the governance of the Company the members of the Board of Directors apply the best world corporate governance practices and make efforts establish the company as a leader in the implementation of transparent corporate practices in Bulgaria. The business model established by the company is based on major principles, such as ensuring the rights of all shareholders and their equal treatment.



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## CONSOLIDATED ANNUAL DIRECTOR'S REPORT

containing information about important events that have occurred during the 2016 financial year by virtue of article 100o, paragraph 4, item 2 of POSA (Public Offering of Securities Act)

### I. INFORMATION ABOUT THE COMPANY

#### HISTORY

Avto Union AD is a holding company registered in the Republic of Bulgaria and it carries out its operations in accordance with the Bulgarian legislation.

The company is registered on 25 January 2005 with the following main subject of activity: strategic management of the businesses within the structure of the holding, providing financial, marketing and business specific resources.

#### HEADQUARTERS AND REGISTERED ADDRESS

The headquarters and registered address of the parent company is: Republic of Bulgaria, city of Sofia, 43 Christopher Columbus Blvd. The administrative management and the principal place of business are at the same address. This is also the official mailing address.

Business address	city of Sofia, 43 Christopher Columbus Blvd.
Telephone	02/ 9651 653; 02/ 9651 651
Fax	02/ 9651 652
E-mail	<a href="mailto:investors@avtounion.bg">investors@avtounion.bg</a>
Web-site	<a href="http://www.avto-union.bg">www.avto-union.bg</a>

No changes in the subject of activity of the company have been made.

#### MANAGEMENT BODIES

The Management body of Avto Union AD is the Board of Directors.

##### *Board of Directors*

The Board of Directors includes 3 individuals.

Asen Milkov Hristov	Chairman of the Board of Directors
Kiril Ivanov Boshov	Deputy-Chairman of the Board of Directors
Asen Emanuilov Assenov	Member of the Board of Directors and an Executive director

The Company is represented by Asen Emanuilov Assenov.

#### SHARE CAPITAL

As at the present moment the share capital of Avto Union amounts to BGN 40,004,000, and consists of 80,008 shares, with a par value of BGN 500 per share.



**SHAREHOLDING STRUCTURE**

As at the closing date of the financial year there is one legal entity that holds 99.99% of the voting shares. There are no individuals – shareholders directly holding more than 5 percent of the voting shares.

All issued shares are of one and the same class and give the right to one vote.

Shareholders	Shareholding	Number of shares	Par value (BGN'000)
Eurohold Bulgaria AD	99.99%	80,001	40,000
Kiril Boshov	0.01%	7	4
<b>TOTAL</b>	<b>100 %</b>	<b>80,008</b>	<b>40,004</b>

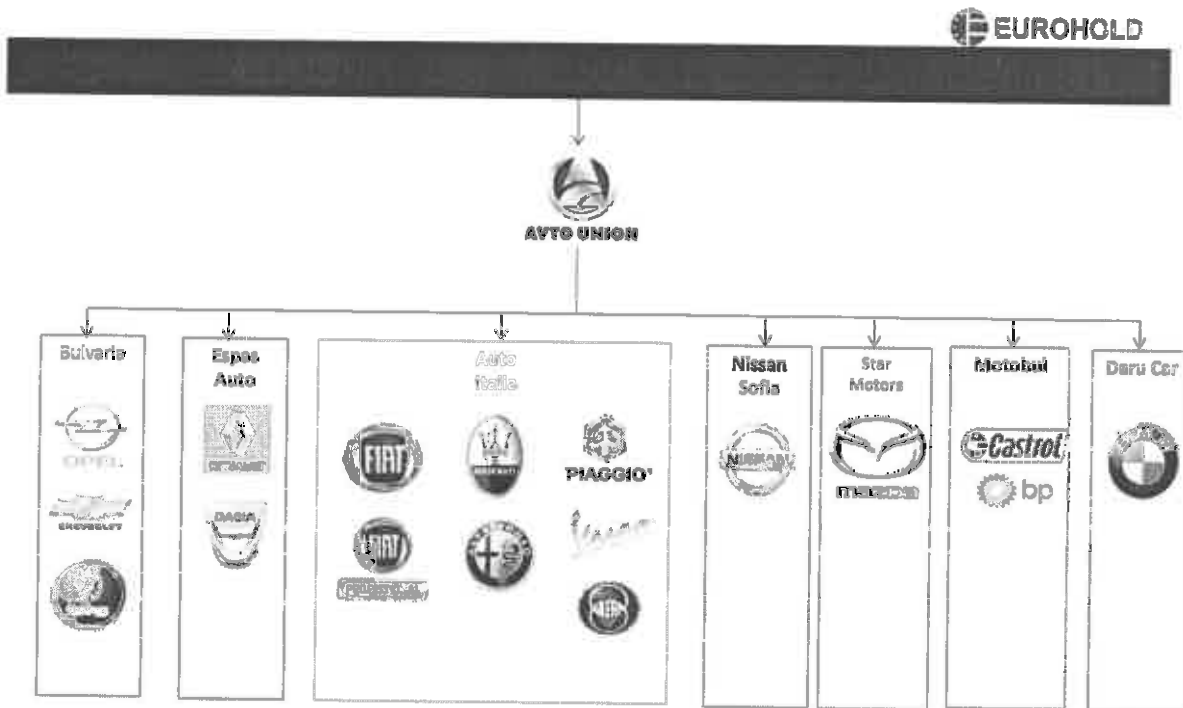
The Company did not issue shares which do not represent capital. All shares issued by Avto Union AD grant their holders the right to vote at the General Meeting of the Company.

**II. REVIEW OF THE ACTIVITY**

**INVESTMENT PORTFOLIO**

As at 31 December 2016 Avto Union AD holds direct control shareholding in 8 subsidiaries:

- Auto Italia EAD - 100%
- Star Motors EOOD – 100%
- Buivaria Holding EAD – 100%
- Avto Union Service EOOD – 100%
- N Auto Sofia EAD – 100%
- Bulvaria Varna EOOD – 100%
- Motobul EOOD – 100%
- Daru Car – 99.84%



The competitive power of the group is based on the high level of service and the strong synergy between the different activities in Eurohold Bulgaria (insurance, leasing and sale of vehicles) aiming at higher productivity and profitability of the subsidiaries. All companies in Avto Union work in close cooperation with the other main business lines of Eurohold Bulgaria – insurance and leasing, and thus they can offer complex services to their clients and achieve permanent growth in their sales and significant improvement of the financial indicators.



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The Companies in the group have the following rights:

- Exclusive dealer for Bulgaria of Mazda, Fiat, Alfa Romeo and Maserati;
- Exclusive dealer of Vespa, Piaggio and Gilera scooters;
- Authorized dealer for Bulgaria of Renault, Nissan, Opel and Dacia. The group of Avto Union is the biggest national distributor of the vehicles of Nissan.

**CAPITAL INVESTMENTS**

Description of the investment	Shareholding	Number of shares	Capital expenses (BGN)	Manner of funding	Investor
<i>Capital investments of Avto Union AD and of subsidiaries in 2016</i>					
Bulvaria Holding EAD Capital increase	100%	250 000	250 000	Own funds	Avto Union AD
Star Motors DOOEL Acquisition of shareholding	100%		391 172	Own funds	Star Motors EOOD
<i>Capital investments of Avto Union AD and of subsidiaries in 2015</i>					
Bulvaria Holding EAD Capital increase	100%	750 328	750 328	Own funds	Avto Union AD

**III. RESULTS FROM THE ACTIVITY**

The consolidated financial result of the company for the period from 01.01.2016 to 31.12.2016 is a loss of 1,382 thousand BGN while the result for the same period in the past year is of 530 thousand BGN profit.

The sales of vehicles, spare parts and oils for 2016 increased by 11% compared to 2015, and the provision of services shows a decrease of 6%. The total increase of all incomes for 2016 is 10.2%.

During the period under review the operating expenses remain at almost the same level compared to the previous 2015 reporting year and show hardly 0.5% growth.

For the period ended 31.12.2016 the sales of new cars and light-duty trucks made by Avto Union – the automotive holding in the group of Eurohold Bulgaria, amount to 3 938 vehicles compared to 3 621 vehicles sold during 2015, which is a growth of almost 9%. Based on data of the Union of the Automobile Importers in Bulgaria the market of new cars and light-duty trucks has increased by 10%. Avto Union preserves its market share of 13% during the period under review. In 2016 Opel reports an increase of 12.5% in Varna and a decrease of 13% in Sofia. Espace Auto OOD reports 29% growth in terms of Renault, and at the same time it preserves the same level of sales of Dacia compared to the previous 2015. N Auto Sofia EAD reports 10% decrease in terms of Nissan. Auto Italia EAD reports growth in terms of sales of all brands of vehicles – FIAT by 11%, Maserati by 105% and Alfa Romeo by 150%. During the reporting period Star Motors EOOD reports 16% growth of sales of new vehicles Mazda.

During the reporting period the companies from the automotive holding concluded fleet deals for 1,351 vehicles in total for the amount of at least 30 million BGN, with the ratio for the previous year is 1,239 vehicles for 28 million BGN, respectively.



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Avto Union	Sales		%
	2016	2015	Change
January – December (YTD)	3 938	3 621	8.8%
Quarterly:			
first quarter (January – March)	769	633	21.5%
second quarter (April – June)	1 129	1 258	-10.3%
third quarter (July – September)	918	902	1.8%
fourth quarter (October – December)	1 122	828	35.5%

By resolution adopted at the meeting of the Board of Directors of Avto Union AD on 29.03.2016 the capital of Bulvaria Holding EAD was successfully increased with BGN 250 000 and as at the end of the reporting period its aggregate amount is BGN 2 415 000. The increase is registered in the Commercial Register on 04.05.2016.

By resolution of Star Motors EOOD – sole owner of the capital of Star Motors DOOEL (Macedonia) of 01.02.2016, the capital of the Macedonian subsidiary was successfully increased with EUR 100 000. Later during the year, by resolution of Star Motors EOOD of 16.05.2016 the capital of its subsidiary was increased again with another EUR 100 000. As at the end of the reporting period the capital of Star Motors DOOEL (Macedonia) is in the amount of EUR 450 000.

On 21.06.2016 Motobul EOOD signed an annex to the Revolving Loan Facility Agreement with Raiffeisenbank Bulgaria EAD to extend the deadline for repayment until 30.06.2017. Furthermore, the parties agreed upon a gradual decrease of the utilized credit limit and as at 30.05.2017 it will be in the amount of EUR 140 000.

On 22.06.2016 N Auto Sofia EAD signed an annex to the Revolving Loan Facility Agreement with Raiffeisenbank Bulgaria EAD to extend the deadline for repayment until 30.06.2017. Furthermore, the parties agreed upon a gradual decrease of the utilized credit limit and as at 30.05.2017 it will be in the amount of EUR 787 992.55.

On 30.09.2016 Avto Union AD signed an annex to its Credit Commitment Agreement with UniCredit Bulbank AD to decrease the limit of the multi-purpose credit facility from 8 million euro to EUR 7 250 000. The annex further extends the deadline under the agreement until 30.09.2017.

On the same date an annex to the loan agreement between Star Motors EOOD and UniCredit Bulbank AD was signed to extend the deadline under the Agreement until 15.12.2017.

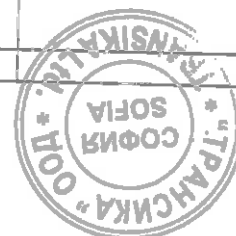
On the same date an annex to the loan agreement between Auto Italia EAD and UniCredit Bulbank AD was signed to extend the deadline under the Agreement until 30.09.2017.

On 10.10.2016 Espace Auto OOD signed an annex to the loan agreement with Societe Generale Expressbank AD to extend the time period for repayment of the principal until 30.06.2017. Furthermore the parties agreed upon gradual decrease of the utilized credit limit and as at 29.06.2017 it will be in the amount of EUR 1 000 000.

On 01.12.2016 Bulvaria Varna EOOD has officially opened its fully renovated and expanded complex car sale and service center and is now among the biggest ones in Bulgaria. The showroom with area of 400 m<sup>2</sup> has two floors and is built up over an area of 10 000 m<sup>2</sup>, together with another three show rooms, and the complex has mechanical and TBO service, three parking areas and damage inspection area. The investment costs of the project for expansion and renovation are in the amount of BGN 400 thousand.

During the reporting period Star Motors EOOD has also implemented several renovation, reconstruction and refurbishment projects of its existing client service centers in Sofia and in the country. The investment costs of different project are summarized in the table below:

Location	Project	Amount (BGN'000)
Plovdiv Mazda Center – 195 Vasil Levski Blvd.	Expansion of the existing car repairs station, renovation of the showroom	381
Stara Zagora Mazda Center – 59 Nikola Petkov Blvd.	Reconstruction of the facility, renovation of the showroom	296
Sofia Mazda Gallery – 2 Arsenalski Blvd.	Repair works, rebranding of the showroom	90
Sofia Mazda Center – 43 Christopher Columbus Blvd.	Repair works	54
<b>Total</b>		<b>821</b>



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By virtue of Contract for Cumulative Assumption of Debts of 20.01.2011, Avto Union AD has personal collateral established as a joint debtor for fulfillment of all obligations under the bond issue with ISIN code BG2100006092 and issuer Asterion Bulgaria AD. On 05.12.2016 a General Meeting of Shareholders of Asterion Bulgaria AD was held and adopted a resolution for deletion of the personal collateral of Avto Union AD and its joint indebtedness in terms of the respective bond issue.

**INCOME**

In 2016 the incomes of Avto Union AD are formed out of the main activity of the subsidiaries, associated with the import of vehicles and scooters, import and sale of oils, service activity and sale of used vehicles.

For the period under review from 01.01.2016 to 31.12.2016 the gross profit of the holding is in the amount of BGN 29,853 thousand, and for the same period of the previous year BGN 29,117 thousand.

The amount of the income from interest on loans granted is BGN 261 thousand, and for 2015 it is BGN 798 thousand. The expenses related to the overall operations of the group are in the amount of BGN 30,546 thousand (for 2015: BGN 30,474 thousand), of them expenses for interests on loans received – BGN 577 thousand (for 2015: BGN 1,142 thousand).

The holding generates negative financial result for 2016 in the amount of BGN 1,382 thousand, and for 2015 it is positive and is in the amount of BGN 530 thousand.

Structure of income and expenses on consolidated basis:

Income	2016		2015	
	BGN'000	share	BGN'000	share
Operating income	170 386	96%	154 987	95%
Other profits and losses	6 674	4%	5 748	4%
Financial income	291	0%	2 389	1%
<b>Total income</b>	<b>177 351</b>	<b>100%</b>	<b>163 124</b>	<b>100%</b>
Expenses				
Operating expenses	175 671	99%	159 949	99%
Financial expenses	2 182	1%	2 143	1%
<b>Total expenses</b>	<b>177 853</b>	<b>100%</b>	<b>162 092</b>	<b>100%</b>

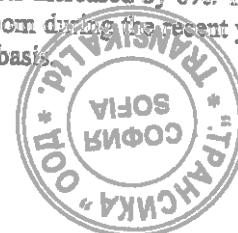
**NET PROFIT**

The result of the Company on a consolidated basis in 2016 is a loss in the amount of BGN 10.51 per share.

	2016	2015
	BGN'000	BGN'000
Net results from operations	23 179	23 369
Results from financing activity	(1 891)	246
Financial result before taxation	(502)	1 032
Cost/ savings on tax	(340)	(133)
Net financial result	(842)	899
Number of shares (pcs.)	80 008	80 008
Average number of shares (thousand)	80 008	80 008
<b>Net result per share, BGN</b>	<b>(10.52)</b>	<b>11.24</b>

**FINANCIAL POSITION ON A CONSOLIDATED BASIS**

The amount of the assets increased by 4% in 2016 compared to 2015. The long-term assets increased by 6%. This is mainly due to the newly acquired investment property and the newly constructed showroom during the recent years, in particular to the increase of related expenses for acquisition on free market commercial basis.



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The short-term assets increased by 2%, and inventories increased by 14%. This is due to increased sales in 2016, as well as significant deliveries at the end of the year in some companies due to planned sales in the first quarter of 2017. On the other hand there is a decrease in cash funds by 61%, which is mainly due to:

- Restored short-term deposits in subsidiaries used to secure guarantees;
- Optimization of cash flows in the Group.

**Dynamics of assets:**

ASSETS	2016		2015
	BGN'000	change	BGN'000
<b>Fixed assets</b>			
Property, plant and equipment	21 492	20%	17 920
Intangible assets	728	(13%)	834
Investment properties	3 266	34%	2 437
Goodwill	22 466	0%	22 466
Deferred tax assets	461	(24%)	607
Trade and other receivables	11 646	(6%)	12 414
<b>Total fixed assets</b>	<b>60 059</b>	<b>6%</b>	<b>56 678</b>
<b>Short-term assets</b>			
Inventories	35 739	14%	31 471
Trade and other receivables	21 136	(4%)	22 098
Cash and short-term deposits	1 273	(61%)	3 302
<b>Total short-term assets</b>	<b>58 148</b>	<b>2%</b>	<b>56 871</b>
<b>Total assets</b>	<b>118 207</b>	<b>4%</b>	<b>113 549</b>

**Dynamics of liabilities:**

LIABILITIES	2016		2015
	BGN'000	change	BGN'000
<b>Long-term liabilities</b>			
Interest bearing loans	16 675	175%	6 074
Bond issue	-	(100%)	6 800
Liabilities on employee retirement benefits	25	(17%)	30
Finance lease liabilities	6 979	8%	6 444
Deferred tax liabilities	102	29%	79
Trade and other payables	6 356	(10%)	7 085
<b>Short-term liabilities</b>	<b>30 137</b>	<b>14%</b>	<b>26 512</b>
Trade and other payables	40 530	(5%)	46 919
Interest bearing loans	11 641	(19%)	14 308
Bond issue	7 009	3254%	209
Finance lease liabilities	2 726	5%	2 595
<b>Capital</b>	<b>65 966</b>	<b>3%</b>	<b>64 031</b>
Share capital			
Reserves	40 004	0%	40 004
Retained earnings	(6 232)	0%	(6 232)
<b>Equity</b>	<b>(14 212)</b>	<b>1%</b>	<b>(12 830)</b>
Non-controlling interest	19 560	(7%)	20 942
<b>Total equity and liabilities</b>	<b>2 604</b>	<b>26%</b>	<b>2 064</b>
	<b>118 207</b>	<b>4%</b>	<b>113 549</b>

As at 31.12.2016 the equity of the group decreases by 7%, which is due to the accumulation of the net result for the year to the retained loss of the holding.

Long-term liabilities increase by 14%. The long-term loans increase by 175%, which is mainly due to the additional funding raised from related party loans. The finance lease liabilities also increase by 8% with view of the increased sales.



Short-term liabilities increase by 3% due to the change of the term of the bond issue in the amount of BGN 6 800 000 from non-current to current liability. However, the effect of this change has been mitigated by the considerable decrease in the trade and other payables (-5%) and in the payables to bank institutions (-20%).

