

**AVTO UNION AD**

CONSOLIDATED ANNUAL DIRECTOR'S REPORT  
AND  
CONSOLIDATED FINANCIAL STATEMENT  
**31 December 2017**

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**Avto Union AD**  
**GENERAL INFORMATION**  
for the year ended on December 31, 2016

**Board of Directors**

Assen Hristov  
Kiril Boshov  
Assen Assenov

**Address**

Bulgaria,  
Sofia  
43 Hristofor Kolumb blvd.

**Registration codes**

UIC: 131361786  
VAT ID: BG131361786

**Auditor**

BDO Bulgaria OOD:

**CONSOLIDATED ANNUAL DIRECTOR'S REPORT  
OF AVTO UNION AD  
FOR THE 2017 FINANCIAL YEAR**



**Avto Union AD**  
**CONSOLIDATED ANNUAL DIRECTOR'S REPORT**  
for the year ended on December 31, 2017

The management presents its annual report and the annual financial statements as at 31 December 2017

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

- article "100m" 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 "100m", 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 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 to 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.

## **CONSOLIDATED ANNUAL DIRECTOR'S REPORT**

*containing information about important events that have occurred during the 2017 financial year by virtue of article 100o, paragraph 4, item 2 of POSA (Public Offering of Securities Act)*

### **I. COMPANY INFORMATION**

#### **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 Hristofor Kolumb 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 Hristofor Kolumb 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 Assen 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 natural persons – shareholders, who hold directly more than 5 % of the voting shares.

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

Shareholders	Participation	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 has not issued 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. BUSINESS ACTIVITY REVIEW**

**INVESTMENT PORTFOLIO**

As at 31 December 2017 Avto Union AD holds direct control shareholding in 8 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 EOOD– 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

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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.  
The Companies in the group have the following rights:

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

### CAPITAL INVESTMENTS

Investment description	Owner-ship	Number of shares	Capital expenses (BGN)	Method of financing	Investor
<i>Capital investments of Avto Union AD and of subsidiaries in 2017</i>					
Bulvaria Varna EOOD Capital increase	100%	25 000	250 000	Own funds	Avto Union AD
Star Motors DOOEL Capital increase	100%		195,583	Own funds	Star Motors EOOD
EA Properties EOOD Share purchase	51%		35, 700	Own funds	Avto Union AD
<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 Share purchase	100%		391, 172	Own funds	Star Motors EOOD

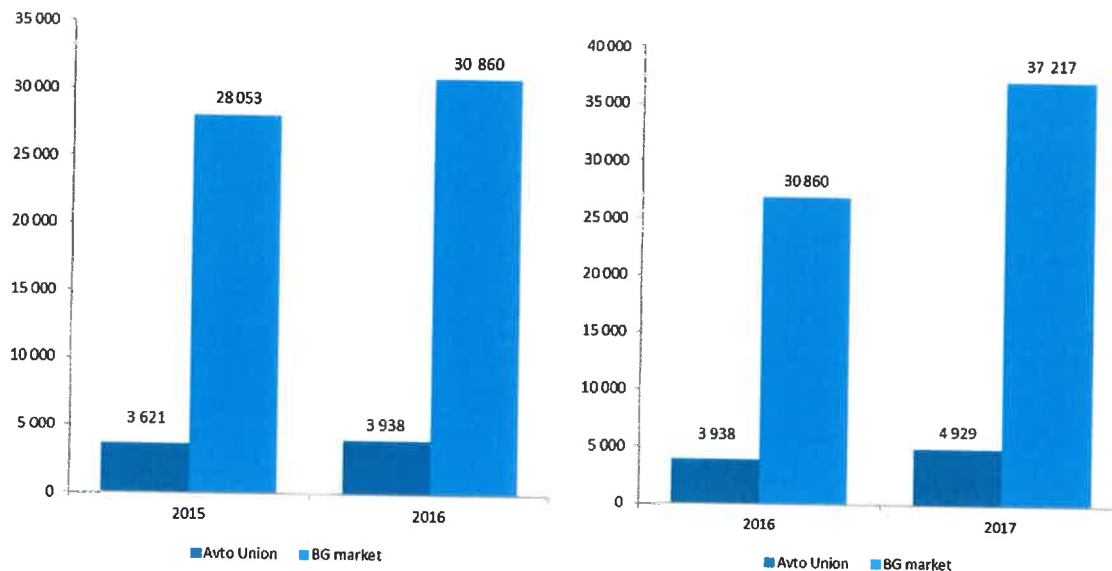
### III. RESULTS FROM THE ACTIVITY

The consolidated financial result of the company for the period from 01.01.2017 to 31.12.2017 is a profit of 258 thousand BGN (2016 - loss of 842 thousand BGN). The consolidated financial result for the owners of the parent company for the same period is a loss of 957 thousand BGN, as compared to 2016, was a loss of 1 382 thousand BGN.

The number of vehicles sold in the twelve months of 2017 increased by 25.2 % compared to the same period of 2016. Incomes from sales of vehicles, spare parts and oils for 2017 increased by 21,5% compared to 2016, and the provision of services shows an increase of 9,8%. The total increase of all incomes for 2017 is 21.0 %.



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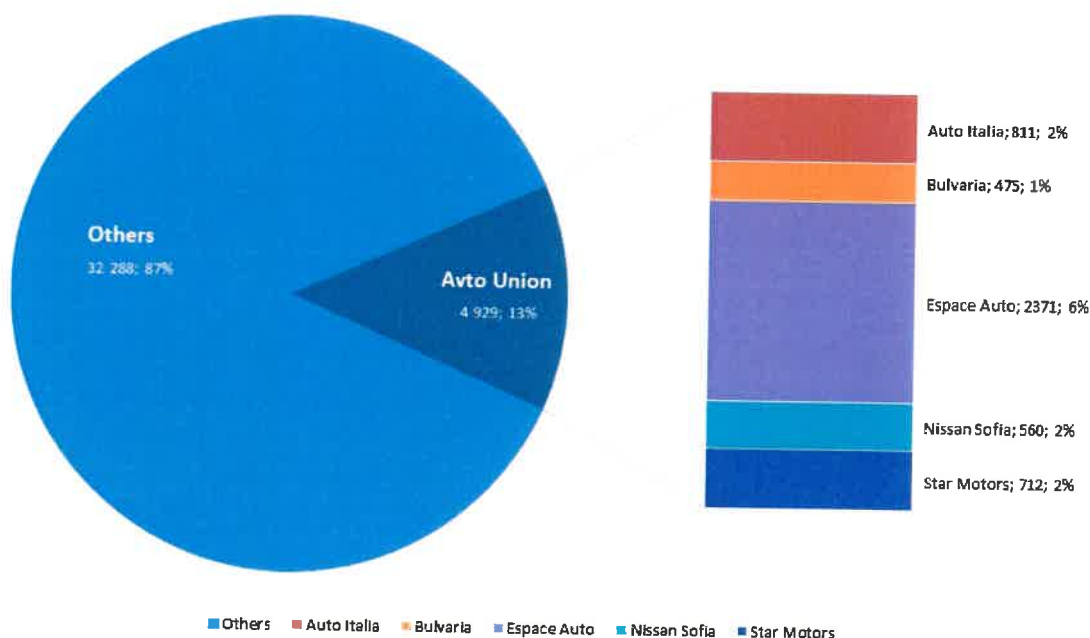


Sales of new vehicles by Avto Union Group compared to the Bulgarian market - 2015, 2016 and 2017,

*Source: Union of Importers of Automobiles in Bulgaria*

For the period considered, operating costs also increased their level from the previous 2016, but their growth rate was much lower than that of revenue, which amounts to only 2.3%.

For the period ended 31.12.2017 the sales of new vehicles and light-duty trucks realized by Avto Union – the automotive holding in the group of Eurohold Bulgaria, amount to 4 929 vehicles compared to 3 938 vehicles sold during 2016, which represents a growth of 25.2%. Based on data of the Union of the Automobile Importers in Bulgaria the market of new vehicles and light-duty trucks has registered a growth of 20.6% for the period 01.01.2017 - 31.12.2017 compared to the same period in 2016



*Number of vehicles sold and market share of automobile companies in the Avto Union group for 2017*

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During the period considered Opel has registered a growth of 2% for the city of Varna and 25% for the city of Sofia. Espas Auto OOD increased its sales in Dacia by 23.2% and Renault by 19.4% as compared to 2016. In the case of N Auto AD, there was an increase in sales of 45% for Nissan brand vehicles. Auto Italia EAD increased its sales in all its vehicle brands - at Fiat by 59%, at Alfa Romeo by 165%, and at Maserati - by 48.6%. Star Motors EOOD indicates a slight increase of 2.2% on sales of new Mazda vehicles compared to last year - the reported number for the twelve months of 2017 was 712, compared to 697 in 2016.

During the reporting period the companies from the automotive holding concluded fleet deals for 1,276 vehicles in total for the amount of almost 29.7 million BGN, while the ratio for the previous year is 1,351 vehicles for 30 million BGN, respectively.

Avto Union	Sales		%
	2017	2016	Growth
January – December (YTD)	4 929	3 938	25.2%
<b>Quarterly:</b>			
first quarter (January – March)	1 023	769	33.0%
second quarter (April – June)	1 262	1 129	11.8%
third quarter (July – September)	1 178	918	28.3%
fourth quarter (October – December)	1 466	1 122	30.7%

Later during the year, by resolution of Star Motors EOOD of **02.02.2017** 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. At the end of the reporting period, the total value of the capital of Star Motors DOOEL (Macedonia) amounted to EUR 550,000.

On 21.03.2017, Espas Auto OOD signed an Overdraft Loan Agreement with Raiffeisenbank Bulgaria EAD amounting to EUR 1 300 000. The amount may be used for both working capital and for issuing bank guarantees for payment. Under the terms of the agreement, the interest rate is 1-month EURIBOR + 2.2% (but not less than 2.2%) and the repayment deadline is 30.06.2020.

On **29.03.2017**, Avto Union AD has signed an Annex to its Credit Agreement with UniCredit Bulbank AD, which reduces the interest rate on the multi-purpose credit line contract. Under the new terms and conditions, the interest rate is 1-month EURIBOR + 3.5%.

On the same date an annex to the credit agreement was signed between Auto Italia EAD and UniCredit Bulbank AD, which reduces the interest rate on the contract. Under the new terms and conditions, the interest rate is 1-month EURIBOR + 3.5%.

On **28.04.2017** Avto Union AD has signed an annex to its Revolving bank loan agreement with Raiffeisenbank Bulgaria EAD, which reduces the interest rate on the loan agreement. Under the new terms and conditions, the interest rate is 3-month EURIBOR + 3.9%.

On the same date was signed an annex to the credit agreement between H Auto Sofia EAD and Raiffeisenbank Bulgaria EAD, which reduces the interest rate on the contract. Under the new terms and conditions, the interest rate is 3-month EURIBOR + 3.9%.

On **12.06.2017** Star Motors Ltd. signed an annex to its Contract for a Bank Loan with UniCredit Bulbank AD, through which the parties agreed to increase the credit limit granted to the Borrower in the form of bank guarantees and documentary credits by EUR 800 000. As a result, the total limit at the end of the reporting period granted to the borrower Star Motors EOOD amounted to EUR 4 300 000.

By a decision of 20 June 2017 of Avto Union - the sole owner of the capital of Bulvaria Varna EOOD, the capital of the company was successfully increased by BGN 200 000. At the end of the reporting period the total value of the capital of Bulvaria Varna EOOD amounted to BGN 1 457 700.