The increase in the non-controlling interest is due to the profit of the subsidiary Espace Auto OOD, from which shares Avto Union owns 51%.

#### **IV. FINANCIAL RISK MANAGEMENT POLICY AND OBJECTIVES**

##### **1. Systemic risks**

###### **Influence of the world economic crisis**

In many states in the world (incl. the USA, the member-states of the EU, Russia, and Japan) the world economic crisis which started in 2007 led to a serious decline in economic development and increase of unemployment, limited access to financial resources and serious decline in the prices of financial assets worldwide. The financial crisis had a very negative impact on the global financial market as a whole, expressed in distrust on the part of the investors in the financial markets and decrease in the investments in financial instruments. As a result the companies from the financial sector found themselves in a position where it is difficult for them to maintain liquidity and to raise capital. It cannot be declared with certainty that a future aggravation of the business climate will not lead to a new increase in unemployment and decrease of the incomes of the population on the Balkans and the countries from South East Europe, which in turn would be expressed in decline in consumption. The low levels of consumption would influence the sales of the companies in the group of the Issuer.

The future aggravation of the business climate and the lack of security in the trends in the global financial market and in particular on the Balkan financial markets could also have a negative impact on the perspectives for development of the Issuer, its results and financial position.

###### **Risk ensuing from the general macroeconomic, political and social system and government policies**

The macroeconomic situation and the economic growth on the Balkans and in South East Europe, including the state policies of the respective states and the regulations and the decisions taken by the respective Central Banks in particular, which influence the monetary and interest policy, the exchange rates, the taxes, the Gross Domestic Product, the inflation, the budgetary deficit and the foreign debt, the percentage of unemployment and the structure of the incomes, are of main importance for the development of the Group.

The changes in the demographic structure, mortality or morbidity are also important elements, influencing the development of the Issuer. The listed external factors as well as other adverse political, military or diplomatic factors, leading to social instability, may result in limiting the consumption expenses, including the funds intended for insurance policies, purchase of vehicles and leasing.

Any aggravation in the macroeconomic parameters in the region may have an adverse effect on the sales of the companies in the group of the Issuer. Hence, there is a risk that if the business environment worsens as a whole, the sales of the Issuer and its subsidiaries may be lower than those initially planned. Also, the general changes in the policy of the government and the regulatory systems may lead to increase of the operational expenses of the Issuer and of the capital requirements. If the factors described above occur, as a whole or in part, they could have significant negative influence and consequences for the perspectives of the Issuer, its results or financial position.

###### **Political risk**

This is the risk ensuing from the political processes in the country – risk from political destabilization, changes in the principles of governance, in legislation and in the economic policy. The political risk is directly related to the probability of negative changes in the government's long-term policy. As a result, there is danger of negative changes in the business climate.

The long-term political climate on the Balkans and in South East Europe is stable and does not imply big risks for the future economic policy of the countries. The European integration of the countries from the region and their consistent foreign and domestic policy guarantee the lack of turmoil and significant changes in the pursued policy in the future.

###### **Risks associated with the changes in the legal framework**



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The results of the Issuer may be influenced by the changes in the legal framework. The possibility for more radical changes in the regulatory framework in any country where the company is active may have an adverse effect on the activity of the Issuer as a whole, its operating results, as well as its financial position.

#### Credit risk of the state

The credit risk represents the probability of deterioration of the international credit ratings. Low credit ratings of the country may lead to higher interest rates, less advantageous conditions of financing the economic subjects, including the company.

The credit rating conferred to different countries presents in short their financial history and future potential in terms of the service of different debt instruments and it is calculated and updated mainly by three rating agencies established on the market, and namely *Standard&Poor's*, *Moody's* and *Fitch*. As at the end of 2016 the credit rating agency *Standard&Poor's* has conferred Bulgaria a long-term rating in foreign currency "BB+", and the short-term rating in foreign currency is "B". The long- and short-term rating of the country in local currency is BB+ and B, respectively. The credit agency believes that the Bulgaria's perspective is stable. These ratings are made as a result of the governmental policy aimed at decrease of the foreign indebtedness and the lack of huge fluctuations in the government's debt levels. The rating is adversely affected by the unstable political situation after the acceptance of the resignation of the government and the low levels of Gross Domestic Product (GDP). The future increase of the rating may be caused by the quick remedy of the economic crisis' effects in Bulgaria and the decrease of the budget deficit. *Fitch Ratings* confers long-term and short-term rating in foreign currency BBB- and F3, with stable perspective. The agency substantiates its conclusion, like *Standard&Poor's*, with the varying political situation in the country during the second half of 2016 and at the beginning of 2017, the development of foreign finance and the favourable management of the state budget.

Furthermore, *Fitch Ratings* gives a positive forecast for GDP growth by 0,4 % for the next two years. The agency points out that the interruption of the profound structural reforms after the caretaker government has entered into office is an especially negative factor for the state's credit rating.

#### Inflation risk

The inflation risk is associated with the possibility that the inflation could influence the actual return on investments. The relatively low extent of inflation after 1998 allowed the economic subjects to generate non-inflation incomes from their activity and significantly facilitated the forecasting of the short-term and mid-term future results. Despite the positive trends in respect of the inflation index, the openness of the Bulgarian economy, its dependence on energy sources and the fixed BGN/EUR exchange rate create the risk of import of inflation.

The inflation may influence the amount of the expenses of the Group. Their servicing is related to the current interest rates reflecting the levels of inflation in the country. Therefore, the maintenance of low inflation levels in the country is considered a significant factor for the activity of the Group.

Considering this, every investor should take into account both the current levels of the inflation risks and the future possibilities for its occurrence.

#### Currency risk

This risk is associated with the possibility for impairment of the local currency.

For Bulgaria in particular this is a risk of an early withdrawal of the conditions of the Currency Board at fixed exchange rate of the national currency. Given the policy pursued by the government and the Central Bank, it is expected that the Currency Board will remain until the acceptance of the country into the Eurozone.

In countries, where the exchange rates of the currencies are determined by the market conditions and the central banks of the states only intervene and balance the short-term fluctuations of the exchange rates, the occurrence of stress situations caused by one-off external factors may cause significant fluctuations in the value of the local currency.

Any significant impairment of the currencies in the region and the major markets of the Issuer may have significant adverse effect on the economic subjects in the country, including the Company. Risk exists also when the income and expenses of a company are generated in different currencies.



### **Interest risk**

The interest risk is associated with the possibility for change in the prevailing interest rates in the country. Its influence is expressed in the possibility that the net incomes of the companies could decrease as a result from increase in the interest rates, at which the Issuer finances its activity. The interest risk falls within the category of the macroeconomic risks due to the fact that a main prerequisite for a change in the interest rates is the emergence of instability in the financial system as a whole. This risk can be managed through the balanced use of different sources of financial resources. A typical example of the manifestation of this risk is the global economic crisis caused by liquidity problems of big mortgage institutions in the USA and Europe. As a result of the crisis, the interest surcharges for credit risk were reconsidered and increased on a global scale. The effect of this crisis is particularly visible in Eastern Europe and the Balkans, expressed in the limitation of the free access to loan funds.

The increase of interest rates, with other things remaining the same, would influence the price of the financial resource used by the Issuer in the implementation of various business projects. In addition to that, it could influence the amount of the expenses of the company, since a large portion of the liabilities of the Company is interest and their servicing is related to the current interest rates.

### **Emerging markets**

The investors on the newly emerging markets, such as the Balkans, must be aware that these markets are exposed to higher risk than the more developed markets. Besides, the adverse political or economic development in other states could have significant adverse effect on the Gross Domestic Product of the countries from the region and their economy as a whole. The investors must pay special attention in the assessment of the existing risks and must take their own decision whether the investment in the shares of the Company is suitable for them given these risks.

Investment in newly emerging markets is only suitable for experienced investors, who are able to fully assess the meaning of the specified risks. The investors must also take into account that the conditions on the newly emerging markets change quickly and consequently the information contained in this document may become out-dated in a relatively short amount of time.

### **Risks associated with the Bulgarian securities market**

It is possible that the investors may have less information for the Bulgarian securities market than it is available for other securities markets. There is a certain difference in the regulation and the supervision of the Bulgarian securities market compared to the markets in Western Europe and the USA. The Financial Supervision Commission exerts supervision over the disclosure of information and the observance of the other regulative standards of the Bulgarian market of securities, compliance with the laws, and issues ordinances and instructions for the obligations regarding the disclosure of information, trading with securities where insider information is available and other matters. It is still possible that there is less publicly accessible information for the Bulgarian companies than usually made available to the investors from the public companies on the other securities markets, which could influence the price of the securities offered.

## **2. Non-systemic risks**

### **Risks associated with the activity and the structure of the Group**

Avto Union AD is a holding company and eventual deterioration of the operating results, financial condition and the perspectives for development of its subsidiaries may have a negative effect on the results from the activity and the financial condition of the company.

As far as the activity of the Issuer is related to the management of other companies' assets, the latter cannot be referred to a specific sector of the national economy and is exposed to the branch risks of the subsidiaries. Avto Union AD has operations in Bulgaria, Macedonia and Kosovo and mainly operates in the field of sale of new vehicles, warranties and post-warranty service of vehicles.

The activity is directly dependant on the presence of permits and authorizations which the respective automobile manufacturers have presented to the companies in the group of Avto Union. The termination or the revocation of such rights may significantly decrease the sales of the group. This is particularly valid in the context of global restructuring of the automobile branch. The business environment of the automobile branch is also influenced by purely internal factors related to the purchasing power of the population, access to financing, business continuity, warehouse inventories, etc.



The main risk associated with the activity of the Issuer is the possibility for decrease of the income from sales from the companies where the Issuer participates. This influences the received dividends. In this regard, the above may have an impact on the Company income growth and on its profitability as well.

#### **Risks associated with the strategy for development of the Issuer**

The future earnings and the economic value of the Issuer depend on the strategy chosen by the senior management team of the company and its subsidiaries. The choice of inappropriate strategy may lead to significant losses.

The Issuer strives to manage the risk of strategic mistakes by on-going monitoring of the various stages of the implementation of its market strategy and the results from it. This is crucial for the Issuer's ability to respond in a timely manner if a change is needed at a certain stage of the plan for strategic development. The untimely or inappropriate changes in the strategy may also have a significant negative impact on the activity of the company, the operating results and its financial position.

#### **Risks associated with the management of the Issuer**

The risks associated with the management of the Company are the following:

- ◆ making bad decisions for the on-going management of the investments and the liquidity of the company both by the senior management staff and the operational staff of the holding;
- ◆ the inability of management to start the implementation of planned projects or the lack of appropriate management for the particular projects;
- ◆ possible technical errors of the uniform management information system;
- ◆ possible errors in the internal control system;
- ◆ departure of key employees and impossibility to appoint staff with the necessary qualities;
- ◆ risk of exorbitant increase in the management and administration costs, leading to decrease in the total profitability of the company.

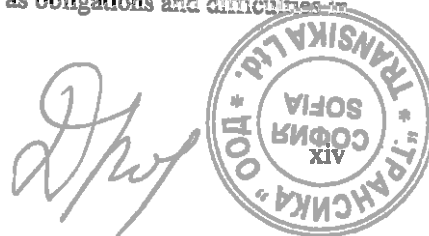
#### **Risks associated with attracting and retaining qualified staff**

Building of completely new business models in the last years requires specific qualification in the team of employees as the competition between the employers limits further the already small circle of well-educated and qualified employees. Additional influence is exerted by the demographic crisis in the country – aging population and low birth rate. As a result from these and other factors the competition between employers is very serious.

The business of Avto Union AD depends to a high extent on the contribution of a certain number of people, members of the management and supervisory authorities, managers of senior and middle management level of the parent company and the subsidiaries from the main business lines. It is not certain that these key employees will continue working for the Issuer in the future as well. The success of the company will also be related to its ability to keep and motivate these people. Possible inability of the company to keep sufficiently loyal, experienced and qualified personnel for management, operational and technical positions may have an adverse effect on activity of the economic group as a whole, its operating results, as well as its financial position.

#### **Risks associated with future acquisitions and their integration in the structure**

As at the present moment the economic group of Avto Union AD develops its operations in Bulgaria, Macedonia and Kosovo through acquisitions of companies and assets. The Issuer expects that such acquisitions will continue in the future. The risk for the Issuer lays in the uncertainty of identifying suitable objects for acquisition and investment opportunities in the future. On the other hand, there is uncertainty with respect to the assessment of the profitability of the future acquisitions of assets and whether they will lead to results comparable to the investments already made. Furthermore, the acquisitions and investments are exposed to various risks, including possible adverse effects on the results from the activity of the economic group as a whole, unforeseen events, as well as obligations and difficulties in the integration of the activities.



### Financial risk

The financial risk represents the additional uncertainty of the investor with respect to the receipt of incomes in the cases where the company uses attracted funds and borrowings. This additional financial uncertainty adds to the business risk. When part of the funds with which the company finances its activity are in the form of loans or debt securities, the payments for these funds represent a fixed obligation.

The bigger the portion of the long-term debt compared to equity, the higher the likeliness of failure in the payment of the fixed obligations. The Increase of the value of this indicator shows increase in the financial risk as well. Another group of indicators refers to the cash flow, allowing for the payment of the liabilities of the company. An indicator that could be used is the indicator of coverage of the fixed obligations (interest) being paid. This indicator shows how many times the fixed interest payments are contained in the value of the income before payment of the interest and its taxation. It also provides a good indication about the ability of the company to pay its non-current liabilities.

The acceptable or "normal" extent of the financial risk depends on the business risk. If the business risk for the company is small, it can be expected that the investors would agree to take a higher financial risk and vice versa.

### Currency risk

The group operates in Bulgaria, Macedonia and Kosovo. Since 1996 the local currency in Bulgaria has been pegged to the Euro and therefore the currency risk is minimized. In Macedonia the currency exchange rate is determined by the market conditions as the Central bank only intervenes and balances the short-term fluctuations of the exchange rates, in case of occurrence of stress situations caused by one-off external factors.

Any significant devaluation of the currencies in the region (Bulgaria, Romania, Serbia and Macedonia) may have a significant adverse effect on the economic subjects in the country, including the company. There is also a risk when the income and the expenses of a company are generated in different currencies.

The present issue of corporate bonds is denominated in lev (BGN). The presence and maintenance of the effective system of a fixed exchange rate between the BGN and Euro and the preservation of the Currency Board regime until the acceptance of the country in the Eurozone determine the lack of significant currency risk for investors, whose initial funds are in Euro. Currency risk of investment exists for investors, whose initial funds are denominated in US dollars or other currency different than lev and Euro due to the constant fluctuations in the exchange rates. The investors, taking on currency risk upon the purchase of this issue of bonds may increase or decrease the profitability of their investment as a result from strengthening or weakening of the BGN exchange rate against the currency, in which the investor's personal funds are denominated. The currency risk from the investment could be decreased by using various currency instruments for its minimization (hedging).

### Liquidity risk

The liquidity risk is associated with the possibility that Avto Union AD may not settle in the agreed amount and/or in due time its obligations when they become payable. The presence of good financial indicators for profitability and capitalization of a certain company guarantees effortless meeting of the current payments. Liquidity risk may also arise in case of delayed payments from clients.

Avto Union AD strives to minimize this risk by optimum management of the cash flows within the very group. The Issuer applies an approach that would ensure the necessary liquid resource in order to cover the obligations that occurred under normal or extraordinary conditions, without making unacceptable losses or impairing the reputation of the separate companies and the economic group as a whole.

The companies carry out financial planning intended to cover the payment of expenses and their current liabilities for a period of ninety days, including the servicing of financial liabilities. This financial planning minimizes or completely eliminates the potential effect from the occurrence of extraordinary circumstances.

The management of the Issuer supports the efforts of the subsidiaries in the group for attracting bank resources for investments and using the opportunities provided by this type of financing as a way to ensure operational funds. The volumes of these borrowings shall be kept at certain levels and shall be authorized after the economic efficiency for each company has been proved. The policy of the management is directed towards raising financial resource from the market mainly in the form of share securities (shares) and debt instruments (bonds), which the company invests in its subsidiaries by extending loans to them to fund their projects. It also participates in the increases of their capital.





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The table below summarizes an analysis of the assets and liabilities of Avto Union AD by maturity periods, on the basis of the remaining time period from the balance sheet date to the date of realization of the asset or liability:

31 December 2016 BGN'000	Up to 1 month	1-3 months	3-12 months	1 – 5 years	More than 5 years	No maturity	Total
<b>ASSETS</b>							
Fixed assets	-	-	-	4 291	10 909	7 020	22 220
Investment properties	-	-	-	-	3 266	-	3 266
Goodwill	-	-	-	-	-	22 466	22 466
Deferred tax assets	-	-	-	461	-	-	461
Granted trade loans	-	-	156	7 880	-	-	8 036
Trade and other receivables	6 864	7 856	6 260	3 766	-	-	24 746
Inventories	19 447	1 448	14 844	-	-	-	35 739
Cash	1 273	-	-	-	-	-	1 273
<b>TOTAL ASSETS</b>	<b>27 584</b>	<b>9 304</b>	<b>21 260</b>	<b>16 398</b>	<b>14 175</b>	<b>29 486</b>	<b>118 207</b>
<b>LIABILITIES</b>							
Interest bearing loans and borrowings	237	150	18 263	16 675	-	-	35 325
Trade and other payables	15 241	11 820	14 865	6 483	-	-	48 409
Finance lease payables	20	302	2 404	6 979	-	-	9 705
Tax payables	2 604	-	-	-	-	-	2 604
<b>TOTAL LIABILITIES</b>	<b>18 102</b>	<b>12 272</b>	<b>35 532</b>	<b>30 137</b>	-	-	<b>96 043</b>
<b>31 December 2015 BGN'000</b>							
	Up to 1 month	1-3 months	3-12 months	1 – 5 years	More than 5 years	No maturity	Total
<b>ASSETS</b>							
Fixed assets	-	-	-	4 844	7 345	6 565	18 754
Investment properties	-	-	-	-	2 437	-	2 437
Goodwill	-	-	-	-	-	22 466	22 466
Deferred tax assets	-	-	-	607	-	-	607
Granted trade loans	-	-	1 088	5 803	-	-	6 891
Trade and other receivables	8 077	8 374	4 559	6 611	-	-	27 621
Inventories	17 450	817	13 204	-	-	-	31 471
Cash	3 302	-	-	-	-	-	3 302
<b>TOTAL ASSETS</b>	<b>28 829</b>	<b>9 191</b>	<b>18 851</b>	<b>17 865</b>	<b>9 782</b>	<b>29 031</b>	<b>113 549</b>
<b>LIABILITIES</b>							
Interest bearing loans and borrowings	184	-	14 333	12 874	-	-	27 391
Trade and other payables	13 519	13 694	17 141	7 194	-	-	51 548
Finance lease payables	80	641	1 874	6 444	-	-	9 039
Tax payables	2 565	-	-	-	-	-	2 565
<b>TOTAL LIABILITIES</b>	<b>16 348</b>	<b>14 335</b>	<b>33 348</b>	<b>26 512</b>	-	-	<b>90 543</b>

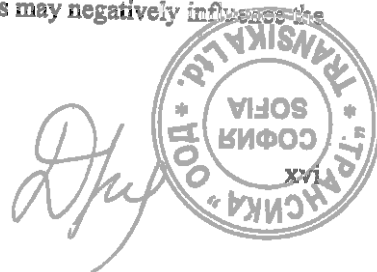
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**Risk of possible transactions between the companies in the group under conditions other than the market conditions, as well as a risk of dependence on the activity of the subsidiaries**

The relationships with related parties ensue from contracts for temporary financial aid for the subsidiaries and with respect to transactions related to the usual business activity of the subsidiaries.

The risk of possible transactions between the companies in the group under conditions other than the market conditions is expressed in taking the risk of low profitability from the provided intra-group financing. Another risk which may be taken in case of intra-group business transactions is that insufficient income will be realized, and subsequently- insufficient profit for the respective company. On a consolidated level this may negatively influence the profitability of the entire group.



Within the group there are transactions between the parent company and the subsidiaries and between the subsidiaries themselves. All transactions with related parties are made under conditions which are not significantly different than the usual market prices and in compliance with International Accounting Standard 24.

Avto Union AD performs activity through its subsidiaries, which means that its financial results depend directly on the financial results, development and prospects of the subsidiaries. Poor results of one or few subsidiaries could lead to deterioration of the financial results on a consolidated basis. This in turn is related to the cost of funding of the Issuer, which may change as a result from the investors' expectations for the prospects of the company.

### **3. Mechanisms for risk minimization and management**

The elements outlining the management framework of the different risks are directly related to specific procedures for timely prevention and overcoming of possible difficulties in the activity of Avto Union AD. They include on-going analysis in the following directions:

- ◆ market share, price policy, performance of marketing surveys and studies of the development of the market and market share;
- ◆ active management of the investments in the different sectors of the branch;
- ◆ overall policy for management of the assets and liabilities of the Company aimed at optimization of the structure, quality and profitability of the assets of the Company;
- ◆ optimization of the structure of the borrowings in order to ensure liquidity and decrease the finance expenses of the Company;
- ◆ effective management of the cash flows;
- ◆ optimization of the expenses for administration, management and hired services;
- ◆ human resources management.

The occurrence of unforeseen events, the inaccurate assessment of the current trends, as well as multiple other micro- and macroeconomic factors may influence the judgment of the management team of the Company. The only way to overcome this risk is to work with professionals with extensive experience, as well as maintenance of as full and current as possible information data base for the development and market trends in these fields.

#### **Risk management**

The Issuer has introduced a comprehensive corporate integrated risk management system. The system covers all business segments within the Issuer and its subsidiaries and its purpose is to have the risks in all lines, identified analyzed and organized. The efficient risk management system guarantees the Issuer financial stability despite of the continuing financial-economic problems worldwide.

A large part of the risks faced by the Issuer are specified in details in the RISK FACTORS Section above, with the purpose of section being- to describe the steps and procedures taken by the management in order to ensure the normal operation of the business, where the risks are duly identified and their influence is managed in a way that minimizes their adverse effect on the profit rate and ensures continuity of the business.

The risk management aims at:

- ◆ identifying possible events that could have an impact on the functioning of the issuer and the achievement of certain operational objectives;
- ◆ controlling the significance of the risk to a degree regarded as admissible by the Issuer;
- ◆ Achieving the financial objectives of the issuer under the conditions of the least possible risk.

## **V. CURRENT TRENDS AND PROBABLE FUTURE DEVELOPMENT OF THE GROUP**



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As at the end of 2016, the market of new vehicles reports a growth of sales, which according to the data of the Union of the Automobile Importers in Bulgaria (UAI) is in the amount of 10%. For the purposes of comparison the growth in 2015 is 15,3%, and in 2014 – 5,9%.

The growth of sales of new vehicles we witnessed in 2015 continued at moderate speed in 2016. According to UAI 10% more vehicles were sold in 2016 in comparison to 2015, and for the purposes of comparison the 2015's growth in relation to 2014 was about 15%. Such growth, even with more conservative development rate, is expected to continue during the next year, which is still mainly due to the process of renovation of the old rolling stocks countrywide. During 2017 we expect slower growth rate of corporate transactions and small growth in retail transactions supported by the relatively stable economy.

Avto Union forecasts slight increase of its market share as a result of:

- The excellent opportunities for development of the existing customer base of natural persons and legal entities;
- Increase of the corporate customers.

No stresses are expected on the market of new vehicles in Bulgaria from economic point of view, and the growth of the economy in the country is expected to increase.

## VI. RESEARCH AND DEVELOPMENT ACTIVITY

Avto Union AD, as well as its subsidiaries do not carry out research and development activities.

## VII. ENVIRONMENT PROTECTION

The group's efforts are directed towards the environmental impact caused by the subsidiaries in their operations.

## VIII. MATERIAL EVENTS OCCURRED AFTER THE DATE OF THE ANNUAL FINANCIAL STATEMENTS

The Board of Directors of Avto Union AD is not aware of important and material events that occurred after the accounting year-end closing date.

## IX. INFORMATION REQUIRED IN ACCORDANCE WITH THE COMMERCIAL ACT

**1. Number and par value of the own shares acquired and transferred in the year, the part of the capital represented by them, as well as the price, at which the acquisition or transfer took place**

In 2016 the Group did not purchase own shares and own shares were not transferred, respectively the Group does not have own shares.

**2. Number and par value of the own shares held and the part of the capital represented by them**

The Group does not hold own shares.

**3. Information for the amount of the remunerations of each of the members of the management and control bodies for the reporting financial year paid by the issuer and its subsidiaries.**

In 2016 the members of the Board of Directors received the following gross remunerations from Avto Union and its subsidiaries, and namely:

<i>Members of the Board of Directors:</i>	<i>Total gross remunerations from Avto Union and its subsidiaries, BGN:*</i>
Assen Hristov	-
Kiril Boshov	-
Assen Assenov	193 278



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\* No remunerations and/or indemnities in kind have been paid to the members of the managing and the supervisory body during the period under review.

Avto Union AD, as well as its subsidiaries, does not set aside amounts for payment of pensions, retirement compensations or other similar indemnities to the members of the board of directors. Existing contracts between the members of the managing body and the company are valid until retirement from office.

The term of office of the members of the Board of Directors expires on 28 February 2022.

**4. Shares of the Company held by members of the Board of Directors**  
 Kiril Boshov, a Member of the Board of Directors, holds 7 shares of Avto Union AD.

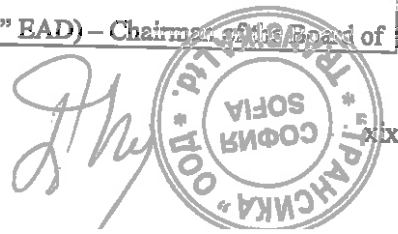
**5. Rights of the members of the boards to acquire shares and bonds of the Company**

As at the date of preparation of this report, there are no agreements or other arrangements made with the employees of Avto Union AD for their shareholding in the company's capital. The members of the BoD may freely acquire bonds of the company on a regulated market of securities in strict observance of the provisions of the Market Abuse with Financial Instruments Act and the Public Offering of Securities Act. No options for acquisition of shares were issued for the benefit of the managing and supervisory bodies, the employees or third parties.

**6. The participation of the members of the boards in business companies as unlimited partners, the holding of more than 25 percent of the capital of another Company, as well as their participation in the management of other companies or cooperatives as procurators, managers or board members**

**Board of Directors**

<b>Name</b>	Asen Milkov Hristov
<b>Position</b>	Chairman of the Board of Directors
<b>Business address</b>	43 Christopher Columbus blvd., Sofia
<b>Data for activity performed outside the Company, which is material with respect to the Company</b>	<ul style="list-style-type: none"> <li>• "Euroins Osiguruvanie" AD, Macedonia – Chairman of the Board of Directors;</li> <li>• "Euroins Romania Asigurare Reasigurare" SA – Member of the Board of Directors;</li> <li>• "Euro-Finance" AD – Chairman of the Board of Directors;</li> <li>• "Starcom Holding" AD – Executive member of the Board of Directors.</li> <li>• "Eurohold Bulgaria" AD, – Chairman of the Supervisory Board;</li> <li>• "Euroins Insurance Group AD – Chairman of the Board of Directors;</li> </ul>
<b>Data for all other participations as a member of management/ supervisory body and/or a shareholder/partner in the last 5 years</b>	<p><u>Present:</u></p> <ul style="list-style-type: none"> <li>• "Alpha Euroactive" EOOD – Sole owner of the capital and Manager;</li> <li>• "Balkan International Basketball League" OOD – Manager;</li> <li>• "Starcom Hold" AD – Executive member of the Board of Directors;</li> <li>• "Formoplast 98" AD – Chairman of the Board of Directors.</li> </ul> <p><u>Terminated:</u></p> <ul style="list-style-type: none"> <li>• Avto Union Group" AD (with present trade name "Asterica Bulgaria" AD – Chairman of the Board of Directors – 12 October;</li> <li>• "Corporate Advisors" EOOD – Sole owner of the capital and Manager – until 08.02.2013</li> <li>• "Bulstar Investment" AD – Chairman of the Board of Directors – until 17.08.2015</li> <li>• "Euro Power" AD (presently "Power Logistics" EAD) – Chairman of the Board of</li> </ul>



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	<p>Directors – until 16 February 2011;</p> <ul style="list-style-type: none"> <li>• “Formoplast” AD – Executive member of the Board of Directors – until 12 February 2011</li> <li>• “Autoplaza” EAD – Chairman of the Board of Directors until 28.01.2013</li> <li>• “Smartnet” EAD – Chairman of the Board of Directors until 03.11.2015;</li> <li>•</li> </ul>
Data for bankruptcy, management by a receiver in bankruptcy or liquidation, to which the person as a member of the management or supervisory bodies was related in the last 5 years	As at 31 December 2016 there is no other data for bankruptcy, management by a receiver in bankruptcy or liquidation, to which the person as a member of the management or supervisory body was related in the last 5 years.
Relevant professional experience	<p>Asen Hristov is the holder of a master degree in Physics from the Sofia University “St. Kliment Ohridski”, and has a specialization in the Institute for Nuclear Research in the town of Dubno, Russia. He passed a specialisation in management in OpenUniversity – London. He commands Russian and English.</p> <p>Asen Hristov held the above management positions in different periods within the last 5 years. He held the position of a Chairman of the Board of Directors of “Eurobank” AD from 1997 to 2000 and performed representative functions, was a Chairman of the Supervisory Board of “Insurance Company Euroins” AD from 2000 to 2007, a Chairman of the Board of Directors of “Scandinavia Motors” EAD – an authorized dealer of SAAB for Bulgaria from 2005 to the transformation of the Company, as well as of the investment intermediary “Euro – finance” AD.</p>
Coercive administrative measures and punishments	In the last 5 years coercive administrative measures or administrative punishments were not imposed on the person in relation to his activity; he has not been convicted for frauds; in his capacity of a person in charge he has not been involved either directly or through related parties in bankruptcy procedures or procedures for management by a receiver in bankruptcy; he was not prohibited by a court from the right to participate in management or supervisory bodies of other companies.

Name	Kiril Ivanov Boshov
Position	Deputy – Chairman of the Board of Directors
Business address	43 Christopher Columbus Blvd., Sofia
Data for activity performed outside the Company, which is material with respect to the Company	<ul style="list-style-type: none"> <li>• “Eurohold Bulgaria” AD – Chairman of the Board of Directors;</li> <li>• “Euroins Osiguruvanie” AD, Macedonia – Chairman of the Board of Directors;</li> <li>• “Euroins Insurance Group” AD – Executive Member of the Board of Directors.</li> <li>• “Euroins Health Assurance” EAD – Chairman of the Board of Directors;</li> <li>• “Euroins Insurance Group” AD – Chairman of the Board of Directors;</li> <li>• “Euroins Osiguruvanie” AD, Macedonia – member of the Board of Directors;</li> <li>• “Euroins Romania Asigurare Reasigurare” SA, Romania – Chairman of the Board of Directors;</li> </ul>



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	<ul style="list-style-type: none"> <li>• "Euro-Finance" AD – member of the Board of Directors;</li> <li>• "Eurolease Auto" IFN AD, Romania – member of the Board of Directors;</li> <li>• "Starcom Holding" AD – Chairman of the Board of Directors.</li> <li>• "N Auto Sofia" EAD – member of the Board of Directors</li> </ul>
<p>Data for all other participations as a member of a management/ supervisory body and/or a shareholder/partner in the last 5 years</p>	<p>Present:</p> <ul style="list-style-type: none"> <li>• "Capital 3000" AD – Chairman of the Board of Directors;</li> <li>• "Starcom Hold" AD – Chairman of the Board of Directors;</li> <li>• "Inter Sigorta" AD, Turkey – member of the Board of Directors;</li> <li>• "Armada Capital" AD – member of the Board of Directors;</li> </ul> <p>Terminated:</p> <ul style="list-style-type: none"> <li>• "Euroauto" OOD – Manager – 18.08.2015</li> <li>• "Allcommerce" EOOD – sole owner of the capital and Manager – 27.11.2015</li> <li>• "Scandinavia Motors" AD – member of the Board of Directors until 27.09.2012;</li> <li>• "Autopiazza" EAD – Member of the Board of Directors until 15.03.2013;</li> <li>• "Eurolease Auto" AD – Deputy – Chairman of the Board of Directors until 04.07.2011;</li> <li>• "Eurolease Auto" AD, Macedonia – Chairman of the Board of Directors until 04.07.2011;</li> <li>• "Euromobile Leasing" EAD – member of the Board of Directors until 30.07.2012</li> </ul>
<p>Data for bankruptcy, management by a receiver in bankruptcy or liquidation, to which the person as a member of the management or supervisory bodies was related in the last 5 years</p>	<p>No data</p>
<p>Relevant professional experience</p>	<p>Kiril Boshov holds a master degree in Accounting and Control from the University of National and World Economy, Sofia. He commands English and Russian. From 1995 to 1997 Kiril Boshov was the chief accountant of Mobicom – the first mobile operator in Bulgaria, a joint venture of Bulgarian Telecommunication Company and Cable and Wireless, United Kingdom. As a Deputy – chairman of the Board of Directors and a procurator he took active participation in the asset restructuring of "Eurobank" AD, representation of the bank before third parties jointly with the executive director and direct management of the bank active operations – crediting and capital markets. Kiril Boshov was also a Chairman of the Management Board of "Insurance Company Euroins" AD from 2000 to 2008, as in 2006 the Association of Investors in Bulgaria awarded the Company as the "Company with the best corporate management." In his capacity of a Chairman of the Board of Directors of "Eurolease Auto" AD to 2008 he performed management of the activity of ensuring of the financing of the Company. He led entirely the process of conclusion of an International Financing Contract between "Eurolease Auto" AD and Deutsche Bank AG – branch London for the amount of 200 000 000 Euro.</p>
<p>Coercive administrative measures and punishments</p>	<p>In the last 5 years coercive administrative measures or administrative punishments were not imposed on the person in relation to his activity; he has not been convicted for frauds; in his capacity of a person in charge he has not been involved either</p>

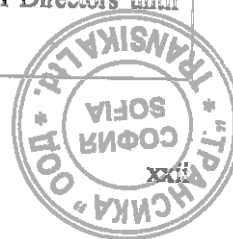



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	directly or through related parties in bankruptcy procedures or procedures for management by a receiver in bankruptcy; he was not prohibited by a court from the right to participate in management or supervisory bodies of other companies.
Coercive administrative measures and punishments	In the last 5 years coercive administrative measures or administrative punishments were not imposed on the person in relation to his activity; he has not been convicted for frauds; in his capacity of a person in charge he has not been involved either directly or through related parties in bankruptcy procedures or procedures for management by a receiver in bankruptcy; he was not prohibited by a court from the right to participate in management or supervisory bodies of other companies.

<b>Name</b>	<b>Assen Emanullov Assenov</b>
<b>Position</b>	<b>Executive member of the Board of Directors</b>
<b>Business address</b>	43 Christopher Columbus blvd., Sofia
<b>Data for activity performed outside the Company, which is material with respect to the Company</b>	<ul style="list-style-type: none"> <li>• "Eurolease Auto" EAD – Chairman of the Board of Directors;</li> <li>• "Eurolease Auto IFN" AD, Bucharest – Member of the Board of Directors;</li> <li>• "Eurohold Bulgaria" AD – Member of the Management Board.</li> <li>• "Bulvaria Varna EOOD – Manager;</li> <li>• "Bulvaria – Motobul" DZZD – Manager;</li> <li>• "Bulvaria Holding" EAD – Executive member of the Board of Directors;</li> <li>• "Eurotruck" EOOD – Manager;</li> <li>• "Ita Leasing" EOOD – Manager;</li> <li>• "Motobul" EOOD – Manager;</li> <li>• "Motobul Express EOOD – Manager;</li> <li>• "N Auto Sofia" EAD – Chairman of the Board of Directors;</li> <li>• "Sofia Motors" EOOD – Manger;</li> <li>• "Sizz Motors" EOOD – Manger;</li> <li>• "Star Motors" DOOEL, Skopje – member of the Supervisory Board</li> <li>• "Eurolease Group" EAD – Executive member of the Board of Directors</li> <li>• "Eurolease – Rent-a-Car" EOOD – Manger;</li> <li>• "Avto Union Service" EOOD – Manger;</li> <li>• "Autoplaza" EAD – Executive member of the Board of Directors;</li> <li>• "Espace Auto" OOD – Manger;</li> <li>• "Daru Car" AD – Executive member of the Board of Directors;</li> <li>• "Auto Italia" EAD – Executive member of the Board of Directors;</li> <li>• "Car Service" DZZD – Manager;</li> </ul>
<b>Data for all other participations as a member of a management/ supervisory body and/or a shareholder/partner in the last 5 years</b>	<p><u>Present:</u></p> <ul style="list-style-type: none"> <li>• "Izgreb 5" EOOD – sole owner of the capital and manager</li> </ul> <p><u>Terminated:</u></p> <ul style="list-style-type: none"> <li>• "Avto Union Group" AD – Executive member of the Board of Directors until 12.10.2011;</li> </ul>

*Assen Emanullov Assenov*



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	<ul style="list-style-type: none"> <li>• "Bulvaria Rent-a-Car" EOOD – Manager until 09.03.2011;</li> <li>• "Gransport Auto" EOOD – Manger until 23.01.2013;</li> <li>• "Milano Motors" EOOD – Manager until 23.01.2013;</li> <li>• "Euromobile Leasing" AD – Executive member of the Board of Directors until 06.12.2012;</li> <li>• "Avto Union Properties" EOOD – Manager until 26.05.2014;</li> <li>• "Auto 1" OOD – Manger until 08.01.2015;</li> <li>• "EA Properties" EOOD – Manager until 20.11.2014;</li> </ul>
Relevant professional experience	<p>Aspen Assenov holds a master degree in Accounting and Control and a bachelor degree in International Economic Relations from the University of National and World Economy – Sofia. Mr Assenov holds also a MBA (Master of Business Administration) diploma in International Accounting Standards and International Business from the Vienna University of Economy.</p> <p>Aspen Assenov started his professional career in "Eurohold Bulgaria" AD 12 years ago as an accountant. In the period 2002-2004 he was the chief accountant of "Eurohold" AD. From the end of 2004 Mr Assenov was elected an Executive Director of "Eurolease Auto" EAD – a leasing company within the structure of Eurohold Bulgaria. Presently, Mr Assenov is in charge of the leasing and car business of the Eurohold Bulgaria economic group. Mr Assenov is an executive director of "Avto Union" AD and heads the leasing companies of the group in Romania and Macedonia. Furthermore, he manages the official importers and dealers on the territory of the country of cars of the following brands Nissan, Renault, Opel, Fiat, Alfa Romeo, Mazda, Maserati and the oil products Castrol and BP (Motobul), which are all also a part of the holding structure.</p>
Coercive administrative measures and punishments	<p>In the last 5 years coercive administrative measures or administrative punishments were not imposed on the person in relation to his activity; he has not been convicted for frauds; in his capacity of a person in charge he has not been involved either directly or through related parties in bankruptcy procedures or procedures for management by a receiver in bankruptcy; he was not deprived by a court of the right to participate in management or supervisory bodies of other companies.</p>

**7. Contracts entered into in 2016 with the members of the Management Board and the Supervisory Board or persons related to them, which go beyond the usual activity of the Company or materially depart from the market conditions**

Contracts that go beyond the usual activity of the Company or materially depart from the market conditions were not entered into with the Company by the members of the Board of Directors or persons related to them.