On 14.07.2017 Avto Union AD signed a Framework Agreement for the provision of bank guarantees with the Municipal Bank through which the parties agreed to grant a credit limit for bank guarantees to the subsidiaries of the Borrower amounting to EUR 500 000. The expiry date of the guarantees issued under the limit is 14.07.2020.

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At a general meeting of bondholders, held on **08.09.2017**, a decision was taken to **change the parameters of the bond loan issued by "Avto Union" AD**. The General Meeting of the Bondholders decided to make the following changes in the parameters of the bond issue of corporate bonds with ISIN code BG2100025126, as follows:

- The term of the issue was extended by 60 months from 10.12.2017 to 10.12.2022.
- Principal payments are changed as follows: payment of BGN 2,000,000 from the principal up to 10.06.2022 (including in equal installments of BGN 250,000) and one last payment of the principal amounting to BGN 4,800,000 on 10.12.2022
- Change of the interest bond coupon under the bond loan from 5.5% to 4.5% on an annual basis.

After a meeting held on **13.10.2017** by the Board of Directors of Avto Union, Mr. Kiril Boshov was dismissed from his position as Member of the Board of Directors of "H Auto Sofia" EAD. In his place, Mr. Tsvetko Zhezhov was elected.

By a decision of **27.10.2017** of Avto Union - the sole owner of the capital of Bulvaria Varna EOOD, the capital of the company was successfully increased by BGN 50 000. At the end of the reporting period the total value of the capital of Bulvaria Varna EOOD amounted to BGN 1 507 700.

On **12.12.2017**, Avto Union AD signed a contract for the purchase and sale of shares with Espas Auto OOD. Thanks to this contract, Avto Union AD acquired 25,500 shares of EA Properties EOOD, representing 51% of the company's capital.

On 26.12.2017, in the Commercial Register of the subsidiary company Motobul EOOD, a change in the legal form of the company was registered - from EOOD the company was transformed into EAD. Following this change, the company's new UIC is 204917226.

## REVENUES

In 2017 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 01.01.2017 to 31.12.2017 the gross profit of the holding amounts to BGN 32,184 thousand, while for the same period last year it is BGN 29,853 thousand, which represents a growth of 7.8%.

The amount of the income from interest on loans granted is BGN 390 thousand, and for 2016 it is BGN 261 thousand. The expenses for the overall activity of the group amount to BGN 32,013 thousand. (For 2016: BGN 30,646 thousand), of which interest expenses on borrowings amounted to BGN 2,010 thousand. (For 2016: BGN 577 thousand).

The holding generates negative financial result for 2017 in the amount of BGN 957 thousand, and for 2016 it is also negative and is in the amount of BGN 1,382 thousand.

## Structure of income and expenses on consolidated basis:

Income	2017		2016	
	BGN'000	share	BGN'000	share
Operating income	205 973	96%	170 386	96%
Other profit and loss	8 312	4%	6 674	4%
Financial income	430	0%	291	0%
<b>Total income</b>	<b>214 715</b>	<b>100%</b>	<b>177 351</b>	<b>100%</b>
<b>Expenses</b>				
Operating expenses	211 226	99%	175 671	99%
Financial expenses	2 888	1%	2 182	1%
<b>Total expenses</b>	<b>214 144</b>	<b>100%</b>	<b>177 853</b>	<b>100%</b>

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**NET PROFIT**

The result of the Company on a consolidated basis in 2017 is a profit in the amount of BGN 3.22 per share.

	2017	2016
	Thousand BGN	Thousand BGN
Net income	23 872	23 179
Finance income	(2 458)	(1 891)
Financoutcome income before tax	601	(502)
Costs/savings for taxes	(343)	(340)
<b>Current financial result</b>	<b>258</b>	<b>(842)</b>
Number of shares	80 008	80 008
Average number of shares (thousand)	80 008	80 008
<b>Net income per share, BGN</b>	<b>3.22</b>	<b>(10.52)</b>

**FINANCIAL POSITION ON A CONSOLIDATED BASIS**

The amount of the assets increased by 15.4% in 2017 compared to 2016. The non-current assets decreased by 5%. This is mainly due to the decrease in long-term trade and other receivables, and in particular those from related parties, which results from the improvement and more effective implementation of the internal management policy on receivables management.

The current assets increased by 36%, and inventories increased by 49%. This is due to increased sales in 2017, as well as a significant increase in end-of-year deliveries to some companies due to planned sales in the first quarter of 2018. As of 31.12.2017, cash increased by 24% compared to the same period in 2016, an increase of BGN 303 thousand.

**Dynamics of assets:**

ASSETS	2017		2016
	Thousand BGN	change	Thousand BGN
<b>Fixed Assets</b>			
Property, plant and equipment	26 329	23%	21 492
Intangible assets	666	(9%)	728
Investment properties	3 266	0%	3 266
Goodwill	22 466	0%	22 466
Deferred tax asset	469	2%	461
Trade and other receivables	4 103	(65%)	11 646
<b>Total fixed assets</b>	<b>57 299</b>	<b>(5%)</b>	<b>60 059</b>
<b>Current assets</b>			
Inventories	53 249	49%	35 739
Trade and other receivables	24 271	15%	21 136
Cash and short-term deposits	1 576	24%	1 273
<b>Total current assets</b>	<b>79 096</b>	<b>36%</b>	<b>58 148</b>
<b>Total assets</b>	<b>136 395</b>	<b>15%</b>	<b>118 207</b>

**Dynamics of liabilities:**

LIABILITIES	2017		2016
	Thousand BGN	change	Thousand BGN
<b>Non-current liabilities</b>			
Interest-bearing loans	15 850	(5%)	16 675
Bond issue	6 800	n/a	-
Expenses on employees retirement benefit provisions	25	0%	25
Finance lease liabilities	10 071	44%	6 979
Deferred tax liabilities	120	18%	102
Trade and other payables	4 898	(23%)	6 356
	<b>37 764</b>	<b>25%</b>	<b>30 137</b>
<b>Current liabilities</b>			
Trade and other payables	59 239	33%	44 530
Interest-bearing loans	12 477	7%	11 641
Bond issue	18	(100%)	7 009
Finance lease liabilities	4 965	82%	2 726
	<b>76 699</b>	<b>16%</b>	<b>65 906</b>
<b>Equity</b>			
Share capital	40 004	0%	40 004
Reserves	(6 232)	0%	(6 232)
Retained loss	(15 169)	7%	(14 212)
<b>Equity</b>	<b>18 603</b>	<b>(5%)</b>	<b>19 560</b>
Non-controlling interest	3 329	28%	2 604
<b>Total equity and liabilities</b>	<b>136 395</b>	<b>15%</b>	<b>118 207</b>

As at 31.12.2017 the equity of the group decreases by 5%, which is due to the accumulation of the net result for the year to the retained loss of the holding.

Long-term liabilities have increased by 25%, mainly due to the change in the maturity of the debenture loan at the amount of BGN 6,800,000 from a non-current to current liability by re-negotiating the terms thereof in the proper order. Long-term loans reduce their level by 5% and the financial leasing obligation increases by 44%, which is determined by the increased sales during the period under review.

Short-term liabilities increased their value by 16%, mainly due to an increase in Trade and other payables and finance lease liabilities, both driven by increased sales in 2017.

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. Systematic risks

#### Influence of the international environment

Over the last few years, economists from different countries have come together about the prospect that the prosperity of the world economy depends on all the big ones, as well as on the growing number of developing and smaller participants. Questions about the aging population in all parts of the world, volatility in energy and agricultural product prices, unequal distribution of income among members of the population, as well as the risk of systematic global financial fluctuations are the main topics for discussions in many international forums. These trends are inextricably



linked with the Bulgarian macroeconomic environment and have a constant influence on the results of local companies and their future development. Another outstanding issue is the excessive depletion and neglect of the importance of using limited global resources. Against the backdrop of these facts, the economists are united around the idea that ultimately the change in the way in which global businesses operate will be dictated and imposed by the worsening environment and the reduction of beneficial opportunities for single entrants. The exit from the realization of certain risks related to the international environment will depend to a large extent on the plans and preventive measures of individual countries and international institutions, which is also evident from the last global economic crisis. The risk of the impact of the international environment on companies can not be diversified and affects all players, but on the other hand it can become an engine for the development and application of innovation, which dramatically change and increase business efficiency on a global scale.

### **Risk, ensuing from the general macroeconomic, political and social system, and governmental 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 that influence the development of the Group. These external factors, as well as other unfavorable political, military or diplomatic factors which lead to social instability might result in limitation of consumer expenditures, including limitation of the funds for insurance policies, car purchases 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 Group. Hence, there is a risk that if the business environment worsens as a whole, the sales of the Group and its subsidiaries may be lower than those initially planned. Moreover, the general changes in the governmental policy and the regulatory systems might lead to an increase in the operating expenses of the Group and of capital requirements. In case the above factors came into effect, fully or partially, they might have a considerable negative impact and consequences on the perspectives of the Group, its results or its financial position.

### **Political risk**

This is the risk which ensues from the political processes in the country – the risk of political destabilization, changes in the governance principles, legislation and economic policy. The political risk is directly related to the possibility for unfavorable changes in the long-term government policy. As a result, there is a risk 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 related to regulatory changes**

The results of the Company can be influenced by 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 country**

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.

On 02.06.2017, the rating agency Fitch Ratings raised Bulgaria's credit outlook to positive from stable. The agency confirmed Bulgaria's long-term credit rating "BBB –" in foreign and domestic currency, the top country's rating "BBB +" as well as the short-term credit rating in foreign and local currency "F3". Improving the outlook to a positive one reflects Fitch Ratings' assessment that the indicators for the development of the Bulgarian foreign sector have improved

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significantly. Fitch forecasts that Bulgaria's economy will grow by 3.0% in 2017 - 2018, which corresponds to the average growth rate for the "BBB" rating countries.

On 02.06.2017, the rating agency S & P Global Ratings raised the outlook for Bulgaria's credit rating from stable to positive. At the same time, the agency confirmed the long-term and short-term credit ratings in foreign and local currency „BB+/B“. The increased outlook for Bulgaria's credit rating reflects the expectations of S & P Global Ratings that fiscal and external indicators will continue to improve and that the authorities will take further steps to strengthen the financial sector where the level of non-performing loans remains high. The Agency notes that in 2017 the economic recovery of the country will continue with the growing contribution of domestic demand to net exports. Improvements are reflected in the labor market, thus increasing disposable income and private consumption. Public investment funded through European funds will also be an important factor for economic recovery.

### **Inflation risk**

The inflation risk is related to the possibility of inflation influencing the real return of investments. Inflation may affect the amount of the Company's costs as part of the company's liabilities are interest-bearing. Their servicing is related to the current interest rates which reflect the inflation level in the country. Therefore, the maintenance of low inflation levels in the country is considered a significant factor for the activity of the Company.

At the moment and as a whole, the currency board mechanism provides guarantees that inflation in the country will remain under control and will have no adverse effect on the country's economy, and in particular on the Company's activities.

Given this, each investor should well understand and account for both the current levels of inflation risk and the future opportunities for its manifestation.

According to the Ministry of Finance forecast for macroeconomic indicators by 2020, the growth rate of the economy is expected to slow down gradually and the projected average growth for the period 2017-2020 to amount to 2.0%.

### **Currency Risk**

This risk is related to the possibility for depreciation of the local currency.

Specifically for Bulgaria this is the risk of untimely cancelation of the conditions of the Currency Board at fixed national currency exchange rate. Considering the policy adopted by the government and the Central Bank, it is expected for the Currency Board to be maintained until entering of the country in 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 Group may have significant adverse effect on the economic subjects in the country, including the Company. There is also a risk when the revenues and the expenses of a company are formed in different currencies.

### **Interest rate risk**

The interest risk is related to the possibility for change in the predominating interest levels in the country. Its influence is related to the possibility for decrease in the net income of the companies as a result of the increased interest rates, at which the Group finances its activity. Interest risk is included under macroeconomic risks, due to the fact that the main reason for change in the interest rates is the occurrence of instability in the financial system as a whole. This risk can be managed through balanced use of different sources of financial resource. Typical example of the occurrence 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 margins for credit risk were reconsidered and increased on a global level. 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 conditions 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

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amount of the expenses of the company, since a large portion of the liabilities of the Company is interest bearing and their servicing is related to the current interest rates.

### **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. Unsystematic 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 dependent on the presence of permits and authorizations which the respective automobile manufacturers have presented to the companies in the group of Avto Union. The cancelation or withdrawal of such rights might decrease drastically the sales of the Group. This is particularly important in the context of global restructuring of the automotive industry. The business environment in the automotive industry is also influenced by purely internal factors related to the general purchasing power, access to financing, business tendencies, inventory levels, etc.

The main risk associated with the activity of the Group is the possibility for decrease of the income from sales from the companies where the Issuer participates. This influences the dividends received. 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 Group**

The future earnings and the economic value of the Group 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 Group tries to manage the risk of strategic errors through continuous monitoring of the different stages upon implementation of its marketing strategy and the results thereof. 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. Untimely or inappropriate changes in the strategy can also have a considerable negative effect on the activity of the company, its operating results and financial position.

### **Risks related to the management of the Group**

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

- ◆ making wrong decisions about the current management of investments and the liquidity of the company, both on the part of the senior management and the operating officers of the holding;



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- ◆ inability of the management to start the implementation of the projects planned or lack of suitable management for specific projects;
- ◆ possible technical errors in the unified management information system;
- ◆ possible errors in the internal control system;
- ◆ key employees leaving the company and inability to employ personnel with the necessary qualities;
- ◆ risk of excessive increase in the expenses for management and administration, which leads to a decrease in the total profitability of the Group.

#### **Risks related to recruiting 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. The demographic crisis in the country - an aging population and a low birth rate - also has an additional impact. As a result of these and other factors, 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 Group in the future as well. The success of the company will also be relevant to its ability to retain and motivate these individuals. 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 Group expects that such acquisitions will continue in the future. The risk for the Group lays in the uncertainty of identifying suitable objects for acquisition and investment opportunities in the future. On the other hand, there is uncertainty as to the evaluation of the profitability of future asset acquisitions and whether they will lead to comparable results with the investments made so far. Also, acquisitions and investments are subject to a number of risks, including possible adverse effects on business performance as a whole, unforeseen events as well as obligations and difficulties in integrating activities.

#### **Financial risk**

The financial risk is the additional uncertainty with regard to the investor in obtaining income, when the company uses borrowed or borrowed funds. This additional financial insecurity adds to the business risk. When part of the funds used for financing of the activity of the company are in the form of loans or debt securities, the repayment of these funds represents a fixed liability.

The bigger the share of the long-term debt in comparison to the equity, the bigger the possibility of a failure in the repayment of fixed liabilities. The Increase of the value of this indicator shows increase in the financial risk as well. Another group of indicators is related to the inflow of revenue, which makes possible the payment of the company's liabilities. An indicator which can be used is the indicator for coverage of the fixed liabilities paid (interests). This indicator shows the times the fixed interest payments are contained in the income, before payment of interests and its taxation. It also indicates the ability of the company to pay its long-term liabilities.

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

#### **Currency Risk**

The group operates mainly in Bulgaria. Since 1996 the local currency in Bulgaria has been pegged to the Euro and therefore the currency risk is minimized.

The present issue of corporate bonds is denominated in Bulgarian lev (BGN). 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

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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.

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 presence of good financial indicators of profitability and capitalization of a certain company does not guarantee the smooth coverage of current payments. Liquidity risk might occur in case of late customer payments.

Avto Union AD strives to minimize this risk by optimum management of the cash flows within the very group. The Group applies an approach that provides the necessary liquidity to meet the liabilities incurred under normal or extraordinary conditions without incurring unacceptable losses or undermining the reputation of individual companies and the economic group as a whole.

The companies do financial planning in order to be able to pay their expenses and current liabilities for a period of ninety days, including servicing of financial liabilities. This financial planning minimizes or excludes completely the potential effect from occurrence of exceptional circumstances.

The management of the Group supports the efforts of the subsidiaries in the Group for borrowing bank resources for investment and using the opportunities this type of financing gives for the provision of cash. The volume of these borrowings is maintained at certain levels and they are resolved after proving the economic effectiveness of each company. The policy of the management is aimed at the provision of financial resource from the market, mainly in the form of share securities (shares) and debt instruments (bonds), which it invests in its subsidiaries through the granting of loans for the financing of their projects. It also participates in the increase of their capital.

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:

December 31, 2017

*In thousand BGN*

	Up to 1 month	1-3 month	3-12 month	1 - 5 years	More than 5 years	With no maturity	Total
<b>ASSETS</b>							
Property, plant and equipment	73	24	67	5 009	8 651	12 505	26 329
Intangible assets	0	0	40	49	561	16	666
Investment property	-	-	-	-	-	3 266	3 266
Positive reputation	-	-	-	-	-	22 466	22 466
Deferred tax assets	3	-	274	192	-	-	469
Loans granted	-	20	1 281	711	-	-	2 012
Trade and other receivables	9 109	8 302	5 168	3 773	10	-	26 362
Inventories	6 739	8 607	24 709	1 530	-	11 664	53 249
Cash	824	6	-	422	-	324	1 576
<b>TOTAL ASSETS</b>	<b>16 748</b>	<b>16 959</b>	<b>31 539</b>	<b>11 686</b>	<b>9 222</b>	<b>50 241</b>	<b>136 395</b>
<b>LIABILITIES</b>							
Interest bearing loans and borrowings	4	242	11780	23119	-	-	35 145
Trade and other receivables	19 698	10 251	26 832	5 005	-	-	61 786
Finance lease payables	42	97	4 793	10 104	-	-	15 036
Tax payables	1 517	472	425	67	15	-	2 496
<b>Total liabilities</b>	<b>21 261</b>	<b>11 062</b>	<b>43 830</b>	<b>38 295</b>	<b>15</b>	<b>-</b>	<b>114 463</b>

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December 31, 2016

*In BGN thousand*

	Up to 1 month	1-3 month	3-12 month	1 - 5 years	More than 5 years	With no maturity	Total
<b>ASSETS</b>							
Fixed assets				4 291	10 909	7 020	22 220
Investment property					3 266		3 266
Positive reputation						22 466	22 466
Deferred tax assets				461			461
Trade loans granted			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	18263	16675			35 325
Trade and other receivables	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>

The companies carry out financial planning in order to be able to pay their expenses and current liabilities for a period of ninety days, including servicing of financial liabilities. This financial planning minimizes or excludes completely the potential effect from occurrence of exceptional circumstances.

The management of the Group supports the efforts of the subsidiaries in the Group for borrowing bank resources for investment and using the opportunities this type of financing gives for the provision of cash. The volume of these borrowings is maintained at certain levels and they are resolved after proving the economic effectiveness of each company. The policy of the management is aimed at the provision of financial resource from the market, mainly in the form of share securities (shares) and debt instruments (bonds), which it invests in its subsidiaries through the granting of loans for the financing of their projects. It also participates in the increase of their capital.

**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 result from contracts for temporary financial assistance for the subsidiaries and transactions related to the ordinary commercial activity of the subsidiaries.

The risk of possible realization of transactions between the companies in the Group, under conditions which differ from the market conditions, is the risk of achieving low profitability from the provided inter-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 might have a negative impact on the profitability of the whole 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 do not differ from the usual market prices and in compliance with IAS 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 Group, 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 current analysis of the following:

- ◆ market share, pricing policy, marketing surveys and studies of the development of the market and the market share;
- ◆ active management of investments in the different industry sectors;
- ◆ comprehensive management policy for the assets and liabilities of the company in order to optimize the structure, quality and return of the company assets;
- ◆ optimization of the structure of the borrowings in order to guarantee liquidity and decrease the financial expenses of the company;
- ◆ effective cash flow management;
- ◆ optimization of the costs for administration, management and external services;
- ◆ human resource management.

The occurrence of unexpected events, the incorrect assessment of current trends, as well as many other micro and macroeconomic factors might influence the judgment of the company's management. The only way to handle this risk is through working with professionals with many years of experience, as well maintaining complete and current data base about the development and the tendencies on the market in these areas.

#### **Risk management**

The Group has implemented a complete corporate integrated risk management system. The system covers all business segments within the Group and its subsidiaries and its purpose is to have the risks in all lines, identified analyzed and organized. The effective risk management system guarantees the Group financial stability, despite the ongoing global financial and economic problems.

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.

Risk management aims to:

- ◆ identify potential events which might influence the functioning of the Group and the achievement of certain operating goals;
- ◆ control the importance of the risk to a level, acceptable for the Group;
- ◆ achieve the financial goals of the Group at the lowest level of risk possible.

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

As at the end of 2017, 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 20.6%. For the purposes of comparison the growth in 2016 is 10%, and in 2015 – 15.3%.

The growth of sales of new vehicles we witnessed in 2016 continued at faster speed in 2017. According to UAI 20.6% more vehicles were sold in 2017 in comparison to 2016, and for the purposes of comparison the 2015's growth in relation to 2015 was about 10%. This growth is expected to be sustained and even increased in the coming year, which is still largely due to the ongoing process of renewing the old fleets in the country. During 2017 we expect slower growth rate of corporate transactions and small growth in retail transactions supported by the relatively stable economy.



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The Avto Union Group predicts a slight increase in market share as a result of the excellent opportunities for developing the existing customer base by individuals and legal entities.

No economic turmoil is expected in the new car market in Bulgaria, with the expectation to grow with the growth of the country's economy.

## **VI. RESEARCH AND DEVELOPMENT**

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

## **VII. ENVIRONMENTAL PROTECTION**

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

## **VIII. IMPORTANT EVENTS AFTER THE DATE OF THE ANNUAL FINANCIAL STATEMENT**

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.

## **IX. INFORMATION REQUIRED UNDER THE COMMERCE ACT**

### **1. Number and nominal value of the acquired and transferred during the year own shares, the part of the capital they represent, as well as price for the acquisition or the transfer**

In 2017 the Group did not purchase own shares and own shares were not transferred, respectively the Group does not have own shares.

### **2. Number and nominal value of own shares and the part of the capital they represent**

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 Group and its subsidiaries.**

In 2017 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	39 000
Kiril Boshov	28 000
Assen Assenov	99 650

*The members of the supervisory and management bodies have not received any remunerations and/or compensations in kind during the specified period.*

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 service.

The term of service 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.