**8. Number of employees**

As at 31 December 2016 there are 436 employees appointed by a labour contract in the group. The holding does not employ temporary workers.

**9. Conflicts of interests**

No conflicts of interests exist that have occurred in relation to the fulfilment of the obligations of the above named persons to the company or any other private interests thereof. No agreements between shareholders, customers, suppliers and/or other persons exist by virtue of which members of the Board of Directors or other employees of the company have been elected/ appointed. There are no restrictions in terms of the company's shares held by the members of the Board of Directors and the disposition therewith.

**10. Presence of company branches**



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The group companies do not have registered branches in the country and abroad.

11. The planned economic policy in the next year, incl. expected investments and development of the staff, the expected income from investments and development of the Company, as well as the forthcoming transactions of material importance for the Company's activity

The plans of Avto Union AD are relevant to the support of its subsidiaries' ongoing operations.

The development policy of Avto Union AD for 2017 is first of all directed towards a sustainable increase of income from service activity, as well as the sales of vehicles. Other planned priorities comprise the establishment of the brands within the portfolio and the improvement of customer satisfaction.

The working financing of automotive dealers is required for the delivery of vehicles under fleet transactions with large corporate clients. Some subsidiaries will be supported to finish and furnish their showrooms and service centers. There is special focus on the service activity as a main source of profitability due to the low margins upon sale of new cars under the existing market conditions.

The planned development of Avto Union AD is based on the measures already taken for optimization of the expenses and optimization of key growth factors.

## X. INFORMATION ABOUT THE GOOD CORPORATE GOVERNANCE PROGRAM AND ITS IMPLEMENTATION

Avto Union AD adheres to the recommendations set out in the National Code of Corporate Governance (2007), which in its nature follows the corporate governance framework set by the Organisation for Economic Cooperation and Development (OECD, 2004) in terms of internationally accepted and applied principles of corporate governance. The company is led by the best practices in the field of corporate governance. Corporate governance is a set of interrelations among the managing body of the company, its shareholders and all stakeholders – employees, business partners, company's creditors, potential future investors and the general public. Upon failure to apply or observe the good corporate governance principles the company is obliged to disclose information to this effect in timely manner.

As a result of the consistent policy of the Managing Board of Eurohold Bulgaria AD (the parent company) in terms of introduction, improvement and enhancement of the corporate governance within the structure, the company has implemented and operates procedures that ensure the observance of all principles set in the National Code of Good Corporate Governance. To this end, upon evaluating the results achieved in this direction, in 2011 the Managing Board adopted a resolution that the company would join to the National Code of Corporate Governance. Thus, Eurohold Bulgaria AD declared its willingness to maintain and further develop the procedures and corporate governance implemented during the last four years on stage by stage basis by implementing them in its subsidiary sub-holding companies, among which Avto Union AD is.

With view of the above, Avto Union AD has a functioning internal control system that ensures the effective functioning of the information reporting and reporting systems and the risk management systems. The Bulgarian branch of a leading international audit company carries out the external review of the accounting procedures, policies and financial statements of the company and its subsidiaries.

As at the end of the reporting period, there is no information available in relation to the provisions of *Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids*, as no such bids have been made. As at the end of the reporting period and after the closure of the financial year, the company is not aware of any arrangements that may result in changes in the relative share of stock held by the existing shareholders. The company is not a party to pending judicial, administrative or arbitration proceedings that have or might have material impact on its financial position or profitability. There are no resolutions or request for company's winding-up or liquidation.

The management system established and integrated ensures the existence and the prosperity of the company and sets out the framework within which the managing body works in the best interest of the company in compliance with the reasonable expectations of its shareholders and all stakeholders.



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## XI. REPORT ON THE OBSERVANCE OF THE RECOMMENDATIONS SET OUT IN THE NATIONAL CODE OF GOOD CORPORATE GOVERNANCE

### Company's policy for transactions with stakeholders and related parties

The company has developed and applies rules for stakeholders and related parties transactions, which are adopted by the Board of Directors of Avto Union AD. It monitors the transactions carried out by the company or its subsidiaries that might have material impact on the company or might in general result in material change in its position.

To this end, the Managing Board of Eurohold Bulgaria AD, after prior approval by the Supervisory Board, has developed, adopted and apply a Code of Ethics in relation to the in-house ethical rules. It governs the standards of business conduct of managers within the holding structure of Eurohold and its subsidiaries (including Avto Union) with view of preventing abuse of in-house information and impairment of the stakeholders' interests.

### Managing bodies

Avto Union has a one-tier management system, whereas the managing and supervisory functions of the company are performed by one body – the Board of Directors, which is in charge of the adoption of resolutions. The Board of Directors is a collective managing body, which is responsible for the overall governance of the joint stock company.

Pursuant to the requirements of the Public Offering of Securities Act, the members of the Board of Directors of Avto Union AD notify the Financial Supervision Commission (FSC) and Bulgarian Stock Exchange – Sofia: about the legal entities in which they directly or indirectly hold at least 25 percent of the votes in the general meeting or on which they have control; about the legal entities in whose managing or supervisory bodies they participate, or whose procurists (administrators) they are; about the existing or future transactions they are aware of and believe that might be considered stakeholders.

### Remunerations of the members of the Board of Directors

In compliance with the legal requirements and the good practices for corporate governance, the amount and the structure of the remunerations of the members of the Board of Directors take in consideration the obligations and the commitment of each member of the Managing Board to the business and the performance of the company; the opportunity to keep qualified and loyal managers; the need to ensure compliance between the interests of the members of the Board of Directors and company's long-term interests. The remuneration of the members of the Board of Directors comprises two elements: fixed and additional incentives. The terms and procedures for ensuring and using additional incentives for the members of the Managing Board are governed by the Rules of Procedure of the Board of Directors.

### Information disclosure policy

The Board of Directors of Avto Union AD treats all shareholders equally in terms of information disclosure. The company discloses at least regular reports and notifications of in-house information within the meaning of article 4 of the Market Abuse of Financial Instruments Act, within the time periods and with contents meeting the requirements of the Public Offering of Securities Act. Avto Union AD has entered into agreement with Service Financial Markets OOD (specialized financial media X3News as at Bulgarian Stock Exchange – Sofia) for disclosure of regulated information within the meaning of the Public Offering of Securities Act to the general public, the regulated market of bonds and FSC. Such information is available on the respective websites of the media – <http://x3news.com>, and on the corporate website of Avto Union AD – <http://avto-union.bg>.

## XII. INFORMATION ABOUT THE QUALITY POLICY AND ITS IMPLEMENTATION

The quality policy of Avto Union AD and its subsidiaries covers the sales, repairs and service of vehicles while meeting the specific requirements of the client and observing the legal requirements and using high quality and advanced technological means.



  
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The management of Avto Union AD is committed to continuous improvement of the efficiency and efficacy of the Quality Management System that ensures the Company:

- Leadership in the offering of such services in the region;
- Implementation of European legal requirements and satisfying customer's requirements, as well as exceeding their expectations;
- Improvement of the competitive power;
- Raising the spirit and the motivation of the staff;
- Mutually beneficial relations with suppliers.

Understanding their responsibility to the clients and the Company's employees, the management of the company tries to ensure permanent quality of the services by:

- Completing the transaction after confirmed client's satisfaction and consent with the service so rendered;
- Ensuring client's feedback as an important criterion for the quality of offered services;
- Permanently maintaining, expanding and updating the resource opportunities and competences for high quality provision of offered services;
- Implementing and improving an efficient and economically beneficial quality management system in compliance with the requirements of *ISO 9001:2008*.

**XIII. ADDITIONAL INFORMATION AS PER APPENDIX № 10 OF ORDINANCE № 2 OF FSC**

**1. Information given in value or quantitative terms about the main categories of commodities, products and/or provided services, with indication of their share in the revenues from sales of the issuer, or of the person under § 1e of the additional provisions of POSA, respectively, as a whole and the changes that occurred during the reporting fiscal year.**

As a holding company, the main activity of Avto Union AD is acquisition, management, evaluation and sale of shareholdings in Bulgarian and foreign companies, and financing of subsidiaries.

The company does not carry out independent business and production activity. The revenue of Avto Union AD is formed from financing activity.

During the reporting period no big transactions and transactions that are of material importance for the Holding's business have been made.

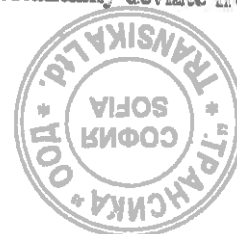
**2. Information about the revenues allocated by separate categories of activities, domestic and external markets as well as information about the sources for supply of materials required for the manufacture of commodities or the provision of services with indication of the degree of dependence in relation to any individual seller or buyer/user, where if the share of any of them exceeds 10 per cent of the expenses or revenues from sales, information shall be provided about every person separately about such person's share in the sales or purchases and his relations with the issuer, the person under § 1e of the additional provisions of POSA, respectively.**

The company does not carry out independent business and production activity.

**3. Information about concluded material transactions.**

There are no big transactions and transactions that are of material importance for the issuers concluded in 2016.

**4. Information about the transactions concluded between the issuer, the person under § 1e of the additional provisions of POSA, respectively, and related parties during the reporting period, proposals for conclusion of such transactions as well as transactions which are outside its usual activity or substantially deviate from the**



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market conditions, to which the issuer, the person under § 1e of the additional provisions of POSA, respectively, or its subsidiary is a party, indicating the amount of the transactions, the nature of relatedness and any information necessary for an estimate of the influence over the financial position of the issuer, the person under § 1e of the additional provisions of POSA, respectively.

As at the date of this Director's report there are no proposals for transactions with related parties that are of material importance for the issuer or its subsidiary and that are not at-arm's-length transactions.

In 2016 all transactions have been made on the "at-arm's-length" principle. Typical are the transactions between the holding and the subsidiaries where, by means of intragroup loans, liquidity of separate companies is managed and the investment policy is implemented.

**5. Information about events and indicators of unusual nature for the issuer, the person under § 1e of the additional provisions of POSA, respectively, having substantial influence over its operations and the revenues realized and expenses incurred thereby; assessment of their influence over the results during the current year.**

No events of unusual nature for the company have occurred that have substantial influence over its operations and the revenues realized and expenses incurred thereby.

**6. Information about off-balance transactions – nature and business objective, indication of the financial impact of the transactions on the operations, if the risk and benefits of these transactions are substantial for the issuer, the person under § 1e of the additional provisions of POSA, respectively, and if the disclosure of such information is material for the assessment of the financial position of the issuer, the person under § 1e of the additional provisions of POSA, respectively.**

The company has not entered into any off-balance transactions.

**7. Information about holdings of the issuer, the person under § 1e of the additional provisions of POSA, respectively, about its main investments in the country and abroad (in securities, financial instruments, intangible assets and real estates), as well as the investments in equity securities outside economic group and the sources/ ways of financing.**

As at 31 December 2016 Avto Union AD has holdings in the following subsidiaries:

- Auto Italia EAD - 100%
- Star Motors EOOD – 100%
- Bulvaria Holding EAD – 100%
- Avto Union Service EOOD – 100%
- N Auto Sofia EAD – 100%
- Bulvaria Varna EOOD – 100%
- Motobul EOOD – 100%
- Daru Car AD – 99.84%

**8. Information about the loan agreements concluded by the issuer, the person under § 1e of the additional provisions of POSA, respectively, by its subsidiary or parent company, in their capacity of borrowers, with indication of the terms and conditions thereof, including the deadlines for repayment as well as information on the provided guarantees and assuming of liabilities.**

Company	Interest rate	Amount in BGN'000 as at 31.12.2016
Eurohold Bulgaria AD	8.00%	8 767
Daru Car AD	5.50%	7 374
Bulvaria Holding AD	5.50%	935
Avto Union Service EOOD	5.00%	428
Motobul EOOD	5.50%	292
N Auto Sofia EAD	5.00%	156
Eurolease Auto AD	6.50%	9
Starcom Holding AD	5.00%	2



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**9. Information about the concluded loan agreements, including the provision of guarantees of any type, including to related persons, by the issuer, the person under § 1e of the additional provisions of POSA, respectively, by its subsidiary or the parent company, in their capacity of lenders, with indication of the concrete conditions there under, including the deadlines for repayment and the purpose for which they have been granted.**

Company	Interest rate	Amount in BGN'000 as at 31.12.2016
Eurolease Group EAD	6.00%	1
Starcom Holding AD	8.10%	5 609
Auto Italia EAD	6.00%	4 313
Bulvaria Varna EOOD	6.50%	49
N Auto Sofia EAD	6.00%	1
Espace Auto OOD	6.00%	151

**10. Information on the use of funds from new issue of securities made during the reporting period.**

Liabilities under a bond issue

Maturity	Interest rate	Amount in BGN'000 as at 31.12.2016
10.12.2017	5.50%	6 800

During the reporting period until 31.12.2016, the company has not made a new issue of securities.

**11. Analysis of the ratio between the achieved financial results stated in the financial statements for the financial year and previously published forecasts for these results.**

The company has not published forecasts for the reporting 2016.

**12. Analysis and assessment of the policy concerning the management of the financial resources with indication of the possibilities for servicing of the liabilities, eventual jeopardizes and measures which the issuer, the person under § 1e of the additional provisions of POSA, respectively, has undertaken or is to undertake with view to their remedy.**

The main activity of every holding is the effective management of the cash resources accumulated in the entire structure and respectively the distribution thereof depending on the needs of the individual subsidiaries. The holding policy in this area is to carry out financing both along the line – “subsidiaries – parent”, and along the line “subsidiary – subsidiary”. The management of the free financial resources of subsidiaries is carried out in accordance with the regulatory requirements and for the purpose of achievement of good profitability under the conditions of reasonable assumption of risk.

**13. Assessment of the possibilities for realization of the investment intentions, indicating the amount of the available funds and stating the possible changes in the structure of the financing of this activity.**

Avto Union AD has not made such an assessment as at 31.12.2016.

**14. Information about the changes in the main principles for management of the issuer, the person under § 1e of the additional provisions of POSA, respectively, and its group of entities within the meaning of the Accountancy Act occurred during the reporting period.**

No changes occurred in the economic group of Avto Union AD in the reporting period.

**15. Information about the main characteristics of the internal controls system and risk management system applied by the issuer, the person under § 1e of the additional provisions of POSA, respectively, in the course of preparation of the financial statements.**



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An internal control system functions in Avto Union AD, which guarantees the effective functioning of the disclosure and reporting systems.

According to the Bulgarian legislation the management should prepare a director's report and financial statements for every financial year, which give true and fair idea about the company's financial position as at the end of the year, about the financial performance and the cash flows in compliance with the applicable accounting framework. The management is also responsible for the implementation of an internal control system to prevent, identify and remedying of any errors and incorrect statements occurred as a result of the accounting system. To this end, the company observes the following principles in its operations:

- ✓ Adhering to specific management and accounting policy disclosed in the financial statements;
- ✓ Carrying out all operations in compliance with the laws and legal regulations;
- ✓ Stating all events and operations in timely manner, in the correct amount to the appropriate accounts and for the respective reporting period;
- ✓ Completeness and correctness of the accounting information;
- ✓ Adhering to the international financial reporting standards and observing the going concern principle.

The external audit, the accounting procedures, policies and financial statements within the holding and its divisions are performed by the Bulgarian branch of a leading international audit company.

**16. Information about the changes in the managing and the supervisory bodies during the reporting financial year**

There have been no changes in the managing bodies of the company in 2016. Avto Union AD does not have a supervisory board.

**17. Information on the amount of the remunerations, rewards and/or the benefits of each member of the managing and supervisory bodies for the financial year under review, paid by the issuer, by the person under § 1e of the additional provisions of POSA, respectively, and its subsidiaries, irrespective of whether they have been included in the expenses of the issuer, the person under § 1e of the additional provisions of POSA, respectively, or arise from profit distribution, including:**

**a) received amounts and non-monetary remunerations**

<i>Members of the Board of Directors:</i>	<i>Total gross remunerations from Avto Union and its subsidiaries, BGN:*</i>
Asсен Hristov	-
Kiril Boshov	-
Asсен Assenov	193 278

No remunerations and no rewards have been paid to the members of the managing and the supervisory bodies of Avto Union AD and its subsidiaries during the period under review.

**b) contingent or deferred remunerations occurred during the year, even if remuneration is due at a later time – none;**

**c) amount payable by the issuer, by the person under § 1e of the additional provisions of POSA, respectively, or its subsidiaries for pensions, retirement benefits or other similar compensations – none.**

**17. Information about issuer's shares held by the members of the managing and supervisory bodies, procurists (administrators) and the senior management**

The members of the managing and supervisory bodies, procurists (administrators) and the senior management do not hold shares of the issuer.

**18. For the public companies – information about issuer's shares held by the members of the managing and supervisory bodies, procurists (administrators) and the senior management, including the shares held by anyone of them separately or as a percentage of shares of each class, as well as the options provided by the**



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**Avto Union AD**  
**CONSOLIDATED ANNUAL DIRECTOR'S REPORT**  
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issuer to its securities – type and amount of securities over which the options have been established, price of exercising the options, purchase price, if any, and term of the options.

Kiril Boshov – Member of the Board of Directors, holds 7 shares in the capital of Avto Union AD.

19. Information for the arrangements known by the company (including after the end of the financial year), which may result in a future period in changes in the relative portion of shares or bonds held by present shareholders or bondholders.

The company is not aware of such arrangements.