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**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 Company's shares have been issued in favor of the management and supervisory bodies' members, 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>	<b>Assen Milkov Hristov</b>
<b>Title</b>	<b>Chairman of the Board of Directors</b>
<b>Office address</b>	City of Sofia, 43 Hristofor Kolumb blvd.
Information as of 31.12.2017 about activities performed outside of the company, which are of importance to the company	<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>
Data for all other participations as a member of a management/ supervisory body and/or a shareholder/partner in the last 5 years	<p><b><u>Present:</u></b></p> <ul style="list-style-type: none"> <li>• Alfa Euroactive EOOD – Sole owner of the capital and 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><b><u>Terminated:</u></b></p> <ul style="list-style-type: none"> <li>• “Balkan International Basketball League” OOD – Manager until 17.11.2017 <ul style="list-style-type: none"> <li>• Avto Union Group” AD (with present trade name “Asterion Bulgaria” AD – Chairman of the Board of Directors – 12. 10. 2011.</li> </ul> </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 Directors – until 16 February 2011;</li> <li>• Formoplast AD – Executive member of the Board of Directors – until 02. 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> </ul>
Information about insolvency, receivership or liquidation, with which the person in his capacity of a member of the management or	As of 31.12.2017. there is no 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

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supervisory bodies was connected in the last 5 years	
Relative professional experience	<p>Assen Hristov holds a master's degree in Physics from Sofia University St. Kliment Ohridski and has specialized in the Institute for Nuclear Research in Dubno, Russia. He has a specialization in Management in Open University - London. Speaks Russian and English.</p> <p>Assen Hristov has occupied the above managerial positions during 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	<p>During the last 5 years no administrative correction measures or administrative penalties were imposed on the person in relation to his activity; he has not been convicted of fraud; in his capacity of a responsible person he has not participated directly or through related parties in any insolvency procedures or receivership; he has not been deprived by a court from his right to participate in management or controlling bodies of other companies.</p>

<b>Name</b>	<b>Kiril Ivanov Boshov</b>
<b>Title</b>	<b>Deputy – Chairman of the Board of Directors</b>
Office address	City of Sofia, 43 Hristofor Kolumb blvd.
Information as of 31.12.2017 about activities performed outside of the company, which are of importance to the company	<ul style="list-style-type: none"> <li>• "Eurohold Bulgaria" AD – Chairman and executive Member 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 Romania Asigurare Reasigurare" SA, Romania – Chairman of the Board of Directors;</li> <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> </ul>
Data for all other participations as a member of a management/ supervisory body and/or a shareholder/partner in the last 5 years	<p><b><u>Current:</u></b></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>• Armada Capital AD – Member of the Board of Directors.</li> </ul> <p><b><u>Terminated:</u></b></p> <ul style="list-style-type: none"> <li>• "Euroauto" OOD – Manager until 18.08.2015</li> <li>• "N Auto Sofia" EAD – member of the Board of Directors until 10.11.2017</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>• "Autoplaza" EAD – Member of the Board of Directors until 15.03.2013;</li> <li>• "Eurolease Auto" AD – Deputy – Chairman of the Board of Directors until</li> </ul>

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	<p>04.07.2011;</p> <ul style="list-style-type: none"> <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>
Information about insolvency, receivership or liquidation, with which the person in his capacity of a member of the management or supervisory bodies was connected in the last 5 years	No data
Relative professional experience	<p>Kiril Boshov holds a master's degree in Accounting and Financial Control from the University of National and World Economy, Sofia. He speaks English and Russian.</p> <p>Between 1995 and 1997 Kiril Boshov served as Chief Accountant of Mobikom – the first mobile operator in Bulgaria, a joint company between 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. From 2000 to 2008 Kiril Boshov has served as a Chairman of the Management Board at Insurance Company Euroins AD and in 2006 the Association of Investors in Bulgaria gives the company the award “Company with 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>
Coercive administrative measures and punishments	<p>During the last 5 years no administrative correction measures or administrative penalties were imposed on the person in relation to his activity; he has not been convicted of fraud; in his capacity of a responsible person he has not participated directly or through related parties in any insolvency procedures or receivership; he has not been deprived by a court from his right to participate in management or controlling bodies of other companies.</p>

<b>Name</b>	<b>Assen Emanuilov Assenov</b>
<b>Title</b>	<b>Executive member of the Board of Directors</b>
<b>Office address</b>	City of Sofia, 43 Hristofor Kolumb blvd.
Information as of 31.12.2017 about activities performed outside of the company, which are of importance to the company	<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> </ul>



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	<ul style="list-style-type: none"> <li>• Motobul EAD (universal legal successor of Motobul EOOD) - Executive Director;</li> <li>• “Motobul Express EOOD – Manager;</li> <li>• “N Auto Sofia” EAD – Chairman of the Board of Directors;</li> <li>• Sofia Motors EOOD - Manager</li> <li>• “Star Motors” EOOD – Manager;</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 – Manager;</li> <li>• “Eurolease Auto” EAD – Chairman of the Board of Directors;</li> <li>• “Avto Union Service” EOOD – Manager;</li> <li>• “Autoplaza” EAD – Executive member of the Board of Directors;</li> <li>• Espace Auto OOD - Manager;</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>
<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><b><u>Current:</u></b></p> <ul style="list-style-type: none"> <li>• “Izgrez 5” EOOD – sole owner of the capital and manager</li> </ul> <p><b><u>Terminated:</u></b></p> <ul style="list-style-type: none"> <li>• “Avto Union Group” AD – Executive member of the Board of Directors until 12.10.2011;</li> <li>• “Bulvaria Rent-a-Car” EOOD – Manager until 09.03.2011;</li> <li>• “Gransport Auto” EOOD – Manager 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 – Manager until 08.01.2015;</li> <li>• “EA Properties” EOOD – Manager until 20.11.2014;</li> </ul>
<p>Relevant professional experience</p>	<p>Assen 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 an MBA (Master of Business Administration) "International Accounting Standards and International Business" from the University of Economics in Vienna.</p> <p>Assen Assenov started his professional career in “Eurohold Bulgaria” AD 12 years ago as an accountant. In the years 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.</p> <p>Currently, Mr. Assenov is responsible for the leasing and automotive industries in the economic structures of the Eurohold Bulgaria. Furthermore, he manages the official importers and dealers on the territory of the country of cars of the following brands Abarath, Nissan, Renault, Opel, Fiat, Fiat Professional, Alfa Romeo, Mazda, Maserati and the oil products Castrol and BP (Motobul), which are all also a part of the</p>

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	holding structure.
Coercive administrative measures and punishments	During the last 5 years no administrative correction measures or administrative penalties were imposed on the person in relation to his activity; he has not been convicted of fraud; in his capacity of a responsible person he has not participated directly or through related parties in any insolvency procedures or receivership; he has not been deprived by a court from his right to participate in management or controlling bodies of other companies.

**7. Contracts entered into in 2017 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 31.12.2017 there are 470 employees appointed by a labour contract in the group. The holding does not employ temporary workers.

**9. Conflict of interests**

There is no information about any conflict of interests resulting from the fulfillment of obligations of the aforementioned persons to the Group or any other private interests they may have. 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**

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. Special emphasis is put on the car repair centers as a main source of revenue due to the low margins on sales of new cars in the current market situation.

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. Good corporate governance is a set of relationships between the management body of the company, its shareholders and all stakeholders - employees, trading

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partners, company creditors, potential future investors and society as a whole. 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. In this regard, and after assessing the achievements in this direction, in 2011 the Managing Board decided to join the National Corporate Governance Code. 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 side in pending court, administrative or arbitration proceedings, which have or might have significant impact on its financial position or profitability. There are no resolutions or claims for termination or liquidation of the Company.

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.

## **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.

### **Management 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.

The management of Avto Union AD is committed to continuous improvement of the efficiency and effectiveness 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 Group, 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.**

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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 perform independent commercial and manufacturing activity. The revenue of Avto Union AD is formed from financing activity.

No big transactions or transactions of considerable importance for the activity of the Holding have been made during the reporting period.

**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 Group, the person under § 1e of the additional provisions of POSA, respectively.**

The company does not perform independent commercial and manufacturing activity.

**3. Information on concluded material transactions.**

In 2017 no big transactions and transactions that are of material importance for the Group's business have been made.

**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 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 preparation of the Report, there are no transactions or deals with related parties that are material to Group or its subsidiary and are unusual by type and condition.

There are no big transactions and transactions that are of material importance for the issuers concluded in 2017. Transactions between the holding and the subsidiaries are typical, where the intragroup loans manage the liquidity of the individual companies and conduct an investment policy.

**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.**

During the reporting period there were no events, which were unusual for the company and which have a considerable impact on its activity and its revenues and expenses.

**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 Group, 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 sheet transactions.

**7. Information on shareholdings of the issuer, respectively the person under § 1e of the Additional Provisions of POSA, for its main investments in the country and abroad (in securities, financial instruments, intangible assets and real estate), as well as investments in equity securities outside its group of undertakings within the meaning of the Accountancy Act and sources/methods of financing.**

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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 EOOD– 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.**

Borrower	Lender	Interest rate	Amount in thousand BGN as of 31.12.2017
Avto Union	Eurohold Bulgaria AD	8.00%	5 815
Avto Union	Daru Car OOD	5.50%	6 861
Avto Union	Bulvaria Holding EAD	5.50%	135
Avto Union	Avto Union Service EOOD	5.50%	776
Avto Union	Motobul EOOD	5.50%	410
Avto Union	Eurolease Auto EAD	6.50%	391
EA Properties EOOD	Espas Auto OOD	3.00%	2 688
Motobul EAD	Starcom Holding AD	6.00%	120

**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 specific conditions there under, including the deadlines for repayment and the purpose for which they have been granted.**

Lender	Borrower	Interest rate	Amount in thousand BGN as of 31.12.2017
Avto Union	Eurolease Group EAD	6.00%	390
Avto Union	Starcom Holding AD	5.00%	231
Avto Union	Auto Plaza EAD	8.10%	8 773
Avto Union	N Auto Sofia EAD	5.00%	87
Espas Auto OOD	EA Properties EOOD	3.00%	2 688

**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 thousand BGN as of 31.12.2017
10122022	4.50%	6 800

During the reporting period until 31.12.2017, 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 2017.



**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 31.12.2017.

**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 Group, the person under § 1e of the additional provisions of POSA, respectively, in the course of preparation of the financial statements.**

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 2017. Avto Union AD does not have a supervisory board.

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**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 Group, 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 Group, 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>
Assen Hristov	39 000
Kiril Boshov	28 000
Assen Assenov	99 650

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 Group'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 Group.

**18. For the public companies – information about Group'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 Group 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 Group, 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 Group, 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 Group's payables or receivables of at least 10 percent of its equity.



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**21. Information for the investor relations director**

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

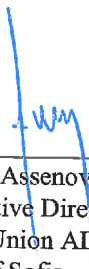
**MANAGEMENT RESPONSIBILITIES**

According to Bulgarian legislation, the Management should prepare financial statements for each financial year which give a true and fair view of the financial position of the Company at the end of the year, its financial performance and its cash flows.

The Management confirms that it is applied consistently adequate accounting policies used in preparing the annual financial statements as of **31 December 2017** and made reasonable and prudent judgments, assumptions and estimates.

Management also confirms that have been followed the accounting standards, the financial statements have been prepared on a going concern basis.

Management shall be responsible for keeping proper accounting records, for safeguarding the assets of the Company, and for taking reasonable steps for the prevention and detection of potential fraud and other irregularities.

  
Assen Assenov  
Executive Director  
Avto Union AD  
City of Sofia  
29.03.2018



## INDEPENDENT AUDITOR'S REPORT

To the shareholders of Auto Union AD

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

We have audited the accompanying consolidated financial statements of Auto Union AD, including the consolidated statement of financial position as at 31 December 2017, the consolidated statement of income and expenses and the other comprehensive income, the consolidated statement of changes in equity and the consolidated statement for the cash flows for the year then ended and the notes to the consolidated financial statements that also contain a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of "Auto Union" AD as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union (EU).

#### Basis for our opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under these standards are further described in our section "Auditor's Responsibilities for the Audit of the Financial Statements". We are independent of the Group in accordance with the Ethics Code of Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code), along with the ethical requirements of the Independent Financial Audit Act (IFAA) applicable to our audit of the financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in line with the requirements of the IFAC and the IESBA Code. We believe that the audit evidence we received is sufficient and appropriate to provide a basis for our opinion.

#### Emphasis of matter

As stated in the consolidated statement of financial position as at 31 December 2017, the amount of the company's equity is less than the registered capital. According to the requirements of the Commerce Act, Avto Union AD should take steps to overcome the breached ratio of own and registered capital. See Note 13.

Our opinion is not qualified in this regard.

## Key audit matters

Key audit matters are those matters that, according to our professional judgment, were of the highest importance in the audit of the consolidated financial statements for the current period. These matters are considered as part of our audit of the financial statement as a whole and the formation of our opinion about it, and we do not provide a separate opinion on these matters.

## Goodwill

Substantive findings	Matters discussed with the audit committee
<p>The fair value of goodwill recognized in the consolidated financial statements note 9 at the amount of BGN 22 466 thousand is reviewed at company level. The management carries out a goodwill test (so-called impairment test) of recognized goodwill at least once a year, or in the event of an event indicating potential loss.</p> <p>In connection with the impairment test, the Group's management has hired independent external appraisers and estimates have been prepared as of 31.12.2017.</p> <p>The test results show that the recoverable amount of goodwill exceeds its carrying amount and there are no indications of impairment of that goodwill.</p> <p>For these reasons, including accounting estimates that have been identified as having a high degree of uncertainty, we have identified this matter as a key matter.</p>	<p>The reputation impairment test is complex and is based on discretionary factors.</p> <p>These factors include, in particular, the expected future cash flows of individual companies (taking into account the evolution of future revenues, budgets, financial income) based on past experience, as well as the management's assessment of the expected market environment. Other factors include the assumed long-term growth rate as well as the baseline region-specific costs.</p> <p>Based on the internal reporting structure we assessed whether changes in the distribution of goodwill are appropriate.</p> <p>In cooperation with our valuation experts, we have evaluated the appropriateness of key assumptions of discretionary decisions and the valuation method applied for impairment testing. We have aligned the expected future cash flows used in the calculation with the strategic business planning approved by the management. We have discussed the market development assumptions with those responsible for planning and matching these assumptions with general and sectoral specific market expectations. We analyzed the consistency of the planning data using information from previous periods.</p>
<p>Procedures in support of our conclusions and discussions:</p> <ul style="list-style-type: none"> <li>- We have traced the procedures for the Group's performance analyzes of the budgets and the forecasts of the individual subsidiaries compared to the reporting period.</li> <li>- We analyzed and evaluated the appropriateness of the budgets and forecasts prepared by the Group.</li> <li>- We reviewed the main assumptions and estimates, calculations and the results of the impairment test of the Group's management prepared with the assistance of an independent external appraiser.</li> <li>- We have tracked the completeness and adequacy of the disclosures in the Group's financial statements on the evaluation of goodwill.</li> </ul>	
<p>References in the Annual Financial statements</p> <ul style="list-style-type: none"> <li>• Note 9</li> </ul>	

## Other information other than the consolidated financial statements and the auditor's report thereon

The management is responsible for the other information. The other information consists of an activity report and a corporate governance statement prepared by the management under Chapter Seven of the Accountancy Act but does not include the consolidated financial statements and our audit report thereon, that we received before the date of our audit report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance on it unless expressly stated in our report and to the extent that it is stated.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and thus to assess whether such other information is in material inconsistency with the consolidated financial statements or with our knowledge acquired during the audit, or otherwise appears to contain material misstatements.

If, on the basis of the work we have done, we conclude that there is material misstatement in this other information, we are required to report this fact.

We have nothing to report in this regard.

### **Responsibilities of management and those charged with governance for the financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS applicable in the EU and for an internal control system that management deems necessary to ensure the preparation of financial statements that do not contain material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern by disclosing, where applicable, matters relating to the going concern assumption and using the entity's accounting treatment based on a going concern assumption if the management does not intend to liquidate the Group or cease its activity, or if the management has virtually no other alternative than to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain a reasonable assurance that the consolidated financial statements as a whole do not contain material misstatements, whether due to fraud or error, and issue an audit report that includes our audit opinion. A reasonable degree of security is a high level of security, but it is not a guarantee that an audit conducted in accordance with the Independent Financial Audit Act and the ISA will always reveal a material misstatement when it exists. Incorrect readings may arise as a result of fraud or error and are considered material if it could reasonably be expected that they alone or as a whole could influence the economic decisions taken by consumers on the basis of these consolidated financial statements.

As part of the ISA audit, we use professional judgment and retain professional skepticism throughout the audit. We also:

- identify and measure the risks of material misstatement in the consolidated financial statements whether due to fraud or error, develop and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and relevant to provide a basis for our opinion. The risk of material misstatement resulting from fraud is higher than the risk of material misstatement resulting from error, as fraud may involve covert agreement, counterfeiting, deliberate omissions, statements of introduction the auditor's misconduct, as well as neglecting or circumventing internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of the Group.
- we assess the appropriateness of the accounting policies used and the reasonableness of the accounting estimates and related disclosures made by the management.

- we conclude on the appropriateness of management's use of the entity's accounting base on the basis of the going concern assumption and, on the basis of the audit evidence obtained, whether there is significant uncertainty about events or conditions that might give rise to significant doubts about the Group's ability to continue as a going concern. If we come to the conclusion that there is significant uncertainty, we are required to draw attention in our audit report to the disclosures in the consolidated financial statements relating to that uncertainty or, in the event that these disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence we have received by the date of our audit report. However, future events or conditions may cause the Group to cease operating as a going concern.
- we evaluate the overall presentation, structure and content of the consolidated financial statements, including disclosures, and whether the financial statements present the underlying transactions and events in a manner that delivers fair presentation.
- we obtain sufficient appropriate audit evidence about the financial information of the enterprises or business activities within the Group to express an opinion on the consolidated financial statements. We bear responsibility for instruction, supervision and execution of the audit of the Group. We bear sole responsibility for our audit opinion.

We communicate with those charged with governance, along with other issues, the scope and timing of the audit, and the material audit findings, including significant internal control deficiencies that we identify during our audit. We also provide to those charged with governance with a statement that we have complied with applicable ethical requirements in relation to independence, and that we will communicate with them all relationships and other matters that could reasonably be considered to be relevant to our independence, and, where applicable, associated safeguards.

Among the matters communicated to those charged with governance, we determine the matters that were most relevant to the auditing of the consolidated financial statements for the current period and which are therefore key audit matters. We describe these matters in our audit report except in cases where a law or regulation prevents the public disclosure of information on this matter or when, in extremely rare cases, we decide that a matter should not be communicated in our report, since it could reasonably be expected that the adverse consequences of this action would outweigh the benefits in terms of the public interest in this communication.

## Report on Other Legal and Regulatory Requirements

### *Additional matters to be reported under the Accountancy Act and the Public Offering of Securities Act*

In addition to our responsibility and reporting under ISAs described in the section "Other information other than the financial statements and the audit report thereon" regarding the activity report and the corporate governance statement, we have also implemented the procedures added to those required by ISAs according to the "Audit Guidelines for New and Expanded Auditor's Reports and Communication" of the Professional Organization of Registered Auditors in Bulgaria, Institute of Certified Public Accountants (ICPA). These procedures concern verification of the existence and verification of the form and content of such other information in order to assist us in formulating opinions as to whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and the Public Offering of Securities Act (Article 100m, paragraph 10 of POSA in conjunction with Article 100m (8) (3) and (4) of the Public Offering of Securities Act) applicable in Bulgaria.

### *Opinion in connection with Art. 37, para. 6 of the Accountancy Act*

Based on the procedures carried out, our opinion is that:

- a) The information included in the consolidated activity report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- b) The activity report is prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100 (m), para. 7 of the Public Offering of Securities Act.



- c) The corporate governance statement for the financial year for which the consolidated financial statements have been prepared presents the required under Seventh Chapter of the Accountancy Act and Art. 100 (m), para. 8 of the Public Offering of Securities Act.

*Opinion in connection with Art. 100 (m), para. 10 in relation to Art. 100 m, para. 8, item 3 and 4 of the Public Offering of Securities Act*

On the basis of the procedures performed and the knowledge and understanding of the business and the environment in which it operates, in our opinion, the description of the main features of an entity's internal control and risk management systems in relation to the financial reporting process, which is part of the activity report (as an element of the contents of the corporate governance statement) and the information under Art. Article 10 para.(1), letters "c", "d", "f", "h" and "i" of Directive 2004/25 / EC of the European Parliament and of the Council of 21 April 2004 on takeover bids do not contain cases of material misstatement.

*Additional reporting on the audit of the financial statements in conjunction with Art. 100 (m), para. 4, item 3 of the Public Offering of Securities Act*

*Statement in connection with Art. 100 (m), para. 4, item 3, letter "b" of the Public Offering of Securities Act*

Information about related party transactions is disclosed in Note 18 to the consolidated financial statements. Based on the audit procedures we performed on related party transactions as part of our audit of the financial statements as a whole, no facts, circumstances or other information have been disclosed to us to conclude that related party transactions are disclosed in the accompanying consolidated financial statements for the year ended 31 December 2017 in all material respects in accordance with the requirements of IAS 24 Related Party Disclosures. The results of our audit procedures on related party transactions are reviewed by us in the context of forming our opinion on the consolidated financial statements as a whole and not for the purpose of expressing a separate opinion on related party transactions.

*Statement in connection with Art. 100 (m), para. 4, item 3, letter „c” of the Public Offering of Securities Act*

Our audit responsibilities for the consolidated financial statements as a whole described in the section of our Report "Auditor's Responsibilities for Auditing the Financial Statements" include assessing whether the consolidated financial statements present the significant transactions and events in a manner that delivers fair presentation. Based on our audit procedures on the material transactions that are the basis of the financial statements for the year ended December 31, 2017, no facts, circumstances or other information have been disclosed to us to conclude that they are cases of substantially untrue representation and disclosure in accordance with the applicable IFRS requirements adopted by the European Union. The results of our audit procedures on the Group's significant transactions and events are reviewed by us in the context of our opinion on the financial statements as a whole rather than in expressing an individual opinion on these material transactions.

**Reporting under Art. 10 of Regulation (EC) No 537/2014 in relation to the requirements of Art. 59 of the Independent Financial Audit Act**

Pursuant to the requirements of the Independent Financial Audit Act in conjunction with Art. 10 of Regulation (EC) No 537/2014, we further report the following information.

BDO Bulgaria OOD was appointed as a statutory auditor of the financial statement for the year ended 31 December 2017 of Avto Union AD from the General Meeting of Shareholders held on 21.06.2017 for a period of one year.

The audit of the consolidated financial statements for owners for the year ended 31 December 2017 of the Group, was conducted in accordance with the requirements of Article 60 of the Independent Financial Audit Act.

We confirm that we have not provided the non-audit prohibited services specified in Article 64 of the Independent Financial Audit Act.

We confirm that we have retained our independence from the Group in the conduct of the audit.