20. Information about pending legal, administrative or arbitration proceedings relevant to payables or receivables of the issuer, of the person under § 1e of the additional provisions of POSA, respectively, in amount at least 10 percent of its equity; if the total amount of payables or receivables of the issuer, of the person under § 1e of the additional provisions of POSA, respectively, under all initiated proceedings exceeds 10 percent of its equity, information for each proceeding should be stated separately.

There are no pending legal, administrative or arbitration proceedings relevant to issuer's payables or receivables of at least 10 percent of its equity.

21. Information for the investor relations director

Business address	city of Sofia, 43 Christopher Columbus Blvd.
Telephone	+3592/ 9651 653; +359 89 999 2753
Fax	02/ 9651 652
E-mail	office@avtounion.bg; investors@eurohold.bg
Web-site	<a href="http://avto-union.bg">http://avto-union.bg</a>

## MANAGEMENT'S RESPONSIBILITIES

Pursuant to the Bulgarian legislation, management is supposed to prepare consolidated financial statements for each financial year, which give a true and fair view of the financial position of the company as at the end of the year, its financial performance and cash-flows.

The management confirms that it has consistently applied adequate accounting policies in the preparation of the consolidated annual financial statement as at 31 December 2016 and made reasonable and prudent judgements, assumptions and estimates.

Furthermore, management confirms that it has adhered to the effective accounting standards and the financial statements are prepared on a going concern basis.

Management is responsible for the proper keeping of the accounting registers, for the expedient asset management and for taking the necessary measures for avoiding and disclosure of eventual abuses and other irregularities.

*Signature/ Illegible*

Assen Assenov  
Executive Director  
Avto Union AD  
city of Sofia  
10.04.2017

Round seal of Avto Union AD





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TO  
THE SHAREHOLDERS  
OF AVTO UNION AD

## INDEPENDENT AUDITOR'S REPORT

### Opinion

We have audited the accompanying consolidated financial statements of Avto Union AD, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit and loss and the other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

To our opinion the accompanying consolidated financial statements give true and fair view of the financial position of the Group as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

### Basis for Expressing an Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities as set out in these standards are described in details in section "Auditor's Responsibility for the Audit of the Financial Statements". We are independent from the company in compliance with the Code of Ethics of Professional Accountants of the International Ethics Standards Board for Accountants (Code of IESBA) and the ethical requirements of the Independent Financial Audit Act (IFAA), applicable to our audit of the financial statements in Bulgaria, and we have also performed our other ethical responsibilities in compliance with the requirements of IFAA and the Code of IESBA. We believe that the audit evidences we have obtained are sufficient and appropriate basis for expressing our qualified audit opinion.

### Paying attention

As stated in the consolidated statement of financial position as at 31 December 2016, the current liabilities of the company exceed the amount of its current assets with 7,758 thousand BGN and the amount of the company's equity is less than the registered capital. Pursuant to the requirements of the Commerce Act, the Group should undertake steps to overcome the improper equity/ registered capital ratio.

Our opinion on this issue is qualified.

### Information other than the financial statements and the auditor's report thereto

The management is responsible for the other information. Other information comprises the consolidated director's report prepared by the management pursuant to Chapter Seven of the Accountancy Act, but does not comprise the consolidated financial statements and our auditor's report thereto.

Our opinion about the consolidated financial statements does not comprise the other information and we do not express any kind of conclusion for certainty whatsoever in terms of it, unless explicitly stated herein and to the extent it is stated.

BDO Bulgaria OOD is specialized audit company, which is on the list of the Institute of Chartered Expert Accountants in Bulgaria under No 16, member of BDO International. BDO Bulgaria OOD is registered in the Commercial Register with UIC 831255576 and VAT ID No BG831255576.

BDO Bulgaria OOD – a limited liability company, is member of BDO International Limited, United Kingdom non-profit legal entity and is part of the international network of Independent member companies of BDO.







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In relation to our audit of the consolidated financial statements, our responsibility is to read the other information and to judge thereupon whether such other information is materially inconsistent with the consolidated financial statements or with our knowledge obtained in the course of the audit, or otherwise it seems to contain material improper reporting. Upon reaching to the conclusion, on the basis of the work we have conducted, that there is material improper reporting in such other information, we are required to report this fact.

There is nothing to report in this respect.

#### **Additional matters to be reported by virtue of the Accountancy Act**

In addition to our responsibilities and reporting pursuant to IAS in terms of the director's report, we conducted the procedures added to those required by IAS in compliance with the instructions of the professional organization of the chartered expert accountants and registered auditors in Bulgaria - Institute of Chartered Expert Accountants (ICEA) issued on 29.11.2016 /approved by its Managing Board on 29.11.2016/. Such procedures are relevant to the checks for the presence, as well as checks of the form and content of such other information, for the purposes of supporting us to form our opinion about whether the other information comprises the disclosures and reports as set out in Chapter Seven of the Accountancy Act applicable in Bulgaria.

#### **Opinion in relation to article 37, paragraph 6 of the Accountancy Act**

On the basis of conducted procedures our opinion is that:

- a) The information contained in the consolidated director's report for the financial year the financial statements have been prepared for corresponds to the consolidated financial statements.
- b) The consolidated director's report is prepared in compliance with the requirements of Chapter Seven of the Accountancy Act.

#### **Management's Responsibility for the Financial Statements**

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

Upon preparing the consolidated financial statements the management is responsible to assess the Group's ability to continue operate on going concern, by disclosing, where applicable, any matters related to the assumption for going concern and by using the accountancy basis on the base of the assumption of going concern, unless the management is not intended to liquidate the Group or to discontinue its operation, or provided the management has no other alternative in practice, unless to do so.

#### **Auditor's Responsibility**

Our aim is to obtain reasonable assurance about whether the consolidated financial statements are in general free from material misstatements, whether due to fraud or error, and to issue an auditor's report comprising our audit opinion. Reasonable assurance means high level of assurance but not a guarantee that an audit conducted in compliance with the Independent Financial Audit Act and IAS will always identify a material misstatement, if such exists. Misstatements may arise as a result of fraud or error and are considered material if it could be reasonably expected that, on

BDO Bulgaria OOD is specialized audit company, which is on the list of the Institute of Chartered Expert Accountants in Bulgaria under No 16, member of BDO International. BDO Bulgaria OOD is registered in the Commercial Register with UIC 831.255576 and VAT ID No BG831255576.

BDO Bulgaria OOD - a limited liability company, is member of BDO International Limited, United Kingdom non-profit legal entity and is part of the International network of independent member companies of BDO.



stand-alone basis or together, they could affect the economic decisions of users made on the basis of such consolidated financial statements.

As part of the audit in compliance with IAS, we use professional judgement and remain professionally sceptic during the entire audit. We further:

- identify and assess the risks of material misstatements in the consolidated statements, whether due to fraud or error, we design and perform audit procedures in reply to such risks and obtain audit evidence that is sufficient and appropriate to ensure a basis for our opinion. The risk of failure to identify a material misstatement due to fraud is higher than the risk of material misstatement due to error, as fraud may comprise secret arrangement, falsification, deliberate omissions, statements to mislead the auditor, as well as neglecting or evasion of internal control.
- obtain knowledge about the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, however not to express an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and the related disclosures made by the management.
- come to conclusion about the appropriateness of the accounting base used by the management on the grounds of the assumption for going concern and whether there is material uncertainty relevant to events or conditions that could give rise to material doubts in terms of the Company's ability to continue operating on going concern. If we come to the conclusion that such material uncertainty exists, in our auditor's report we are required to focus the attention to the disclosures relevant to such uncertainty made in the financial statements, or in case such disclosures are inadequate - to modify our opinion. Our conclusions are based on the audit evidence obtained until the date of our auditor's report. However, future events or conditions may become a reason for the Company to discontinue operating on going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements present the fundamental transactions and events in a way that achieves fair presentation.
- obtain sufficient and appropriate evidence about the financial information of entities or economic activities within the Group in order to express opinion about the consolidated statement. We are responsible to instruct, supervise and conducting the audit of the Group. We bear the exclusive responsibility for our audit opinion.

In addition to the other issues, we communicate to the management the planned scope and time of the audit and the material findings of the audit, including material defects of the internal control we identify during the audit we conduct.

BDO Bulgaria OOD  
SOFIA, 12.04.2017

*Signature/ Illegible*  
Stoyanka Apostolova  
CEA, Registered Auditor

*Signature/ Illegible*  
Nedyalko Apostolov  
Manager

Round seal of Audit Company BDO Bulgaria OOD, Sofia, Reg. No 016



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**Avto Union AD**  
**CONSOLIDATED FINANCIAL STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE**  
**INCOME**

For the year ending 31 December 2016

	Notes	<u>2016</u>	<u>2015</u>
		BGN'000	BGN'000
Sale of goods	5.1	161,561	145,573
Rendering of services		8,825	9,414
Other income	5.2	6,674	5,748
<b>Revenue</b>		<b>177,060</b>	<b>160,735</b>
Cost of sales		(147,207)	(131,618)
<b>Gross profit</b>		<b>29,853</b>	<b>29,117</b>
Expenses on materials	5.3	(2,101)	(2,164)
Expenses on hired services	5.4	(9,211)	(9,422)
Personnel expenses	5.5	(12,065)	(11,458)
Amortization	6,7,8	(2,525)	(2,540)
Other expenses	5.6	(2,562)	(2,747)
<b>Operating profit/ (loss)</b>		<b>1,389</b>	<b>786</b>
<b>EBITDA</b>		<b>3,914</b>	<b>3,326</b>
Finance costs	5.7	(2,182)	(2,143)
Finance income	5.8	291	2,389
<b>Profit/ (loss) before tax</b>		<b>(502)</b>	<b>1,032</b>
Tax expenses/ saving		(340)	(133)
<b>Profit/ (loss) for the period</b>		<b>(842)</b>	<b>899</b>
Net profit/ (loss) attributable to:			
Owners of the parent company		(1,382)	530
Non-controlling interest		540	369
<b>Net profit/ (loss) for the year</b>		<b>(842)</b>	<b>899</b>

These financial statements were approved by the Board of Directors on 10 April 2017 and were signed as follows:

*Signature/ Illegible*  
 Assen Assenov  
 Executive Director

*Signature/ Illegible*  
 Milena Lyubenova  
 Chief Accountant

Round seal of Avto Union AD

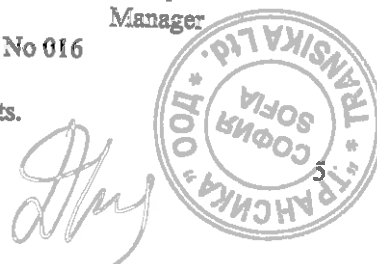
Verified as per auditor's report:  
 BDO Bulgaria OOD

*Signature/ Illegible*  
 Stoyanka Apostolova, Manager  
 Certified Chartered Accountant, registered auditor

*Signature/ Illegible*  
 Nedyalko Apostolov  
 Manager

Round seal of Audit Company BDO Bulgaria OOD, Sofia, Reg. No 016

The explanatory notes from page 9 to page 34 are integral part of the financial statements.



**Avto Union AD**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
As at 31 December 2016

	Notes	<u>2016</u>	<u>2015</u>
		<i>BGN'000</i>	<i>BGN'000</i>
<b>ASSETS</b>			
<b>Fixed assets</b>			
Property, plant and equipment	6	21,492	17,920
Intangible assets	7	728	834
Investment properties	8	3,266	2,437
Goodwill	9	22,466	22,466
Deferred tax assets		461	607
Trade and other receivables	10.1	<u>11,646</u>	<u>12,414</u>
		<u>60,059</u>	<u>56,678</u>
<b>Short-term assets</b>			
Inventories	11	35,739	31,471
Trade and other receivables	10.2	21,136	22,098
Cash and short-term deposits	12	<u>1,273</u>	<u>3,302</u>
		<u>58,148</u>	<u>56,871</u>
<b>TOTAL ASSETS</b>		<u><b>118,207</b></u>	<u><b>113,549</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	13	40,004	40,004
Reserves		(6,232)	(6,232)
Retained earnings		<u>(14,212)</u>	<u>(12,830)</u>
<b>Total equity</b>		<u><b>19,560</b></u>	<u><b>20,942</b></u>
Non-controlling interests		2,604	2,064
<b>Long-term liabilities</b>			
Interest-bearing loans and borrowings	14.1	16,675	6,074
Bond issue	15	-	6,800
Employees' retirement benefits payables		25	30
Finance lease payables	16.1	6,979	6,444
Deferred tax liabilities		102	79
Trade and other payables	17.1	<u>6,356</u>	<u>7,085</u>
		<u>30,137</u>	<u>26,512</u>
<b>Short-term liabilities</b>			
Trade and other payables	17.2	44,530	46,919
Interest-bearing loans and borrowings	14.2	11,641	14,308
Bond issue	15	7,009	209
Finance lease payables	16.2	<u>2,726</u>	<u>2,595</u>
		<u>65,906</u>	<u>64,031</u>
<b>Total liabilities</b>		<u><b>96,043</b></u>	<u><b>90,543</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>118,207</b></u>	<u><b>113,549</b></u>



**Avto Union AD**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
As at 31 December 2016

These financial statements were approved by the Board of Directors on 10 April 2017 and were signed as follows:

*Signature/ Illegible*  
Assen Assenov  
Executive Director

Round seal of Avto Union AD

*Signature/ Illegible*  
Milena Lyubanova  
Chief Accountant

Verified as per auditor's report:  
BDO Bulgaria OOD

*Signature/ Illegible*  
Stoyanka Apostolova, Manager  
Certified Chartered Accountant, registered auditor

Round seal of Audit Company BDO Bulgaria OOD, Sofia, Reg. No 016

*Signature/ Illegible*  
Nedyalko Apostolov  
Manager

The explanatory notes from page 9 to page 34 are integral part of the financial statements.

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**Avto Union AD**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
For the year ending 31 December 2016

	Share capital (Note 13) BGN'000	Reserves BGN'000	Retained earnings BGN'000	Total capital owned by the parent-company BGN'000	Non-controlling interest BGN'000	Total BGN'000
As at 1 January 2015	40,004	(6,232)	(13,360)	20,412	1,695	22,107
Profit for the year	-	-	530	530	369	899
<b>As at 31 December 2015</b>	<b>40,004</b>	<b>(6,232)</b>	<b>(12,830)</b>	<b>20,942</b>	<b>2,064</b>	<b>23,006</b>
As at 1 January 2016	40,004	(6,232)	(12,830)	20,942	2,064	23,006
Loss for the year	-	-	(1,382)	(1,382)	540	(842)
<b>As at 31 December 2016</b>	<b>40,004</b>	<b>(6,232)</b>	<b>(14,212)</b>	<b>19,560</b>	<b>2,604</b>	<b>22,164</b>

These financial statements were approved by the Board of Directors on 10 April 2017 and were signed as follows:

*Signature/ Illegible*  
Assen Assenov  
Executive Director

*Signature/ Illegible*  
Milena Lyubenova  
Chief Accountant

Round seal of Avto Union AD

Verified as per auditor's report:  
BDO Bulgaria OOD

*Signature/ Illegible*  
Stoyanka Apostoiova, Manager  
Certified Chartered Accountant, registered auditor

*Signature/ Illegible*  
Nedyalko Apostolov  
Manager

Round seal of Audit Company BDO Bulgaria OOD, Sofia, Reg. No 016

The explanatory notes from page 9 to page 34 are integral part of the financial statements.



**Avto Union AD**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the year ending 31 December 2016

	<u>2016</u>	<u>2015</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Proceeds from contractors		
Payments to contractors	221,829	189,603
Tax payments	(197,919)	(173,035)
Wage, social security and other payments	(10,958)	(9,678)
Proceeds from contractors	(11,848)	(11,395)
Paid bank charges and interests	(517)	(631)
Net result from change in exchange rates	(17)	(18)
Other inflows/ outflows from operating activities	(224)	1,079
<b>Net cash flows generated by / used in operating activities</b>	<u>346</u>	<u>(4,075)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for purchase of fixed assets	(2,797)	(7,759)
Proceeds from disposal of fixed assets	1,641	1,344
Borrowings given	(2,163)	59
(Paid)/Repaid borrowings given	1,334	100
Proceeds from disposal of investments	-	128
Other inflows/ outflows from investing activities	(3,791)	(1,869)
<b>Net cash flows generated by / used in investing activities</b>	<u>(5,776)</u>	<u>(7,997)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from bank and commercial borrowings	56,102	38,917
Repayment of bank and commercial borrowings	(48,956)	(25,002)
Interests and commissions paid, net	(642)	(991)
Payments under lease contracts	(3,298)	(2,631)
Other inflows/ outflows from financing activities	195	(84)
<b>Net cash flows generated by / used in financing activities</b>	<u>3,401</u>	<u>10,209</u>
<b>Net (decrease)/increase of cash and cash equivalents</b>	<u>(2,029)</u>	<u>(1,863)</u>
<b>Cash and cash equivalents on 1 January</b>	<u>3,302</u>	<u>5,165</u>
<b>Cash and cash equivalents on 31 December</b>	<u>1,273</u>	<u>3,302</u>

These financial statements were approved by the Board of Directors on 10 April 2017 and were signed as follows:

*Signature/ Illegible*  
Assen Assenov  
Executive Director

*Signature/ Illegible*  
Milena Lyubenovz  
Chief Accountant

Round seal of Avto Union AD

Verified as per auditor's report:  
BDO Bulgaria OOD

*Signature/ Illegible*  
Stoyanka Apostolova, Manager  
Certified Chartered Accountant, registered auditor

*Signature/ Illegible*  
Nedyalko Apostolov  
Manager

Round seal of Audit Company BDO Bulgaria OOD, Sofia, Reg. No 016

The explanatory notes from page 9 to page 34 are integral part of the financial statements.

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**Avto Union AD**  
**EXPLANATORY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ending 31 December 2016

## 1. Corporate information

The consolidated financial statements of Avto Union AD (the "Group") for the year ending 31 December 2016 are approved for issue in accordance by resolution of the Board of Directors of 10.04.2017.

Avto Union AD is a joint-stock company established by decision No.660/2005 of the Sofia District Court, having its headquarters in the City of Sofia, the region of Sofia, Bulgaria. The financial year of the Group ends on 31 December.

The main activity of the group includes acquisition, management, evaluation and sale of shareholdings in business companies, trade with light vehicles, car spare parts and repair services.

As at 31 December 2016, the shareholders of the parent company Avto Union AD are:

- Eurohold Bulgaria AD	99.99 %
- Kiril Boshov	0.01 %

The ultimate parent company is Eurohold Bulgaria AD.

### 2.1 Basis for preparation

The consolidated financial statements have been drawn up in accordance with the International Financial Reporting Standards accepted by the European Union (the "IFRS accepted by the EU").

The financial statements are drawn up on the basis of historical cost, presented in Bulgarian levs and all indicators are rounded to the closest thousand Bulgarian levs (thousand BGN), unless otherwise specified.

Statement of compliance

The financial statements of Avto Union AD have been drawn up in accordance with the International Financial Reporting Standards accepted by the European Union (the "IFRS accepted by the EU").