Sofia, 31 March 2018

BDO Bulgaria OOD



Antoniya Saksanova

CPA, registered auditor



Nedyalko Apostolov,

Manager

**Avto Union AD**

**CONSOLIDATED FINANCIAL STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME**

for the year ended on Sunday, December 31, 2017

	Notes	<u>2017</u>	<u>2016</u>
		<i>Thousand</i>	<i>Thousand</i>
		<i>BGN</i>	<i>BGN</i>
Sales of goods	5.1	196 283	161 561
Provision of services		9 690	8 825
Other	5.2	8 312	6 674
<b>Revenues</b>		<b>214 285</b>	<b>177 060</b>
Book value of goods sold		(182 101)	(147 207)
<b>Gross profit</b>		<b>32 184</b>	<b>29 853</b>
Expenses for inventory	5.3	(2 179)	(2 101)
Expenses for external services	5.4	(9 558)	(9 211)
Personnel expenses	5.5	(12 507)	(12 065)
Expenses for depreciation	6,7,8	(2 506)	(2 525)
Other expenses	5.6	(2 375)	(2 562)
<b>Operating profit / (loss)</b>		<b>3 059</b>	<b>1 389</b>
EBITDA		5 565	3 914
Financial expenses	5.7	(2 888)	(2 182)
<b>Financial income</b>	5.8	430	2 91
<b>Profit / (Loss) before tax</b>		<b>601</b>	<b>(502)</b>
Income tax expense/tax savings		(343)	(340)
<b>Profit / (Loss) for the year</b>		<b>258</b>	<b>(842)</b>
Net profit/(loss) attributable to:			
Owners of the Parent Company		(957)	(1 382)
Minority participation		1 215	5 40
<b>Net profit (loss) for the year</b>		<b>258</b>	<b>(842)</b>

The financial statements were approved by the Board of Directors on 29.03.2018 and signed as follows:

Assen Assenov  
Executive Director



Milena Lyubanova  
Chief Accountant



Certified, according to auditor's report:



BDO Bulgaria OOD:



Antoniya Saksanova,  
Certified Accountant, Registered Auditor



Nedyalko Apostolov  
Manager



The explanatory notes from page 9 to page 32 constitute an inseparable part of the Financial Statements.



**Avto Union AD**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
As at December 31, 2017

	Notes	<b>2017</b>	<b>2016</b>
		Thousands BGN	Thousands BGN
<b>ASSETS</b>			
<b>Fixed Assets</b>			
Property, plant and equipment	6	26 329	21 492
Intangible assets	7	666	728
Investment properties	8	3 266	3 266
Positive goodwill	9	22 466	22 466
Deferred tax asset		469	461
Trade and other receivables	10.1	4 103	11 646
		<b>57 299</b>	<b>60 059</b>
<b>Current assets</b>			
Inventories	11	53 249	35 739
Trade and other receivables	10.2	24 271	21 136
Cash and short-term deposits	12	1 576	1 273
		<b>79 096</b>	<b>58 148</b>
<b>TOTAL ASSETS</b>		<b>136 395</b>	<b>118 207</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Fixed capital	13	40 004	40 004
Reserves		(6 232)	(6 232)
Undistributed profit		(15 169)	(14 212)
<b>Total equity</b>		<b>18 603</b>	<b>19 560</b>
Minority participation		3 329	2 604
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	14.1	15 850	16 675
Bond issue	15	6 800	-
Liabilities on employee retirement benefits		2 5	2 5
Finance lease liabilities	16.1	10 071	6 979
Deferred tax liabilities		120	102
Trade and other payables	17.1	4 898	6 356
		<b>37 764</b>	<b>30 137</b>
<b>Current liabilities</b>			
Trade and other payables	17.2	59 239	44 530
Interest-bearing loans and borrowings	14.2	12 477	11 641
Bond issue	15	18	7 009
Finance lease liabilities	16.2	4 965	2 726
		<b>76 699</b>	<b>65 906</b>
<b>Total liabilities</b>		<b>114 463</b>	<b>96 043</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>136 395</b>	<b>118 207</b>

The financial statements were approved by the Board of Directors on 29.03.2018 and signed as follows:

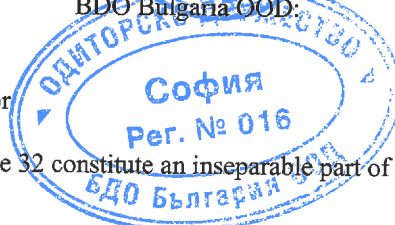
Assen Assenov  
Executive Director

Milena Lyubenova  
Chief Accountant

Antoniya Saksanova,  
Certified Accountant, Registered Auditor

Nedyalko Apostolov  
Manager

Certified, according to auditor's report:  
BDO Bulgaria OOD:



The explanatory notes from page 9 to page 32 constitute an inseparable part of the Financial Statements.

**Avto Union AD**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

for the year ended on Sunday, December 31, 2017

	Share capital (Note 13) <i>Thousand BGN</i>	Reserves <i>Thousand BGN</i>	Retained earnings <i>Thousand BGN</i>	Total capital owned by the company. parent- <i>Thousand BGN</i>	Non-controlling interest	Total
<b>January 1, 2016</b>	40 004	(6 232)	(12 830)	20 942	2 064	23 006
Profit/loss for the year	-	-	(1 382)	(1 382)	540	(842)
<b>December 31, 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>
<b>January 1, 2017</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>
Profit/loss for the year	-	-	(957)	(957)	1 215	258
Distribution of profit for dividends	-	-	-	-	(490)	(490)
<b>December 31, 2017</b>	<b>40 004</b>	<b>(6 232)</b>	<b>(15 169)</b>	<b>18 603</b>	<b>3 329</b>	<b>21 932</b>

The financial statements were approved by the Board of Directors on 29.03.2018 and signed as follows:

Assen Assenov  
Executive Director




Milena Lyubenova  
Chief Accountant



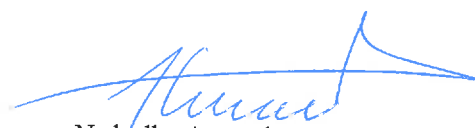
Certified, according to auditor's report:

BDO Bulgaria OOD:

Antoniya Saksanova,  
Certified Accountant, Registered Auditor




Nedyalko Apostolov  
Manager



The explanatory notes from page 9 to page 32 constitute an inseparable part of the Financial Statements.

**Avto Union AD**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
for the year ended on Sunday, December 31, 2017

	<u>2017</u>	<u>2016</u>
	<i>Thousand</i>	<i>Thousand</i>
	<i>BGN</i>	<i>BGN</i>
<b>NET CASH FLOW FROM OPERATING ACTIVITY</b>		
Proceeds from counterparties	260 280	221 829
Payments to counterparties	(228 863)	(197 919)
Payments for tax	(15 121)	(10 958)
Payments for salaries, social security contributions and others	(12 650)	(11 848)
Paid bank fees and interest	(628)	(517)
Net effect of changes in foreign exchange rates	(19)	(17)
Other proceeds/payments from operating activity	1 311	(224)
<b>Net cash flows from/used in operating activities</b>	<b><u>4 310</u></b>	<b><u>346</u></b>
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>		
Payments for the purchase of fixed assets	(2 412)	(2 797)
Proceeds from sale of fixed assets	1 759	1 641
Loans granted	(15 399)	(2 163)
(Paid)/Recovered granted loans	21 421	1 334
Interest received on loans granted	514	-
Proceeds from sale of investments	1 705	-
Other payments/proceeds from investing activities	(2 329)	(3 791)
<b>Net cash flows from/ used in investment activities</b>	<b><u>5 259</u></b>	<b><u>(5 776)</u></b>
<b>CASH FLOW FROM FINANCIAL ACTIVITIES</b>		
Dividends paid	(490)	-
Proceeds from bank and trade loans	38 878	56 102
Payments on bank and trade loans	(39 938)	(48 956)
Paid interest and commissions, net	(1 323)	(642)
Payments under leasing contracts	(7 585)	(3 298)
Other revenues/payments from financing activity	1 192	195
<b>Net cash flows from /used in financing activities</b>	<b><u>(9 266)</u></b>	<b><u>3 401</u></b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>303</b>	<b>(2 029)</b>
<b>Cash and cash equivalents at 1 January</b>	<b><u>1 273</u></b>	<b><u>3 302</u></b>
<b>Cash and cash equivalents at 31 December</b>	<b><u>1 576</u></b>	<b><u>1 273</u></b>

The financial statements were approved by the Board of Directors on 29.03.2018 and signed as follows:

Assen Assenov  
Executive Director



Milena Lyubenova  
Chief Accountant

Antoniya Sakanova,  
Certified Accountant, Registered Auditor

Certified, according to auditor's report:  
BDO Bulgaria OOD:



Nedyalko Apostolov  
Manager

The explanatory notes from page 9 to page 32 constitute an inseparable part of the Financial Statements.

## **1. Corporate information**

The Consolidated Financial Statements of Avto Union AD ("the Group") for the year ended 31 December 2017 were approved for issue by the Board of Directors decision of 29.03.2018.

Avto Union AD is a joint stock company, established with decision No. 660/2005 of the Sofia District Court, with seat in the city of Sofia, Sofia region, Bulgaria. The financial year of the Group ends on 31.12.2018.

The principle activity of the group includes acquisition, management, valuation and sale of shares in commercial companies, trade with automobiles, auto parts and maintenance and repair services.

As of December 31, 2017, 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 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. Prior revenue to be recognized, the following specific recognition criteria must also be met:

#### *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.

#### *Income from dividends*

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 reversal of the tax temporary difference and it is likely that the temporary difference will not have reversal 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 reversal in the foreseeable future and that taxable profit will be made, against which the temporary difference will be utilized.



## **2.2 Summary of 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 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 evaluation

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 recognized by the group to the extent of the group's continuing involvement in the asset. In that case, the group also recognizes an associated liability. In this case, the Group also recognizes the related obligation. 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.

## 2.2 Summary of 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.

- **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 de-recognition 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 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 (non-adjusted) 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 includes instruments valued by making use of: quoted prices of similar assets or liabilities at active markets; quoted prices of identical or similar assets or liabilities at markets which are not considered active; other valuation techniques where all the significant incoming data are directly or indirectly accessible for observation using market data;
- *Level 3* - Level 3 inputs are unobservable inputs for an asset or liability. This category includes all the instruments whereupon the valuation technique does not include observable incoming data, and the non-observable incoming data have a significant impact on the instrument valuation. This category includes instruments valued on the basis of quoted prices of similar instruments where significant non-observable adjustments or assumptions are required to reflect the differences among the instruments.

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

<b>December 31, 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair value</b>	<b>Total book value</b>
<i>Thousand BGN</i>					
<b>Assets</b>					
Cash and short-term deposits	1 576	-	-	1 576	1 576
Interest-bearing loans	-	-	6 260	6 260	6 260
Trade and other receivables	-	-	22 114	22 114	22 114
<b>Total assets</b>	<b>1 576</b>	<b>-</b>	<b>28 374</b>	<b>29 950</b>	<b>29 950</b>
<b>Liabilities</b>					
Finance lease payables	-	-	15 036	15 036	15 036
Bond issue payables	-	-	6 818	6 818	6 818
Interest-bearing loans and borrowings	-	-	28 327	28 327	28 327
Commercial and other liabilities	-	-	64 137	64 137	64 137
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>114 318</b>	<b>114 318</b>	<b>114 318</b>
<b>December 31, 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair value</b>	<b>Total book value</b>
<i>Thousand BGN</i>					
<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
Commercial and other liabilities	-	-	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>

## **2.2 Summary of 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**

Property, 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 maintenance 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 require an assessment for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement transfers 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 of 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 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 definite 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 definite 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 definite 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.

## **2.2 Summary of 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 herein above.

### **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 2017**

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:

- Amendments to IAS 7: Disclosure Initiative (issued on 29 January 2016), approved by the EU on 06 November 2017, Published in OJ on 9 November 2017.
- Amendments to IAS 12: Recognition of deferred tax assets for unrealized losses (issued on 19 January 2016), approved by the EU on 6 November 2017, published in the OJ on 9 November 2017



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

Adopting these amendments to existing standards did not result in changes in the accounting policy of the Company.

#### Standards, interpretations and amendments in standards that are issued by IASB and adopted by EU but not effective

- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments to IFRS 4 Insurance Contracts (issued on September 12, 2016), in force since 1 January 2018, adopted by the EU on 3 November 2017, published in the Official Gazette on 9 November 2017 ;
- Explanation to IFRS 15 Revenue from contracts with customers (issued on 12 April 2016),, in force since 1 January 2018., adopted by the EU on 31 October 2017, published in the OJ on 9 November 2017г.;
- IFRS 16 Leasing (issued on January 13, 2016), effective January 1, 2019, as adopted by the EU on 31 October 2017, published in the Official Gazette on 9 November 2017;
- IFRS 9 Financial Instruments (issued on 24 July 2014), in force since 1 January 2018, adopted by the EU on 22 November 2016., published in the OJ on 29 November 2016;
- 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 from 1 January 2018, adopted by the EU on 22 September 2016, Published in , публикувани в ОВ на ОЈ on 29 October 2016.

#### Documents issued by the IASB / IFRIC not yet endorsed by the EU:

These new or revised standards, new interpretations and amendments to existing standards which at the reporting date are already issued by the International Accounting Standards Board (IASB) have not yet been endorsed by the EU and therefore are not taken into account by the Company in preparing the financial statements.

- IFRS 17: Insurance Contracts (issued May 18, 2017), effective January 1, 2021;
- IFRS interpretation committee 22: Transactions in foreign currency and prepayments (issued on December 8, 2016), effective from 1 January 2018;
- IFRS interpretation committee 23: Uncertainty in determining income taxes (issued on 7 June 2017), in force since 1 January 2019;
- Amendments to IFRS 2: Classification and valuation of share-based payment transactions (issued on 20 June 2016 г.), effective from 1 January 2018.
- Annual Improvements to IFRS 2014 - 2016 (issued 8 December 2016), effective since 1 January 2018/1 January 2017.
- Amendments to IAS 40: Transfer of investment properties (issued on 8 December 2016 г.), effective from 1 January 2018.
- Amendments to IFRS 9: Option for prepayment with negative remuneration (issued on October 12, 2017), effective from 1 January 2019;
- Amendments to IAS 28: Investments in Associates and Joint Ventures (issued on October 12, 2017) effective from 1 January 2019;
- Annual Improvements to IFRS 2015-2017 (issued December 12, 2017), effective January 1, 2019

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

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of the assets and liabilities, and the disclosure of contingent liabilities at the date of the statement of financial position as well as the reported revenues and expenses for the period. The uncertainty related to these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

#### Assessments

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:

### **3. Significant accounting judgments, estimates and assumptions (continued)**

#### *Non-cancellable operating lease commitments - the Group as a lessee*

Group companies have entered into motor vehicle lease agreements. 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 2017 the group's liabilities for employee retirement benefits are in the amount of 30 thousand BGN (2016: 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.

## EXPLANATORY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended on Sunday, December 31, 2017

**5. Revenues and expenses****5.1 Revenue from sale of goods**

	2017	2016
	<i>Thousand BGN</i>	<i>Thousand BGN</i>
<i>Revenues from:</i>		
Cars and mopeds	152 207	129 234
Spare parts and accessories	32 901	25 736
Lubricating oils	603	3 908
Fuels	10 523	2 647
Other	49	3 6
	<b>196 283</b>	<b>161 561</b>

**5.2 Other income**

	2017	2016
	<i>Thousand BGN</i>	<i>Thousand BGN</i>
Sale of fixed assets	1 758	1 529
Book value of the assets sold	(722)	(326)
Revenue from bonuses, penalties, damages and more	7 276	5 471
	<b>8 312</b>	<b>6 674</b>

**5.3 Expenses on materials**

	2017	2016
	<i>Thousand BGN</i>	<i>Thousand BGN</i>
Fuel	319	340
Consumables	665	651
Spare parts and service tools	351	343
Office supplies	105	97
Advertising materials	88	131
Other materials	651	539
	<b>2 179</b>	<b>2 101</b>

**5.4 Expenses on hired services**

	2017	2016
	<i>Thousand BGN</i>	<i>Thousand BGN</i>
Rent	3 129	4 245
Advertising	1 836	1 749
Expenditure on hired services	410	(45)
Transport, maintenance and communications	952	931
Taxes, insurance and commissions	816	7 30
Security and more	2 415	1 601
	<b>9 558</b>	<b>9 211</b>

**5.5 Personnel expenses**

	2017	2016
	<i>Thousand BGN</i>	<i>Thousand BGN</i>
Remuneration	10 811	10 520
Social Securities	1 696	1 545
	<b>12 507</b>	<b>1 2,065</b>

**5.6 Other expenses**

	2017	2016
	<i>Thousand BGN</i>	<i>Thousand BGN</i>
Expenses for business trips	114	83
Training / Human Resources	37	35
Subscriptions and membership fees	80	52
Taxes	302	546
Other expenses	1 842	1 846
	<b>2 375</b>	<b>2 562</b>



**5. Other income and expenses (continued)****5.7 Financial expenses**

	2017	2016
	<i>Thousand BGN</i>	<i>Thousand BGN</i>
Interest expense on loans and borrowings	2 010	577
Interest expense under finance lease contracts	391	1 184
<i>Total interest costs</i>	<u>2 401</u>	<u>1 761</u>
Other	487	421
	<b>2 888</b>	<b>2 182</b>

**5.8 Financial revenues**

	2017	2016
	<i>Thousand BGN</i>	<i>Thousand BGN</i>
Revenues from loans and receivables	390	261
Other	40	30
	<u>430</u>	<u>291</u>

**6. Property, plant and equipment**

	Land and buildings	Machines, equipment and business inventory	Transportation vehicles	Acquisition costs	Other	Total
	<i>Thousand BGN</i>	<i>Thousand BGN</i>	<i>Thousand BGN</i>	<i>Thousand BGN</i>	<i>Thousand BGN</i>	<i>Thousand BGN</i>
<b>Book value</b>						
<b>January 1, 2016</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
Written-off	-	(205)	(7 475)	(687)	(46)	(8 413)
<b>December 31, 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>
Acquired	3 375	2 292	11 795	260	3 5	17,757
Written-off	-	(111)	(7 610)	(4 172)	-	(11 893)
<b>December 31, 2017</b>	<b>13 550</b>	<b>12 689</b>	<b>12 655</b>	<b>810</b>	<b>1 929</b>	<b>41 633</b>
<b>Depreciation</b>						
<b>January 1, 2016</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)
Written-off	-	202	1 520	-	3 9	1 761
<b>December 31, 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>
Accrued amortization	(223)	(738)	(1 350)	-	(89)	(2 400)
Written-off	-	80	1 293	-	-	1 373
<b>December 31, 2017</b>	<b>(3 378)</b>	<b>(8 581)</b>	<b>(1 963)</b>	<b>(10)</b>	<b>(1 372)</b>	<b>(15 304)</b>
<b>Carrying value:</b>						
<b>January 1, 2016</b>	<b>6 565</b>	<b>1 378</b>	<b>7 653</b>	<b>1 697</b>	<b>627</b>	<b>17 920</b>
<b>December 31, 2016</b>	<b>7 020</b>	<b>2 585</b>	<b>6 564</b>	<b>4 712</b>	<b>611</b>	<b>21 492</b>
<b>December 31, 2017</b>	<b>10 172</b>	<b>4 108</b>	<b>10 692</b>	<b>800</b>	<b>557</b>	<b>26 329</b>

*Impairment of property, plant and equipment*

The Group did not recognize loss from impairment of property, plant and equipment in 2017, since the review 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.

## EXPLANATORY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended on Sunday, December 31, 2017

## 7. Intangible assets

	Software products <i>Thousands BGN</i>	Costs for acquisition <i>Thousand BGN</i>	Improvements <i>Thousand BGN</i>	Property rights <i>Thousand BGN</i>	Know-how <i>Thousand BGN</i>	Other <i>Thousand BGN</i>	Total <i>Thousand BGN</i>
Book value	923	26	79	1	1 121	1	2 151
January 1, 2016	45	19				9	73
Acquired							
Written-off	(31)						(31)
December 31, 2016	937	45	79	1	1 121	10	2 193
Acquired	48		-	-	-	14	62
Written-off	(90)	(18)	-	-	-		(84)
December 31, 2017	919	27	79	1	1 121	24	2 171
Amortization:	(775)	(14)	(77)	-	(450)	(1)	(1 317)
January 1, 2016	(120)	(2)	(2)	-	(55)		(179)
Accrued amortization	31			-			31
Written-off							
December 31, 2016	(864)	(16)	(79)	-	(505)	(1)	(1 465)
Accrued amortization	(41)	-	-	-	(56)	(9)	(106)
Written-off	66	-	-	-			66
December 31, 2017	(839)	(16)	(79)	-	(561)	(10)	(1 505)
Book value							
January 1, 2016	148	12	2	1	671	-	834
December 31, 2016	73	29	-	1	616	9	728
December 31, 2017	80	11	-	1	560	14	666

*Impairment of intangible assets*

The Group carried out a review for impairment of the intangible assets as at 31 December 2017. 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 <i>Thousand BGN</i>
Book value	
January 1, 2016	2 574
Revaluation	850
December 31, 2016	3 424
December 31, 2017	3 424
Depreciation:	
January 1, 2016	(137)
Accrued amortization	(21)
December 31, 2016	(158)
Accrued amortization	-
December 31, 2017	(158)
Book value	
January 1, 2016	2 437
December 31, 2016	3 266
December 31, 2017	3 266

**9. Goodwill**

Company	Participation in the capital, %	2017	2016
		<i>Thousand BGN</i>	<i>Thousand BGN</i>
Auto Italia EAD	100	2 876	2 876
Bulvaria Varna EOOD	100	5 591	5 591
Daru Car OOD	99.84	1 461	1 461
Motobul EAD	100	12 538	12 538
		<b>22 466</b>	<b>22 466</b>

**10. Trade and other receivables****10.1 Non-current receivables**

	2017	2016
	<i>Thousand BGN</i>	<i>Thousand BGN</i>
Receivables on loans from related parties	646	6 104
Other receivables from related parties	-	563
Interest-bearing loans to third parties	1 082	1 776
Expenses for future periods	-	9
Receivables from unit sales	2 355	3 155
Other	20	39
	<b>4 103</b>	<b>11 646</b>

**10.2 Current Receivables**

	2017	2016
	<i>Thousand BGN</i>	<i>Thousand BGN</i>
Trade receivables	14 166	10 401
Receivables from related parties	3 519	3 775
Less: accumulated impairment	(655)	(228)
<i>Trade Receivables, net</i>	<i>17 030</i>	<i>13 948</i>
Taxes for recovery	223	180
Prepaid expenses	2 361	2 326
Receivables from trade loans granted	284	156
<i>Of which to related parties:</i>	-	-
Court and awarded debts	182	54
Advances paid	503	125
Receivables from share sales	595	2 629
Other	3 093	1 718
	<b>24 271</b>	<b>21 136</b>

**11. Inventories**

	2017	2016
	<i>Thousand BGN</i>	<i>Thousand BGN</i>
Cars and mopeds	25 795	1 6,495
Spare parts	10 926	9 363
Lubricating oils	1 446	1 665
Goods in transfer	14 977	7 969
Fuels	-	1
Materials	105	2 46
	<b>53 249</b>	<b>35 739</b>

**12. Cash and short-term deposits**

	2017	2016
	<i>Thousand BGN</i>	<i>Thousand BGN</i>
Cash in bank accounts	1 051	5 79
Cash in hand	102	192
Blocked cash	422	502
Cash equivalents	1	
	<b>1 576</b>	<b>1 273</b>

Cash in bank accounts is accrued at floating interest rates based on daily interest rates on bank deposits. As of 31.12.2017 the fair value of cash and short-term deposits is BGN 1,576 thousand. (2017 - BGN 1 273 thousand).