### 2.2 Summary of the significant accounting policies

#### a) Foreign currency translation

The financial statements are presented in Bulgarian levs, which is the functional currency and the currency of presentation of the group. Transactions in a foreign currency are initially reported in the functional currency at the exchange rate on the transaction date. Monetary assets and liabilities denominated in foreign currencies are recalculated in the functional currency at the end of every month at the closing exchange rate of the Bulgarian National Bank for the last working day of the respective month. All exchange rate differences are recognized in the statement of comprehensive income. Non-monetary assets and liabilities that are evaluated at their historical cost of acquisition in a foreign currency are converted into the functional currency at the exchange rate as at the date of the initial transaction (acquisition).

#### b) Income recognition

Income is recognized to the extent economic benefits are likely to be obtained by the group and the amount of the income can be reliably evaluated, no matter when the payment is received. Income is evaluated at the fair value of the remuneration received or due on the basis of the agreed conditions of payment, excluding discounts, rebates and other taxes on the sales or customs duties. The Group analyses its arrangements for sales depending on specific criteria in order to determine whether it acts as a principal or as an agent. It has reached the conclusion that it acts as a principal in all such arrangements. Before any income is recognized, the following specific criteria for recognition must also be satisfied:

##### *Sales of production and goods*

The income from sales of production and goods is recognized when the materials risks and benefits from the title in the production and goods are transferred to the buyer, which usually takes place at the time of their shipping.





## **2.2 Summary of the significant accounting policies (continued)**

### **b) Income recognition (continued)**

#### *Provision of services*

The income from provision of services is recognized on the basis of the stage of completion of the transaction at the reporting date. The state of completion of the transaction is determined on the basis of the man-hours worked up to the moment as a percentage of the total number of man-hours that will be worked for each contract. When the result from the transaction (contract) cannot be reliably evaluated, the income is only recognized to the extent that the expenses made are subject to recovery.

#### *Income from interest*

The interest income is reported by the use of the effective interest method, representing the percent that exactly discounts the expected future cash payments for the expected term of the financial instrument or for a shorter period, when appropriate, to the book value of the financial asset. The interest income is included in the financial income in the statement of comprehensive income.

#### *Dividend income*

Dividend income is recognized when the entitlement to such dividend is established.

### **c) Taxes**

#### *Current income tax*

Current tax assets and liabilities for the current and previous periods are recognized at the amount anticipated to be recovered by or paid to the tax authorities. When calculating the current taxes the tax rates and tax laws that are in force or substantially adopted as at the report date are applied. The management analyzes the individual items in the tax return, in respect of which the applicable tax provisions are subject to interpretation and recognizes provisions when it is appropriate.

Current taxes are recognized directly in the equity (rather than in the statement of comprehensive income), when the tax refers to items that were directly recognized in equity.

#### *Deferred income tax*

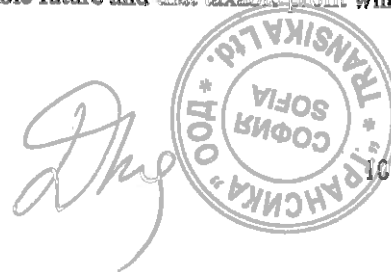
Deferred taxes are recognized under the balance sheet method for all temporary differences as at the report date, which arise between the tax base of the assets and the liabilities and their book values.

Deferred tax liabilities are recognized for all taxable temporary differences:

- except to the extent such a deferred tax liability arises from the initial recognition of an asset or liability from a transaction, which is not a business combination and does not have an impact either on the accounting profit or on the tax profit or loss as at the time of performance of the transaction; and
- for taxable temporary differences related to investments in subsidiaries, associates and participations in joint ventures, except to the extent, to which the group is capable of controlling the time of the reverse manifestation of the tax temporary difference and it is likely that the temporary difference will not have reverse manifestation in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carried unused tax credits and unused tax losses, to the extent it is likely that there will be a taxable profit, against which the deductible temporary differences will be used, the carried unused tax credits and the unused tax losses:

- unless the deferred tax asset arises from an initial recognition of an asset or liability from a transaction that is not a business combination and does not have an impact either on the accounting profit or on the tax profit or loss as at the time of performance of the transaction; and
- for deductible temporary differences related to investments in subsidiaries, associated enterprises and participations in joint ventures, deferred tax asset is only recognized to the extent, to which it is likely that the temporary difference will have reverse manifestation in the foreseeable future and that taxable profit will be made, against which the temporary difference will be utilized.



## **2.2 Summary of the significant accounting policies (continued)**

### **c) Taxes (continued)**

#### *Deferred income tax (continued)*

The Group reviews the book values of the deferred tax assets as at each reporting date and decreases it to the extent to which it is no longer likely to realize sufficient taxable profit allowing all or a portion of the deferred tax to be recovered. Unrecognized deferred tax assets are revised as at each reporting date and are recognized to the extent, to which it has become probable that future taxable profit will be realized allowing recovery of the deferred tax asset.

Deferred tax assets and liabilities are estimated at the tax rates expected to be in force for the period, in which the asset is realized or the liability is settled, on the grounds of the tax rates (and tax laws), which are in force or substantially in force as at the report date.

Deferred taxes related to items recognized separately from profit or loss are recognized separately from profit or loss. Deferred taxes are recognized depending on the transaction related to them or in other comprehensive income, or directly in equity.

The Group only offsets deferred tax assets and liabilities when it has the legal right to deduct current tax assets against current tax liabilities and the deferred tax assets and liabilities refer to income taxes imposed by one and the same tax authority for one and the same taxable entity.

#### *Value added tax (VAT)*

Incomes, expenses and assets are recognized net of VAT, except for the cases, when:

- VAT arising upon the purchase of assets or services is not subject to recovery by the tax authorities, as in such case VAT is recognized as a part of the asset acquisition cost or as a part of the respective expense item, as appropriate; and
- the receivables and liabilities reported with VAT inclusive.

The net amount of VAT that is subject to refund or is due to the tax authorities is included in the value of the receivables or liabilities in the statement of financial position.

### **d) Employee retirement benefits**

Pursuant to the Bulgarian labour legislation, the group companies, as employers, are bound to pay two or six gross monthly salaries to their employees upon retirement, depending on the period of service. If the employee concerned worked for the same employer in the last 10 years of his/her entire length of service, he/she must receive six gross monthly salaries upon retirement, and if he/she worked less than 10 years for the same employer – two gross monthly salaries. The employee retirement benefit plan is not financed. The Group determines its obligations for payment of staff retirement benefits by using an actuary method of evaluation. The actuary profits and losses are recognized as an income or expense when the net cumulative unrecognized actuary profits or losses in the end of the preceding report year exceeded 10% of the present value of the obligation for payment of employee retirement benefits. The actuary profits or losses are recognized for the expected average remaining number of years of labour service of the staff.

The expenses for past labour service are recognized as an expense on a straight-line basis for the average term, until the income becomes unconditionally acquired. As long as the incomes are already unconditionally acquired, immediately after the introduction or changes in the retirement benefit plan, the group companies recognize immediately the expense for past labour service.

The liability for employee retirement benefits consists of the present value of the liability for payment of such benefits decreased by the unrecognized expenses for past labour service.

## 2.2 Summary of the significant accounting policies (continued)

### e) Financial instruments – initial recognition and subsequent measurement

#### • Financial assets

##### Initial recognition

Financial assets within the scope of IAS 39 *Financial Instruments: recognition and measurement* are classified as financial assets reported at fair value through profit or loss, or as loans and receivables, or as held-to-maturity investments, or as available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value plus, in the case of investments not reported at fair value through profit or loss, the transaction costs directly attributable to the acquisition of the financial asset.

Purchases or sales of financial assets whose conditions require delivery of an asset within a time frame usually established by regulation or convention in the marketplace (ordinary trades) are recognised on the trade date (the transaction), i.e., the date that the group companies commit to purchase or sell the asset.

The financial assets of the Group include cash and cash equivalents, trade and other receivables, granted loans and other financial assets.

##### Subsequent measurement

The subsequent measurement of financial assets depends on their classification, as follows:

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to the debtor without an intention to trade in these estimates. They are included in short-term assets, except for the ones, the maturity of which exceeds 12 months after the date of the financial statement, which are classified as long-term. Loans and receivables are included in trade and other receivables in the balance sheet.

##### Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the contractual rights to receive cash flows from the financial asset have expired;
- the contractual rights to receive cash flows from the financial asset have been transferred or the Group has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the group has transferred substantially all the risks and rewards of the title to the financial asset, or (b) the group has neither transferred nor retained substantially all the risks and rewards of the title to the financial asset, but has not retained the control of the asset.

When the group has transferred its contractual rights to receive cash flows from a financial asset or has entered into a pass-through arrangement, and it has neither transferred nor retained substantially all of the risks and rewards of the title to the financial asset but retained control of the asset, the transferred financial asset is still recognised by the group to the extent of the group's continuing involvement in the asset. In that case, the group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the group could be required to repay.



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## 2.2 Summary of the significant accounting policies (continued)

### e) Financial instruments -- initial recognition and subsequent measurement (continued)

#### Impairment of financial assets

The group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an "incurred loss event") and that incurred loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will declare insolvency/ over-indebtedness or enter other financial reorganisation or where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in delays or economic conditions that correlate with defaults on the part of the debtors.

#### o Financial liabilities

##### Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities reported at fair value through profit or loss, or as loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The group determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus transaction costs directly attributable to the acquisition of the financial liability.

The group's financial liabilities include commercial and other payables and interest-bearing loans.

##### Derecognition

A financial liability is derecognised when discharged, i.e. when the obligation defined in the contract is cancelled or expires.

When an existing financial liability is replaced by another from the same creditor on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

##### f) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is an enforceable legal right to offset the recognised amounts and there is an intention on the part of the group to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

##### g) Fair value of the financial instruments

At each reporting date the fair value of financial instruments that are traded actively in markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis and other valuation models.



## 2.2 Summary of the significant accounting policies (continued)

*Measurement of financial instruments*

The company measures the fair value of financial instruments by using the following hierarchy of methods that reflects the importance of factors used for identifying the fair value:

- *Level 1* – Level 1 inputs comprise quoted (unquoted) prices of instruments on active markets for identical financial instruments;
- *Level 2* – Level 2 inputs comprise inputs for an asset or liability other than quoted prices in Level 1, which are directly or indirectly observable. This category comprises instruments evaluated with the use of: quoted prices of similar assets or liabilities on active markets; quoted prices of identical or similar assets or liabilities on markets that are not considered active; other valuation techniques where all material inputs are directly or indirectly observable by using market data;
- *Level 3* – Level 3 inputs are unobservable inputs for an asset or liability. This category comprises all instruments for which the valuation technique does not include observable inputs and the unobservable inputs have material effect on the evaluation of the instrument. This category comprises instruments that are evaluated on the basis of quoted prices of similar instruments where material unobservable adjustments or assumptions are required to reflect the differences between the instruments;

The following table analyzes the fair value of financial instruments by hierarchy level where the measured fair value is classified:

31 December 2016 BGN'000	Level 1	Level 2	Level 3	Total fair value	Total book value
<b>Assets</b>					
Cash and short-term deposits	1 273	-	-	1 273	1 273
Interest-bearing loans	-	-	20 995	20 995	20 995
Trade and other receivables	-	-	26 257	26 257	26 257
<b>Total assets</b>	<b>1 273</b>	<b>-</b>	<b>47 252</b>	<b>48 525</b>	<b>48 525</b>
<b>Liabilities</b>					
Finance lease payables	-	-	9 539	9 539	9 539
Bond issue payables	-	-	7 009	7 009	7 009
Interest-bearing loans and borrowings	-	-	41 964	41 964	41 964
Trade and other payables	-	-	52 486	52 486	52 486
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>110 998</b>	<b>110 998</b>	<b>110 998</b>
<b>31 December 2015</b>					
<b>BGN'000</b>					
<b>Assets</b>					
Cash and short-term deposits	3 302	-	-	3 302	3 302
Interest-bearing loans	-	-	19 717	19 717	19 717
Trade and other receivables	-	-	28 153	28 153	28 153
<b>Total assets</b>	<b>3 302</b>	<b>-</b>	<b>47 870</b>	<b>51 172</b>	<b>51 172</b>
<b>Liabilities</b>					
Finance lease payables	-	-	7 634	7 634	7 634
Bond issue payables	-	-	7 009	7 009	7 009
Interest-bearing loans and borrowings	-	-	31 857	31 857	31 857
Trade and other payables	-	-	55 731	55 731	55 731
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>102 231</b>	<b>102 231</b>	<b>102 231</b>



## 2.2 Summary of the significant accounting policies (continued)

### h) Share capital

The share capital is presented at par value of the issued and paid shares. The receipts from issued shares over and above their par value are reported as premium reserves.

### i) Property, plant and equipment

ИмотиProperty, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes also the cost of replacing parts of the plant and equipment and borrowing costs under long-term construction contracts provided that they satisfy the criteria for asset recognition. When a major inspection of plant and/or equipment is performed, its cost is recognised in the carrying amount of the respective asset as replacement costs if the asset recognition criteria are satisfied. All other repair and maintenance costs are recognised in the statement of comprehensive income in the period when they are made.

An item of property, plant and equipment is derecognised upon sale or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset (calculated as the difference between the net sale proceeds, if any, and the carrying amount of the asset) is included in the statement of comprehensive income when the asset is derecognised.

The residual value, useful lives and methods of depreciation of the assets are reviewed at each financial year end, and if the expectations differ from the previous approximate evaluations, the latter are changed in future periods.

### j) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date and requires an assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

#### *The Group as a lessee*

The Group classifies a lease agreement as a finance lease if it transfers substantially all risks and rewards of the title to the leased asset. In the beginning of the leasing term, the finance lease is recognized as an asset and liability in the statement of financial position in an amount that in the beginning of the lease agreement is equal to the fair value of the leased asset or, if lower, at the current value of the minimum lease payments. Lease payments are distributed within the financial expenses and the decrease in the lease liability, so as to obtain a permanent rate of interest on the remaining balance of the liability. Financial expenses are recognized directly in the statement of comprehensive income.

Assets acquired under the conditions of finance lease are depreciated for the term of useful life of the asset. However, if there is no reasonable degree of certainty that the Group will acquire the title to them until the end of the term of the lease agreement, assets are depreciated in the shorter of the two terms – the period of useful life of the asset or the term of the lease agreement.

Lease payments under operational lease agreements are recognized as an expense through profit or loss on the basis of the straight-line method for the term of the lease agreement.

#### *The Group as a lessor*

A lease agreement, according to which the group retains substantially all risks and rewards of the title to the rented asset, is classified as operational leasing. The initial direct expenses made by the group in relation to the negotiation and settlement of operational leases are added to the carrying amount of the rented asset and are recognized as an expense during the entire term of the lease agreement on the same basis as the lease incomes. Contingent rents are recognised as revenue in the period in which they are earned.



## 2.2 Summary of the significant accounting policies (continued)

### k) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the acquisition cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs include the interests and other expenses made by the group in relation to the obtaining of borrowings.

The group companies capitalize the borrowing costs for assets satisfying the requirements.

### l) Intangible assets

Intangible assets acquired separately are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets with finite useful lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the intangible asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expenses of intangible assets with finite useful lives are classified as per their function in the statement of comprehensive income, in accordance with the use (purpose) of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

### m) Inventories

Inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion of the production cycle and costs required to make the sale.

### n) Impairment of non-financial assets

The group companies assess at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the group companies make an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's (CGU) fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate, when used, cash flows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, it is considered impaired and its carrying amount is written down to its recoverable amount.

In assessing value in use of an asset, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money in time and the risks specific to the asset.



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## **2.2 Summary of the significant accounting policies (continued)**

### **n) Impairment of non-financial assets (continued)**

In determining fair value less costs to sell, recent market transactions are taken into account, if any. If no such transaction can be identified, an appropriate valuation model is used.

The calculations made are corroborated by the use of other valuation models or other available sources of information for the fair value of an asset or cash-generating unit.

The impairment calculations are based on detailed budgets and forecast calculations which are prepared separately for each of the CGUs to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to future cash flows after the fifth year.

Impairment losses are recognized as expenses in the statement of comprehensive income.

The group makes an assessment at each reporting date as to whether there is any indication that impairment losses recognised in preceding periods may no longer exist or may have decreased. If such indication exists, the group estimates the asset's or cash-generating unit's recoverable amount. An impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The recovery of an impairment loss is limited so that the carrying amount of the asset can exceed neither its recoverable value nor the carrying amount (net of depreciation) that would have been determined had no impairment loss been recognised for the asset in preceding years. Such reversal of impairment loss is recognised in the statement of comprehensive income.

### **o) Cash and cash equivalents**

Cash and cash and short-term deposits in the statement of financial position comprise cash at bank and on hand and short-term deposits with an initial maturity of three months or less.

For the purpose of the cash-flow statement, cash and cash equivalents include cash and cash equivalents as defined hereinabove.

### **p) Provisions**

#### *General*

Provisions are recognised when the group companies have a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the value of the obligation. When the group companies expect that any or all expenses required for the settlement of the provision will be recovered, e.g. in accordance with an insurance contract, the recovery is recognized as a separate asset but only when it is practically certain that these expenses will be recovered. The provision costs are presented in the statement of comprehensive income, net of the amount of the recovered costs. When the effect of the time value of money is material, provisions are discounted using a current pre-tax discount rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is presented as a financial expense.

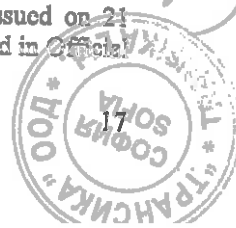
## **2.3 Changes in the accounting policies and disclosures**

### **New standards, interpretations and amendments in force from 1 January 2016**

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

### **2.3 Changes in the accounting policies and disclosures (continued)**

- Amendments to IAS 19 Employee Benefits – Defined Benefit Plans: Employee Contributions (issued on 21 November 2013 r.), effective from 1 July 2014, endorsed by the EU on 17 December 2014, published in Official Journal on 9 January 2015, EU effective date 1 February 2015.





The amendment clarifies paragraph 93 of IAS 19 Employee Benefits relevant to the reporting of employee contributions set out in the official conditions of defined benefit plans by ensuring guidelines for the company's management about the reporting of employee contributions in terms of a service.

- Annual Improvements 2010 – 2012 (issued on 12 December 2013), effective from 1 July 2014, endorsed by the EU on 17 December 2014, published in the Official Journal on 9 January 2015, EU effective date 1 February 2015.

The amendment to IFRS 2 Share-based Payments amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').

The amendment to IFRS 3 Business Combinations are related to: accounting for contingent consideration in a business combination – it is clarified that contingent consideration that is classified as an asset or a liability shall be measured at fair value at each reporting date; the aggregate presentation by operating segments – companies are required to disclose the judgments made by the management upon applying the criteria for aggregate presentation by operating segments.

The amendment to IFRS 8 Operating Segments clarifies that entities shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.

The amendment to IFRS 13 Fair Value Measurement clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.

The amendment to IAS 16 Property, Plant and Equipment clarifies that when an item of property, plant and equipment is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

The amendment to IAS 24 Related Party Disclosure clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.

The amendment to IAS 38 Intangible Assets clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

- Amendments to IAS 16 and IAS 41: Bearer Plants (issued on 30 June 2014), effective 1 January 2016, endorsed by the EU on 23 November 2015, published in the Official Journal on 24 November 2015.

The amendments include bear plants used for production in the scope of IAS 16 to be accounted for in the same way as property, plant and equipment.

- Amendments to IFRS 11 Accounting of acquisition of interests in joint arrangements (issued on 6 May 2014), effective 1 January 2016, endorsed by the EU on 24 November 2015, published in the Official Journal on 25 November 2015.

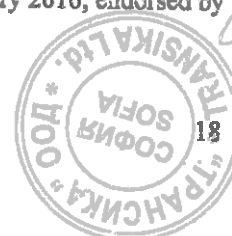
The amendments clarify the accounting of acquisition of an interest in a joint arrangement when the arrangement constitutes business.

- Amendments to IAS 16 and IAS 38: Clarifications about acceptable methods of amortization (issued on 12 May 2014), effective 1 January 2016, endorsed by the EU on 2 December 2015, published in the Official Journal on 3 December 2015.

### 2.3 Changes in the accounting policies and disclosures (continued)

Amendments clarify that the income-based method is not considered an appropriate basis for spending.

- Annual improvements to IFRS 2012 – 2014 (issued on 25 September 2014), effective 1 January 2016, endorsed by the EU on 15 December 2015, published in the Official Journal on 16 December 2015



The amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations add specific guidance for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and in cases in which held-for-distribution accounting is discontinued.

The amendments to IFRS 7 Financial Instruments: Disclosures add additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. The subsequent amendment of IFRS 1 clarifies the applicability of the amendments to IFRS on offsetting disclosures to condensed interim financial statements.

The amendments to IAS 19 Employee Benefits clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).

The amendments of IAS 34 Interim Financial Reporting clarify the meaning of "elsewhere in the interim report" and require a cross-reference.

- Amendments to IAS 1: Disclosure Initiative (issued on 18 December 2014), effective 1 January 2016, endorsed by the EU on 18 December 2015, published in the Official Journal on 19 December 2015

Amendments are aimed at clarifying IAS 1 and are directed to identified obstacles before preparers when exercising judgements in presenting their financial statements.

- Amendments to IAS 27: Equity Method in Separate Financial Statements (issued on 12 August 2014), effective 1 January 2016, endorsed by the EU on 18 December 2015, published in the Official Journal on 23 December 2015

The amendments recover the equity method as an option for accounting an investment in subsidiaries, joint ventures or associates in separate financial statements of the company.

- Amendments to IFRS 10, IFRS 12 and IAS 28: replaces IFRS 10, IFRS 12 and IAS 28: Investment Entities: Exemptions from Consolidation (issued on 18 December 2014), effective 1 January 2016, endorsed by the EU on 22 September 2016, published in the Official Journal on 23 September 2016

Amendments are aimed to address issues that have arisen in relation to the exemption from consolidation for investment entities.

The adoption of these amendments to the existing standards has not led to any changes in the Company's accounting policies.

### **3. Significant accounting judgments, estimates and assumptions**

The preparation of the financial statements requires the management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent liabilities as at the date of the statement of financial position, as well as reported incomes and expenses for the period. However, uncertainty about these assumptions and estimates could result in factual outcomes that could require material adjustments to the carrying amounts of the respective assets or liabilities in subsequent reporting periods.

#### **Judgements**

In the application of the adopted accounting policies, the managements of the group companies made the following judgments that have the most material effect on the amounts recognized in the financial statements:

##### *Irrevocable commitments under operational lease – the Group as a lessee*

The group companies entered into car leasing contracts. The management considers that since all significant risks and benefits from the title to these assets are not assumed by the group companies, the contracts are treated as operational leases.

##### *Investment properties*

An investment property is a property (the land or the building) held rather for receipt of rent income or to increase the value of the capital or for both, than for:



- (a) use in the production or supply of goods or services or for administrative purposes; or
- (b) sale within the ordinary economic activity.

Investment properties are presented at historical cost less the depreciation accrued from the acquisition thereof. On an annual basis historical cost is compared to the fair value. The fair value is based on effective market prices adjusted, where necessary, by the differences in type, location or condition of the specific asset. If the information is not available, the Group uses alternative evaluation methods, such as current prices in less active markets or discounted forecast cash-flows.

#### Estimates and assumptions

The key assumptions that are related to future and other key sources of uncertainties in the approximate evaluations as at the reporting date and in respect of which there is a considerable risk of bringing about considerable adjustments to the carrying amounts of the assets and liabilities in the next reporting period, are listed below:

#### *Employee retirement benefits*

The obligation for employee retirement benefits is determined through an actuary evaluation. This evaluation requires making assumptions for the discount rate, the future growth of the salaries, fluctuation of the staff and the mortality levels. Due to the long-term nature of the employee retirement benefits, these assumptions are subject of considerable uncertainty. As at 31 December 2015 the group's liabilities for employee retirement benefits are in the amount of 30 thousand BGN (2014: 39 thousand BGN).

#### *Useful lives of properties, plant and equipment, and intangible assets*

The financial reporting of the property, plant and equipment, and intangible assets includes the use of estimates of their expected useful lives and residual values that are based on evaluations on the part of the managements of the group companies.

#### 4. Standards issued but not yet effective

*Standards, interpretations and amendments to standards issued by IASB and are adopted by the EU but are not yet effective*

- IFRS 9 Financial Instruments (issued on 24 July 2014), effective 1 January 2018, endorsed by the EU on 22 November 2016, published in the Official Journal on 29 November 2016

The final version of IFRS 9 Financial Instruments unifies the IASB project phases for replacement of IAS 39: Financial Instruments: Recognition and Measurement in terms of classification and measurement, impairment and hedge accounting. This final version of IAS 9 adds the new model of expected loss upon impairment, changes the model for classification and measurement of financial assets by adding a new category – measured at fair value

#### 4. Standards issued but not yet effective (continued)

through other comprehensive income for some debt instruments and gives additional guidance about the way for applying the business model test and the characteristics of the contractual cash flows. This final version further adds limited amendments to the classification and measurement of financial assets. The standard replaces all previous versions of IFRS 9.

- IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014), including amendments to IFRS 15: effective date of IFRS 15 (issued on 11 September 2015), effective 1 January 2018, endorsed by the EU on 22 September 2016, published in the Official Journal on 29 October 2016

IFRS 15 clarifies how and when a company applying IFRS recognizes revenue and sets requirements to such companies to provide the users of financial statements with more information in appropriate disclosures. The standard foresees to apply a single principle-based model in five steps to all contracts with customers.

*Documents issued by IASB/IFRIC, which are not yet approved for application by the EU*



A handwritten signature in black ink, appearing to be "D. Hry".

The following new or revised standards, new interpretations and amendments to existing standards, which are issued by the International Accounting Standards Board (IASB) as at the reporting date, but are still not approved for application by the EU and are therefore not taken into account by the Company for the preparation of these financial statements:

- IFRS 16 Leases (issued on 13 January 2016), effective 1 January 2019

The standard specifies how an IFRS reporter will recognise, measure, present and disclose leases. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

- IFRS 14 Regulatory Deferral Accounts in sectors subject to price regulation (issued on 30 January 2014), effective 1 January 2016

IFRS 14 permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous basis for preparation of financial statements, both on initial adoption of IFRS and in subsequent financial statements. Regulatory deferral account balances, and movements in them, are presented separately in the statement of financial position and statement of profit or loss and other comprehensive income, and specific disclosures are required. The EU has decided not to start the process for endorsement of this draft of the standard and to wait for its final version.

- Amendments to IFRS 10 and IAS 28: Sales or Contributions of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014), effective date has been postponed for indefinite time.

Amendments are aimed at a discrepancy between the requirements of IAS 28 Investments in Associates and the requirements of IFRS 10 Consolidated Financial Statements and clarify that in a transaction involving an associate or joint venture the degree of accounting of profits and losses depends on whether the sold or contributed asset constitutes business.

- Amendments to IAS 12: Reporting of Deferred Tax Assets for Unrealized Losses (issued on 19 January 2016), effective 1 January 2017

Amendments clarify the following aspects: unrealized losses from debt instruments carried at fair value and measured at cost for tax purposes give rise to decreasing temporary difference, notwithstanding whether the holder of the debt instrument expects to recover its book value by selling the instrument or by using it; the book value of the asset is not

#### 4. Standards issued but not yet effective (continued)

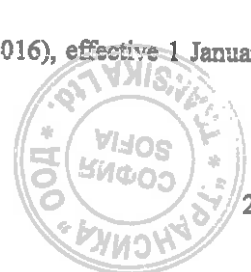
limited to the judgement for possible future tax profits; the judgment for future tax profits excludes the decreases for tax purposes as a result of the reverse occurrence of decreasing temporary differences; the entity measures the deferred tax asset in combination with other deferred tax assets. When the tax legislation restricts the deduction of tax losses, the entity measures the deferred tax asset in combination with other deferred tax assets of the same type.

- Amendments to IAS 7: Disclosure Initiative (issued on 29 January 2016), effective 1 January 2017

The purpose of the amendments is to include such disclosures in the financial statements that enable the users of financial statements to measure the changes in liabilities as a result of financing activity.

The following changes of liabilities as a result of the financing activity are subject to disclosure (as far as it is considered necessary): changes in cash flows from financing activity; changes as a result of receiving or losing control in subsidiaries or other businesses; effect of changes in foreign exchange rates; changes in the fair value and other changes. These changes in liabilities due to financing activity should be disclosed separately from the changes in other assets and liabilities.

- Interpretations to IFRS 15: Revenue from Contracts with Clients (issued on 12 April 2016), effective 1 January 2018



Amendments to Interpretations to IFRS 15 – Revenue from Contracts with Clients refer to three of the five identified steps (identification of performance obligations, considerations realized as a principal or an agent and licensing) and provide a transition period for application to amended contracts and expired contracts. IFRS 15 requires the entities to identify their performance obligations on the basis of distinguishable (promised) goods or services. When another party is involved in the provision of goods or services to a customer (consideration as a principal or an agent), IFRS 15 requires the entity to define whether it is involved in the transaction as a principal or an agent, depending on whether it exercises control on the goods or services before transferring them to the client. When the company gives license, which can be distinguished from other promised goods or services, the entity should define whether the license is transferred at any time or after the expiration of a period of time, depending on whether the contract requires the entity to undertake actions that will materially affect the intellectual property the buyer is entitled to. For the application of transitional period for application, IASB provides two additional practical means (application by choice): the entity should not amend contracts that have expired as at the beginning of the earliest presented period (only if the full retrospective method is used); for contracts that are amended before the beginning of the earliest presented period, the entities should not recalculate the contracts retrospectively, but should specify the aggregate effect of amendments occurred before the beginning of the earliest presented period (also applicable to those that should account general effect from the initial application of the standard on the date of initial application).

- Amendments to IFRS 2: Classification and Measurement of Share-Based Payment Transactions (issued on 20 June 2016), effective 1 January 2018

IASB supplements the standards with guidance in terms of cash-settled share-based payments that include a performance condition that implement a requirement for keeping accounting in the same way as for equity-settled share-based payments. The Board has introduced the following exception in the standard: share-based payments settled by the company net are fully classified as equity-settled share-based payments if such payment would be classified as equity-settled payment in case it was not characterized as a net settlement. IASB introduces the following clarifications when cash-settled share-based payment is changed to equity-settled share-based payment due to changes in the conditions: in such changes the initially accounted cash-settled share-based payment obligation is being derecognized and the equity-settled share-based payment is accounted on the date of change at fair value, as far as services have been rendered as at the date of the change; each difference between the book value of the obligation as at

#### 4. Standards issued but not yet effective (continued)

the date of the change and the amount stated in the equity on the same date is recognized in profit and loss immediately.

- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on 12 September 2016), effective 1 January 2018

IASB has issued amendments to IFRS 4 that ensure two options for the entities entering into insurance contracts that are within the scope of IFRS 4: an option that allows companies to reclassify income or expense attributable to specific financial assets from profit and loss to other comprehensive income (the so called overlay approach); option for temporary exemption from applying IFRS 9 for entities whose main activity is to enter into contracts within the scope of IFRS 4 (the so called deferral approach). An entity that has chosen to apply the first option retrospectively in terms of financial assets meeting the requirements applies this option upon first-time adoption of IFRS 9, and an entity that has chosen to apply the second option applies it for annual periods beginning on or after 1 January 2018. The application of the two approaches is elective and may be discontinued before starting to apply the new standard for insurance contracts.

- Amendments to IAS 40: Transfer of Investment Property (issued on 8 December 2016), effective 1 January 2018

This amendment defines that there is a transfer of property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intention for use of a property by itself does not constitute evidence of a change in use. The standard provides a list of evidence, which is designated as non-exhaustive list of examples instead of the previous exhaustive list.

- Annual improvements to IFRS 2014 – 2016 (issued on 8 December 2016), effective 1 January 2018/ 1 January 2017

The amendment to IFRS 1 First-time Adoption of IFRS deletes the short-term exemptions because they have now served their intended purpose.



The amendment to IFRS 12 Disclosure of Interests in Other Entities clarifies the scope of the standard by specifying that the disclosure requirements in the standard apply to an entity's interests listed in paragraph 5 (except for those in paragraphs B10–B16), that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

The amendments to IAS 28 Investments in Associates and Joint Ventures clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016), effective 1 January 2018

The interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in foreign currency. It covers the cases when an entity recognizes a non-monetary asset or non-monetary liability arising from payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The interpretation does not apply when an entity measures the related asset, expense or income on initial recognition at fair value of the consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. Also the interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts.

## 5. Income and expenses

### 5. Income and expenses

#### 5.1 Revenue from sale of goods

	2016	2015
	<i>BGN'000</i>	<i>BGN'000</i>
<i>Revenue from:</i>		
Cars and scooters	129,234	116,997
Spare parts and accessories	25,736	23,957
Lubricants	3,908	4,619
Fuels	2,647	
Other	36	-
	<u>161,561</u>	<u>145,573</u>

#### 5.2 Other revenue

	2016	2015
	<i>BGN'000</i>	<i>BGN'000</i>
Sale of fixed assets	1,529	1,504
Book value of sold assets	(326)	(605)
Income from bonuses, default interests, indemnities, etc.	5,471	4,849
	<u>6,674</u>	<u>5,748</u>

#### 5.3 Expenses on materials

	2016	2015
	<i>BGN'000</i>	<i>BGN'000</i>
Fuel	340	423
Consumables	651	722
Spare parts and service tools	343	412
Office consumables	97	93
Promotional materials	131	84
Other materials	539	430



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<b>2,101</b>	<b>2,164</b>
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**5.4 Expenses on hired services**

	2016	2015
	<i>BGN'000</i>	<i>BGN'000</i>
Rent	4,245	4,464
Advertising	1,749	1,612
Expenses on hired services	(45)	183
Transport, maintenance and communications	931	1,036
Fees, insurances and commissions	730	717
Security, etc.	1,601	1,410
	<b>9,211</b>	<b>9,422</b>

**5.5 Expenses on personnel**

	2016	2015
	<i>BGN'000</i>	<i>BGN'000</i>
Remunerations	10,520	9,852
Social security	1,545	1,606
	<b>12,065</b>	<b>11,458</b>

**5.6 Other expenses**

	2016	2015
	<i>BGN'000</i>	<i>BGN'000</i>
Business trip expenses	83	121
Trainings/ Human resources	35	25
Subscriptions and membership fees	52	5
Taxes	546	206
Other expenses	1,846	2,390
	<b>2,562</b>	<b>2,747</b>

**5. Other income and expenses (continued)**

**5.7 Financial expenses**

	2016	2015
	<i>BGN'000</i>	<i>BGN'000</i>
Interest expenses for loans and borrowings	577	1,142
Interest expenses on financial lease contracts	1,184	455
<i>Total interest expenses</i>	<i>1,761</i>	<i>1,597</i>
Other	421	546
	<b>2,182</b>	<b>2,143</b>

**5.8 Financial revenue**

	2016	2015
	<i>BGN'000</i>	<i>BGN'000</i>
Revenues from loans granted and receivables	261	798
Gains from sale of financial assets	-	1,554
Other – financial asset operations	30	37
	<b>291</b>	<b>2,389</b>



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**6. Property, plant and equipment**

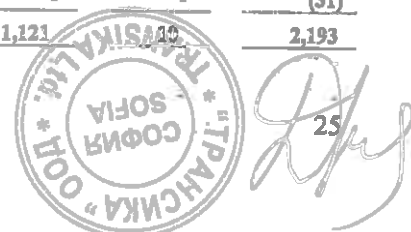
	Land and buildings	Machinery and equipment	Vehicles	Acquisition expenses	Other	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
<b>Book value:</b>						
On 1 January 2015	5,226	8,712	5,986	690	1,532	22,146
Acquired	4,357	406	9,837	1,563	643	16,806
Derecognized	-	(134)	(6,265)	(546)	(317)	(7,262)
To sold companies	(1)	(4)	(52)	-	-	(57)
<b>On 31 December 2015</b>	<b>9,582</b>	<b>8,980</b>	<b>9,506</b>	<b>1,707</b>	<b>1,858</b>	<b>31,633</b>
Acquired	593	1,733	6,439	3,702	82	12,549
Derecognized	-	(205)	(7,475)	(687)	(46)	(8,413)
<b>On 31 December 2016</b>	<b>10,175</b>	<b>10,508</b>	<b>8,470</b>	<b>4,722</b>	<b>1,894</b>	<b>35,769</b>
<b>Depreciation:</b>						
On 1 January 2015	(2,905)	(7,160)	(2,597)	(10)	(1,156)	(12,828)
Accrued depreciation	(112)	(568)	(1,527)	-	(78)	(2,285)
Derecognized	-	124	1,231	-	3	1,358
To sold companies	-	2	40	-	-	42
<b>On 31 December 2015</b>	<b>(3,017)</b>	<b>(7,602)</b>	<b>(1,853)</b>	<b>(10)</b>	<b>(1,231)</b>	<b>(13,713)</b>
Accrued depreciation	(138)	(523)	(1,573)	-	(91)	(2,325)
Derecognized	-	202	1,520	-	39	1,761
<b>On 31 December 2016</b>	<b>(3,155)</b>	<b>(7,923)</b>	<b>(1,906)</b>	<b>(10)</b>	<b>(1,283)</b>	<b>(14,277)</b>
<b>Book value:</b>						
On 1 January 2015	2,321	1,552	4,389	680	376	9,318
On 31 December 2015	6,565	1,378	7,653	1,697	627	17,920
On 31 December 2016	7,020	2,585	6,564	4,712	611	21,492

**Impairment of property, plant and equipment**

The Group did not recognize loss from impairment of property, plant and equipment in 2015, since the check made by the management of the Group for impairment of the fixed tangible assets did not establish any indicators, proving that the carrying amount of the assets exceeds their recoverable value.