**13. Share capital and reserves****13.1 Share capital**

	2017	2016
	<i>Thousand BGN</i>	<i>Thousand BGN</i>
80,008 pcs. ordinary shares with a nominal value of BGN 500 each	40,004	40,004
The change in share capital is presented below:		
	Number ordinary Shares	Registered and issued capital (Thousand BGN)
January 1, 2016	80,008	40,004
January 1, 2017	80,008	40,004
<b>December 31, 2017</b>	<b>80,008</b>	<b>40,004</b>

As stated in the consolidated statement of financial position as at 31 December 2017, the amount of the company's equity is less than the registered capital. As required, the Group has taken steps to overcome the breached ratio by providing a signed letter of support from Eurohold Bulgaria AD, with which the parent company declares its willingness to provide financial support and stability as of 31.12.2017 onwards.

**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**

	2017	2016
	<i>Thousand BGN</i>	<i>Thousand BGN</i>
Bank and other loans, overdrafts	9 517	7 897
Loans from related parties	6 333	8 778
	<b>15 850</b>	<b>16 675</b>

**14.2 Short-term**

	2017	2016
	<i>Thousand BGN</i>	<i>Thousand BGN</i>
Bank and other loans, overdrafts	12 464	11 629
Loans from related parties	13	12
	<b>12 477</b>	<b>11 641</b>

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

**15. Bond issue**

	Effective interest rate	Maturity	2017 <i>Thousand BGN</i>	2016 <i>Thousand BGN</i>
First ranking issue with ISIN BG2100025126				
Long-term	4.50%	10.12.2022	6 800	-
Short-term			18	7 009
			<b>6 818</b>	<b>7 009</b>

**16. Finance lease liabilities**

Net liabilities for finance lease are analyzed as follows:

Net liabilities	2017 <i>Thousand BGN</i>	2016 <i>Thousand BGN</i>
Up to 1 year	4 965	2 726
From 1 to 5 years	10 071	6 979
	<b>15 036</b>	<b>9 705</b>

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

Net liabilities	2017 <i>Thousand BGN</i>	2016 <i>Thousand BGN</i>
Up to 1 year	516	353
From 1 to 5 years	2 905	2 149
	<b>3 421</b>	<b>2 502</b>

**17. Trade and other payables**

17.1 Long-term	2017 <i>Thousand BGN</i>	2016 <i>Thousand BGN</i>
Payables for purchase of shares	2 519	4 524
Payables to related persons	360	360
Other	2 019	1 472
	<b>4 898</b>	<b>6 356</b>

17.2 Short-term	2017 <i>Thousand BGN</i>	2016 <i>Thousand BGN</i>
Liabilities to suppliers and customers	48 459	3 4,664
Payables to related persons	2 729	991
Advances received	2 199	1 818
Payables to personnel and social security entities	930	1 274
Tax liabilities	2 351	2 604
Deferred revenue	270	432
Payables for purchase of shares	1 813	1 943
Other	488	804
	<b>59 239</b>	<b>44 530</b>

**Avto Union AD****EXPLANATORY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

for the year ended on Sunday, December 31, 2017

**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:

<b>Sales to/ Purchases from related parties</b>		Sales to	Purchases	Amounts	Amounts
		related	from	payable by	payable to
		parties	related	related	related
			parties	parties	parties
		<i>Thousand</i>	<i>Thousand</i>	<i>Thousand</i>	<i>Thousand</i>
		<i>BGN</i>	<i>BGN</i>	<i>BGN</i>	<i>BGN</i>
<i>Ultimate parent company</i>					
Eurohold Bulgaria AD	2017	2	130	7	90
Eurohold Bulgaria AD	2016	2	130	5	111
<i>Other related parties (under common control)</i>					
Autoplaza EAD*	2017	24	-	35	2
Autoplaza EAD*	2016	15	3	48	2
Euroins - Health Insurance AD	2017	-	-	2	1
Euroins - Health Insurance AD	2016	1	-	12	1
Insurance Company EIG RE AD	2017	6	-	-	-
Insurance Company EIG RE AD	2016	197	-	15	-
Euroins Romania /Asitrans/	2017	37	96	-	2 557
Euroins Romania /Asitrans/	2016	63	96	-	326
Eurolease Auto Skopje	2017	1 540	15	368	-
Eurolease Auto Skopje	2016	1 026	27	55	30
Eurolease Auto EAD	2017	14 263	270	1 832	30
Eurolease Auto EAD	2016	1 135	33	1 571	286
Euro-Finance AD	2017	1	-	-	-
Euro-Finance AD	2016	4	-	1	-
IC Euro Ins AD	2017	5 901	93	651	395
IC Euro Ins AD	2016	5 916	187	1 731	474
Insurance Company Euroins Life EAD	2017	4	-	22	-
Insurance Company Euroins Life EAD	2016	6	-	18	-
Euroins Insurance Group AD	2017	42	-	36	-
Euroins Insurance Group AD	2016	10	-	25	-
Eurolease Group EAD	2017	-	-	1	-
Eurolease Group EAD	2016	-	-	1	-
Euroins Osiguruvanje – Skopje	2017	7	1	5	-
Euroins Osiguruvanje – Skopje	2016	8	3	2	3
Sofia Motors EOOD	2017	5	8	11	11
Sofia Motors EOOD	2016	-	-	4	12
Eurolease Rent a Car EOOD	2017	3 905	58	544	3
Eurolease Rent a Car EOOD	2016	4 589	15	850	106
	2017	<b>25 737</b>	<b>671</b>	<b>3 514</b>	<b>3 089</b>
	2016	<b>12 972</b>	<b>494</b>	<b>4 338</b>	<b>1 351</b>

**18. Related Party Disclosures (continued)**

Loans from/ to related parties		Interest income	Interest expenses	Amounts payable by related parties	Amounts payable to related parties
		<i>Thousand BGN</i>	<i>Thousand BGN</i>	<i>Thousand BGN</i>	<i>Thousand BGN</i>
<b>Long-term</b>					
<i>Ultimate parent company</i>					
Eurohold Bulgaria AD	2017	-	-	-	5 815
Eurohold Bulgaria AD	2016	-	-	20	8 767
<i>Other related parties</i>					
Eurolease Group EAD	2017	22	-	390	-
Eurolease Group EAD	2016	31	-	1	-
Eurolease Auto EAD	2017	-	-	-	391
Eurolease Auto EAD	2016	-	-	-	9
Starcom Holding AD	2017	269	14	256	127
Starcom Holding AD	2016	32	25	6 083	2
	2017	<b>291</b>	<b>14</b>	<b>646</b>	<b>6 333</b>
	2016	<b>63</b>	<b>25</b>	<b>6 104</b>	<b>8 778</b>
<b>Short-term</b>					
<i>Ultimate parent company</i>					
Eurohold Bulgaria AD	2017	-	674	-	1
Eurohold Bulgaria AD	2016	47	17	-	-
<i>Other related parties</i>					
Euroins Romania /Asitrans/	2017	-	-	-	9
Euroins Romania /Asitrans/	2016	-	-	-	9
Euroins Osiguruvanje – Skopje	2017	-	-	-	3
Euroins Osiguruvanje – Skopje	2016	-	-	-	3
Eurolease Auto EAD	2017	-	-	-	-
Eurolease Auto EAD	2016	-	-	-	-
	2017	-	<b>674</b>	-	<b>13</b>
	2016	<b>47</b>	<b>17</b>	-	<b>12</b>



## 18. Related Party Disclosures (continued)

		Revenues from interest	Expenses on interest	Amounts, due from related parties	Amounts, due to related parties
		<i>Thousand BGN</i>	<i>Thousand BGN</i>	<i>Thousand BGN</i>	<i>Thousand BGN</i>
<b>Finance leasing</b>					
<b>Long-term finance lease</b>					
<i>Other related parties</i>					
Eurolease Auto EAD	2017				1 648
Eurolease Auto EAD	2016	-	-	-	1 295
Eurolease Auto Skopje	2017				1 257
Eurolease Auto Skopje	2016	-	-	-	854
	2017	-	-	-	<b>2 905</b>
	2016	-	-	-	<b>2 149</b>

		Revenues from interest	Expenses on interest	Amounts, due from related parties	Amounts, due to related parties
		<i>Thousand BGN</i>	<i>Thousand BGN</i>	<i>Thousand BGN</i>	<i>Thousand BGN</i>
<b>Short term finance lease</b>					
<i>Other related parties</i>					
Eurolease Auto EAD	2017		107		516
Eurolease Auto EAD	2016	-	148	-	353
Eurolease Auto Skopje	2017				
Eurolease Auto Skopje	2016	-	-	-	-
	2017	-	<b>107</b>	-	<b>516</b>
	2016	-	<b>148</b>	-	<b>353</b>

### 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 decision of the Board of Directors, Avto Union AD entered into a debt under a Bond Loan, with ISIN code BG2100006092, issued by Asterion Bulgaria AD, being jointly responsible for its execution. The nominal amount of the issued debt amounted to EUR 7 500 000.

On 11.04.2014 a meeting of the General Meeting of Bondholders was held, where it was decided to extend the maturity of the bond issue of Asterion Bulgaria AD to 14.04.2019, and the interest rate was changed to 6.25%.

At a general meeting of bondholders, held on **08.09.2017**, a decision was taken to **change the parameters of the bond loan issued by "Avto Union" AD**. The General Meeting of the Bondholders decided to make the following changes in the parameters of the bond issue of corporate bonds with ISIN code BG2100025126, as follows:

## 19. Contingent liabilities (continued)

- The term of the issue was extended by 60 months from 10.12.2017 to 10.12.2022.
- Principal payments are changed as follows: payment of BGN 2,000,000 from the principal up to 10.06.2022 (including in equal installments of BGN 250,000) and one last payment of the principal amounting to BGN 4,800,000 on 10.12.2022
- Decrease in the bond coupon on the bond loan at 4.5% on an annual basis.

## 20. Financial risk management objectives and policy

The Group's main financial liabilities include interest-bearing loans and borrowings, and trade payables. The main purpose of these financial instruments is to provide funding for the Group's activities. The Group has financial assets such as trade receivables and cash and short-term deposits that arise directly from the operations.

### Changes in liabilities arising from financing activities

December 31, 2017 <i>In thousand BGN</i>	Note №	Balance at 01.01.2017	Revenues	Payments	Acquisition	Other changes	Balance at 31.12.2017
Loans from banks and other financial institutions	14	18 783	14 210	(15 573)	-	(38)	17 384
<b>Liabilities on debenture loans</b>	15	7 009	-	(561)	370	-	6 818
Liabilities on loans to related parties	14,18	8 790	13 584	(16 990)	1 059	(97)	6 346
<b>Payables on trade loans received</b>	14	743	11 084	(7 375)	139	8	4 599
<b>Finance lease liabilities</b>	16	10 448	-	(7 585)	16 455	(4 282)	15 036
Interests, fees and commissions		n/a	-	(762)	-	-	n/a
<b>Dividends paid</b>		n/a	-	(490)	-	-	n/a
<b>Other</b>		n/a	1 192	-	-	-	n/a
<b>Total:</b>		<b>45 773</b>	<b>40 070</b>	<b>(49 336)</b>	<b>18 023</b>	<b>(4 409)</b>	<b>50 183</b>

## 21. Financial instruments

In 2017, as in 2016, the Group does not own or trade in derivative financial instruments.

The main risks arising from the group's financial instruments are interest rate risk, liquidity risk, currency risk and credit risk. The policy that group management applies to managing 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

## **21. Financial instruments (continued)**

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 2017**.

### *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 2017, as well as in 2016, there are no changes in the objective, policies or process with respect to the group capital management.

### **Fair value**

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 models. 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 Auto 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 book value, especially if they are short-term nature or applicable interest rates are changed according to 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.