**7. Intangible assets**

	Software products	Acquisition expenses	improvements	Property rights	Know-how	Other	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
<b>Book value:</b>							
On 1 January 2015	876	13	79	(97)	1,121	1	1,993
Acquired	47	13	-	1	-	-	61
Derecognized	-	-	-	97	-	-	97
<b>On 31 December 2015</b>	<b>923</b>	<b>26</b>	<b>79</b>	<b>1</b>	<b>1,121</b>	<b>1</b>	<b>2,151</b>
Acquired	45	19	-	-	-	9	73
Derecognized	(31)	-	-	-	-	-	(31)
<b>On 31 December 2016</b>	<b>937</b>	<b>45</b>	<b>79</b>	<b>1</b>	<b>1,121</b>	<b>-</b>	<b>2,193</b>
<b>Depreciation:</b>							
	-	-	-	-	-	-	-





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On 1 January 2015	(605)	(13)	(69)	98	(395)	(1)	(985)
Accrued depreciation	(170)	(1)	(8)	-	(55)	-	(234)
Derecognized	-	-	-	(98)	-	-	(98)
<b>On 31 December 2015</b>	<b>(775)</b>	<b>(14)</b>	<b>(77)</b>	<b>-</b>	<b>(450)</b>	<b>(1)</b>	<b>(1,317)</b>
Accrued depreciation	(120)	(2)	(2)	-	(55)	-	(179)
Derecognized	31	-	-	-	-	-	31
<b>On 31 December 2016</b>	<b>(864)</b>	<b>(16)</b>	<b>(79)</b>	<b>-</b>	<b>(505)</b>	<b>(1)</b>	<b>(1,465)</b>
Book value:							
On 1 January 2015	271	-	10	1	726	-	1,008
On 31 December 2015	148	12	2	1	671	-	834
On 31 December 2016	73	29	-	1	616	9	728

*Impairment of intangible assets*

The Group carried out a review for impairment of the intangible assets as at 31 December 2016. No indicators were found that the book value of the assets exceeds their recoverable value and, as a result, no impairment loss has been recognized in the financial statements.

**8. Investment properties**

	Total BGN'000
Book value:	
On 1 January 2015	2,574
Acquired	-
Derecognized	-
On 31 December 2015	2,574
Acquired	-
Revaluations	850
Derecognized	-
<b>On 31 December 2016</b>	<b>3,424</b>
Depreciation:	
On 1 January 2015	(116)
Accrued depreciation	(21)
On 31 December 2015	(137)
Accrued depreciation	(21)
<b>On 31 December 2016</b>	<b>(158)</b>
Book value:	
On 1 January 2015	2,458
On 31 December 2015	2,437
<b>On 31 December 2016</b>	<b>3,266</b>

**9. Goodwill**

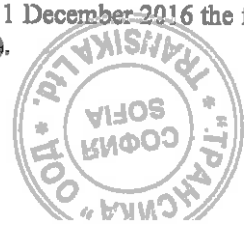
Company	Share in capital %	2016	2015
		BGN'000	BGN'000
Auto Italia EAD	100	2,876	2,876
Bulvaria Varna EOOD	100	5,591	5,591
Daru Car AD	98.84	1,461	1,461
Motobul OOD	100	12,538	12,538



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	22,466	22,466
<b>10. Trade and other receivables</b>		
<b>10.1 Long-term receivables</b>		
	2016	2015
	<i>BGN'000</i>	<i>BGN'000</i>
Loan receivables from related parties	6,104	4,073
Other receivables from related parties	563	1,000
Interest bearing loans to third parties	1,776	1,730
Deferred expenses	9	8
Receivables from sale of shares	3,155	1,666
Other	39	3,937
	<b>11,646</b>	<b>12,414</b>
<b>10.2 Short-term receivables</b>		
	2016	2015
	<i>BGN'000</i>	<i>BGN'000</i>
Trade receivables	10,401	10,619
Receivables from related parties	3,775	5,347
Less: accumulated impairment	(228)	(842)
<i>Trade receivables, net</i>	<i>13,948</i>	<i>15,124</i>
Refundable taxes	180	405
Prepaid expenses	2,326	2,248
Receivables under trade loans granted	156	1,088
<i>Of which to related parties</i>	<i>-</i>	<i>11</i>
Legal and awarded receivables	54	51
Advances granted	125	427
Receivables from sale of shares	2,629	-
Other	1,718	2,755
	<b>21,136</b>	<b>22,098</b>
<b>11. Inventories</b>		
	2016	2015
	<i>BGN'000</i>	<i>BGN'000</i>
Vehicles and scooters	16,495	16,313
Spare parts	9,363	8,425
Lubricants	1,665	907
Dispatched goods	7,969	4,292
Fuels	1	-
Materials	246	1,534
	<b>35,739</b>	<b>31,471</b>
<b>12. Cash and short-term deposits</b>		
	2016	2015
	<i>BGN'000</i>	<i>BGN'000</i>
Cash in bank accounts	579	2,560
Cash on hand	192	268
Blocked cash	502	474
	<b>1,273</b>	<b>3,302</b>

Cash in banks bear floating interest rates, based on the daily rates on bank deposits. As at 31 December 2016 the fair value of the cash and cash equivalents is 1,273 thousand BGN (2015 – 3,302 thousand BGN).



### 13. Share capital and reserves

	<u>2016</u> <i>BGN'000</i>	<u>2015</u> <i>BGN'000</i>
80,008 ordinary shares with par value of BGN 500 each	40,004	40,004

The change in share capital is presented below:

	<u>Number of ordinary shares (thousand pcs.)</u>	<u>Registered and issued capital (BGN'000)</u>
On 1 January 2015	80,008	40,004
On 1 January 2016	80,008	40,004
On 31 December 2016	<u>80,008</u>	<u>40,004</u>

#### 13.2 Reserves

##### *Statutory reserves*

Statutory reserves are set up by joint stock companies as a profit allocation in accordance with art.246 of the Commerce Act. They are set aside until they become one tenth or more of the capital. Sources of formation of the statutory reserves are at least one tenth of the net profit, premiums from issues of shares and the funds envisaged in the articles of association or by a resolution of the general meeting of the shareholders. The statutory reserves can only be used for covering losses from the current and previous reporting periods.

### 14. Interest-bearing loans and borrowings

#### 14.1 Long-term

	<u>2016</u> <i>BGN'000</i>	<u>2015</u> <i>BGN'000</i>
Bank and other loans, overdrafts	7,897	6,063
Loans from related parties	8,778	11
	<u>16,675</u>	<u>6,074</u>

#### 14.2 Short-term

	<u>2016</u> <i>BGN'000</i>	<u>2015</u> <i>BGN'000</i>
Bank and other loans, overdrafts	11,629	14,295
Loans from related parties	12	13
	<u>11,641</u>	<u>14,308</u>

The carrying amount of the current loans is close to their fair value. All long-term loans will reach their maturity within 1 to 5 years.

### 15. Bond issue

	Effective interest rate	Maturity date	<u>2016</u> <i>BGN'000</i>	<u>2015</u> <i>BGN'000</i>
First ranking issue with ISIN: BG2100025126				
Long-term	5.50%	10-12-17	-	6,800
Short-term			7,009	209



7,009

7,009

## 16. Finance lease liabilities

Net liabilities for finance lease are analyzed as follows:

### Net liabilities

	2016	2015
	<i>BGN'000</i>	<i>BGN'000</i>
Up to 1 year	2,726	2,595
From 1 to 5 years	6,979	6,444
	<u>9,705</u>	<u>9,039</u>

Net liabilities for financial lease to related parties are analyzed as follows:

### Net liabilities

	2016	2015
	<i>BGN'000</i>	<i>BGN'000</i>
Up to 1 year	353	555
From 1 to 5 years	2,149	3,092
	<u>2,502</u>	<u>3,647</u>

## 17. Trade and other payables

### 17.1 Long-term

	2016	2015
	<i>BGN'000</i>	<i>BGN'000</i>
Payables for purchase of shares	4,524	6,619
Payables to related parties	360	460
Other	1,472	6
	<u>6,356</u>	<u>7,085</u>

### 17.2 Short-term

	2016	2015
	<i>BGN'000</i>	<i>BGN'000</i>
Payables to suppliers and clients	34,664	34,848
Payables to related parties	991	918
Advances received	1,818	2,596
Payables to personnel and social security entities	1,274	1,383
Tax payables	2,604	2,565
Deferred income	432	247
Payables for purchase of shares	1,943	2,625
Other	804	1,737
	<u>44,530</u>	<u>46,919</u>



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**18. Related party disclosure**

*Ultimate parent company*

The ultimate parent company of the Group is Eurohold Bulgaria AD.

*Companies with controlling interest:*

99.99 % of the shares of Avto Union AD are held by Eurohold Bulgaria AD.

*Other related parties*

The other related parties are under the common control of "Eurohold Bulgaria" AD (the ultimate parent company).

The total amount of related party transactions and the balances due for the current and the preceding reporting period are presented, as follows:

Sales to/ Purchases from related parties		Sales to	Purchases	Amounts	Amounts
		related	from	payable	payable
		parties	related	by	to related
		BGN'000	parties	related	parties
			BGN'000	parties	BGN'000
				BGN'000	BGN'000
<i>Ultimate parent company</i>					
Eurohold Bulgaria AD	2016	2	130	5	111
Eurohold Bulgaria AD	2015	-	187	4	70
<i>Other related parties (under common control)</i>					
AutoPlaza EAD *	2016	15	3	48	2
AutoPlaza EAD *	2015	544	46	48	14
Euroins - Health Insurance AD	2016	1	-	12	1
Euroins - Health Insurance AD	2015	-	1	11	8
ZD EIG Re AD	2016	197	-	15	-
ZD EIG Re AD	2015	-	-	-	-
Euroins Romania /Asitrans/	2016	63	96	-	326
Euroins Romania /Asitrans/	2015	-	96	-	223
Eurolease Auto Skopje	2016	1,026	27	55	30
Eurolease Auto Skopje	2015	1,185	23	375	100
Eurolease Auto AD	2016	1,135	33	1,571	286
Eurolease Auto AD	2015	1,948	34	1,668	377
Eurofinance AD	2016	4	-	1	-
Eurofinance AD	2015	-	-	1	-
ZD Euroins AD	2016	5,916	187	1,731	474
ZD Euroins AD	2015	6,953	45	3,473	564
ZD Euroins Life EAD	2016	6	-	18	-
ZD Euroins Life EAD	2015	3	60	8	-
Euroins Insurance Group AD	2016	10	-	25	-
Euroins Insurance Group AD	2015	7	-	36	6
Eurolease Group EAD	2016	-	-	1	-
Eurolease Group EAD	2015	-	-	-	-
Euroins Osiguruvanje – Skopje	2016	8	3	2	3
Euroins Osiguruvanje – Skopje	2015	38	3	5	2
Sofia Motors EOOD	2016	-	-	4	12
Sofia Motors EOOD	2015	-	-	-	-
Eurolease Rent-a-Car EOOD	2016	4,589	15	850	106
Eurolease Rent-a-Car EOOD	2015	3,190	34	718	14
	2016	<u>12,972</u>	<u>494</u>	<u>4,338</u>	<u>1,351</u>
	2015	<u>13,868</u>	<u>529</u>	<u>6,347</u>	<u>1,378</u>



18. Related party disclosure (continued)

Loans from/ to related parties		Interest	Interest	Amounts	Amounts
		income	expenses	payable	payable
		<u>BGN'000</u>	<u>BGN'000</u>	<u>by</u>	<u>to related</u>
				<u>related</u>	<u>parties</u>
				<u>parties</u>	<u>parties</u>
				<u>BGN'000</u>	<u>BGN'000</u>
<b>Long-term</b>					
<i>Ultimate parent company</i>					
Eurhold Bulgaria AD	2016			20	8,767
Eurhold Bulgaria AD	2015	347	-	3,644	-
<i>Other related parties</i>					
Autoplaza EAD*	2016				
Autoplaza EAD*	2015	1	-	-	-
Eurolease Group EAD	2016	31	-	1	
Eurolease Group EAD	2015	83	-	407	
Eurolease Auto AD	2016				9
Eurolease Auto AD	2015	-	-	1	9
Starcom Holding AD	2016	32	25	6,083	2
Starcom Holding AD	2015	2	8	21	2
	2016	<u>63</u>	<u>25</u>	<u>6,104</u>	<u>8,778</u>
	2015	<u>433</u>	<u>8</u>	<u>4,073</u>	<u>11</u>
<b>Short-term</b>					
<i>Ultimate parent company</i>					
Eurhold Bulgaria AD	2016	47	17		
Eurhold Bulgaria AD	2015	-	-	11	1
<i>Other related parties</i>					
Euroins Romania /Asitrans/	2016				9
Euroins Romania /Asitrans/	2015	-	-		9
Euroins Osiguruvanje – Skopje	2016				3
Euroins Osiguruvanje – Skopje	2015				3
Eurolease Auto AD	2016				
Eurolease Auto AD	2015	5	5		
	2016	<u>47</u>	<u>17</u>	<u>-</u>	<u>12</u>
	2015	<u>5</u>	<u>5</u>	<u>11</u>	<u>13</u>



*[Handwritten signature]*

### 18. Related party disclosure (continued)

		Interest income	Interest expenses	Amounts payable by related parties	Amounts payable to related parties
		<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
<b>Finance lease</b>					
<b>Long-term finance lease</b>					
<i>Other related parties</i>					
Eurolease Auto AD	2016	-	-	-	1,295
Eurolease Auto AD	2015	-	-	-	2,541
Eurolease Auto Skopje	2016	-	-	-	854
Eurolease Auto Skopje	2015	-	-	-	551
	2016	-	-	-	2,149
	2015	-	-	-	3,092
<b>Short-term finance lease</b>					
<i>Other related parties</i>					
Eurolease Auto AD	2016	-	148	-	353
Eurolease Auto AD	2015	-	204	-	555
Eurolease Auto Skopje	2016	-	-	-	-
Eurolease Auto Skopje	2015	-	-	-	-
	2016	-	148	-	353
	2015	-	204	-	555

#### Conditions of the related party transactions

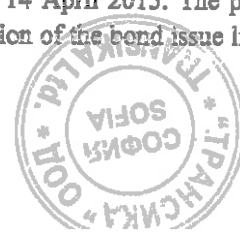
The sales and purchases are carried out at negotiated prices. A check of impairment of the receivables is made every financial year on the basis of an analysis of the financial position of the related party and the market where it operates.

### 19. Contingent liabilities

By virtue of a Resolution of the Board of Directors, Avto Union AD enters into a debt under a Bond Loan with ISIN code BG2100006092, issued by Asterion Bulgaria EAD, as it bears joint liability for its execution. The nominal amount of the bond loan is 7 500 000 EUR.

A session of the General Meeting of the Bondholders was held on 11 April 2014, resulting in adoption of resolution to extend the bond issue of Asterion Bulgaria AD 14.04.2019 until 14 April 2019. The interest rate was also changed, now amounting to 6.25%.

The principal will be repaid at each interest payment of 350 000 EUR, counted from 14 April 2015. The payment dates remain 14 April and 14 October, as they were carried out so far, before the extension of the bond issue liability. As at 31.12.2016 the current amount of the bond loan is EUR 6 100 000.



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## 20. Financial risk management objectives and policy

The main financial liabilities of the group include interest-bearing loans and borrowings and trade payables. The main objective of these financial instruments is to ensure financing for the group activity. The Group has financial assets, such as trade receivables and cash and short-term deposits arising directly from operations.

In 2016, as well as in 2015, the Group did not have and did not trade in derivative financial instruments.

The main risks ensuing from the group's financial instruments are interest rate risk, liquidity risk, currency risk and credit risk. The policy applied by the group management for management of these risks is summarized below.

### *Interest rate risk*

The Group is exposed to risk of a change in the market rates of interest, mainly with respect to its short-term and long-term financial liabilities with variable (floating) rate of interest. The policy of the group is to manage the interest costs by using financial instruments, both with fixed and variable interest rates.

### *Liquidity risk*

The effective group liquidity management assumes the provision of sufficient working capital, mostly through the maintenance of authorized credit lines and short-term financing from related parties.

### *Currency risk*

The group makes purchases and receives loans in foreign currencies – Euro. As the BGN/Euro exchange rate is fixed at 1.95583, the currency risk ensuing from the group's euro exposures is minimal.

### *Credit risk*

The group only trades with solvent counterparties. Its policy is that all clients who want to trade under the conditions of deferred payment are subject to procedures for verification of their solvency. Furthermore, the balances under the commercial receivables are tracked on an on-going basis, and as a result the group's exposure to delinquent and bad debts is not material. There are no significant concentrations of credit risk in the group. The credit risk arising from the other financial assets of the group, such as cash and other financial assets represents the credit exposure of the group ensuing from the possibility that its counterparties may not fulfil their obligations.

The maximum credit exposure of the group with respect to the recognized financial assets amounts to their respective value under the statement of financial position as at 31 December 2016.

### *Capital management*

The main objective of the group capital management is to ensure a stable credit rating and capital indicators, in view of the continuing functioning of the business and maximization of its value for the shareholders.

The group manages its capital structure and changes it, if necessary, dependent on the changes in the economic conditions. With view of maintaining or changing its capital structure, the group may correct the payment of dividends to the shareholders, redeem own shares, decrease or increase its capital, by a resolution of the shareholders. In 2016, as well as in 2015, there are no changes in the objective, policies or process with respect to the group capital management.

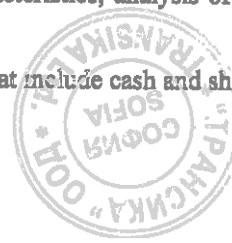
## 21. Financial instruments

### **Fair values**

Fair value is the amount, for which a financial instrument can be exchanged or settled between informed and willing parties in a fair transaction between them, and which serves as the best indicator of its market value on an active market.

The Group fixes the fair value of the financial instruments on the basis of the available market information or if no such information is available, through appropriate valuation models. The fair value of the financial instruments traded actively on organized financial markets is determined on the basis of the quoted "buy" prices in the end of the last working day of the reporting period. The fair value of financial instruments, for which there is no active market, is determined through valuation modes. These models include use of recent market transactions between informed, fair and willing parties; use of the current fair value of another instrument having similar characteristics; analysis of the discounted cash-flows or other valuation techniques.

The management of Avto Union AD considers that the fair values of financial instruments that include cash and short-





term deposits, trade and other receivables, interest-bearing loans and borrowings, trade and other payables do not differ from their carrying amounts, especially if they have a short-term nature or the applicable rates of interest change in line with the market conditions.

## 22. Events after the reporting period

The Board of Directors of Avto Union AD is not aware of important and material events that occurred after the date of the annual closing of accounts.

*The undersigned, Desislava Georgieva Teodosieva, duly sworn translator, certify herewith that my translation of the attached document - Consolidated annual director's report and consolidated financial statements, from Bulgarian to English language is true and accurate. This translation consists of 65 pages.*

Sworn translator:



*Desislava Georgieva Teodosieva*

